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

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

FORM 10-K

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

For the fiscal year ended December 31, 2003  
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OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .  
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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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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

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

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

Title of each class Name of each exchange on which registered:

Common Stock, par value \$.01 per share American Stock Exchange  
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Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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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 ("REIT") with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and

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operation of apartment communities. We currently manage 28 multi-family communities containing 6,920 units. Of these, we own 20 apartment communities containing 4,859 units. Third parties own the remaining 8 communities, containing 2,061 units, and we manage them on a contract basis. In addition to our apartment communities, we own 40 restaurant properties that we lease on a triple-net basis to a third party under a master lease.

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

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

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

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

### History and Development of BNP Residential Properties, Inc.

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

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

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

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

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

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

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

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

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

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

### Recent Developments

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

Results for 2003 were in line with our expectations. We entered 2003 expecting it to be a difficult year, but believed we would begin to see some improvement in apartment operations by late in the year. A combination of

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overbuilding of apartments, a weak economy, and extremely low interest rates that made home ownership a more viable alternative to renting, resulted in declines in both occupancy and rental rates beginning in 2001. This trend continued until the middle of 2003, when we began to see improvement in apartment performance. For apartments owned for the full period in both years ("same units"), average economic occupancy for the fourth quarter of 2003 improved by 3.3%, from 92.1% in the fourth quarter of 2002 to 95.4% in the fourth quarter of 2003. At the same time, revenue per occupied unit improved from \$721 per month in the fourth quarter of 2002 to \$725 per month in the fourth quarter of 2003. This was the

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

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

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

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

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

### Business Strategy

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

We seek to acquire apartment properties in areas within the southeastern United States exhibiting substantial economic growth and an expanding job base in which we can establish a significant market presence. Through our UpREIT structure, we have the ability to acquire apartment

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communities by issuing Operating Partnership units in tax-deferred exchanges with owners of such properties. We expect that we will finance future acquisitions of apartment communities with Operating Partnership units as well as loans and funds from additional offerings of common stock, preferred stock or joint venture arrangements.

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

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

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

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

### ITEM 2. PROPERTIES

#### Apartment Communities

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

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

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

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held subject to loans, discussed in the notes to the financial statements.

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

### Restaurant Properties

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

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

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

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

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

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

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

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

### Property Insurance

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

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

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### INFORMATION ABOUT APARTMENT COMMUNITIES

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



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

RESTAURANT PROPERTIES LOCATIONS

Virginia  
(27 properties)

Ashland  
106 North Washington

Blackstone  
North Main Street

Bluefield  
701 South College Street

Chester  
12401 Jefferson Davis Hwy.

Clarksville  
916 Virginia Avenue

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Clintwood  
U.S. Highway 83

Dublin  
208 College Avenue

Franklin  
105 North Mechanic Street

Galax  
425 Main Street

Hopewell  
East City Point Road

Lebanon  
Route 1

Lynchburg  
8411 Timberlake Road  
2231 Langhorne road

Norfolk  
3908 Princess Anne Road

Orange  
200 Madison Road

Petersburg  
1865 Crater Road, South

Richmond  
921 Myers Street  
6850 Forest Hill Avenue  
7917 Midlothian Pike

Roanoke  
4407 Abenham Avenue SW  
3401 Hollins Road

Rocky Mount  
322 Tanyard Road, NE

Smithfield  
Smithfield Shopping Center

Verona  
160 East Route 612

Virginia Beach  
4261 Holland Road  
1951 Lynnhaven Parkway

Wise  
US Highway 23, Business

North Carolina  
(13 properties)

Burlington  
2712 Alamance Road

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Denver  
Route 1

Eden  
202 West Kings Highway

Fayetteville  
3505 Ramsey Street  
360 North Eastern Blvd.

Hillsborough  
380 S. Churton Street

Kinston  
200 West Vernon Street  
1404 Richlands Street

Newton  
South Ashe & North "D"

Siler City  
Chatham Shopping Center

Spring Lake  
400 South Main Street

Thomasville  
1116 East Main Street  
Randolph Street

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### ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

### ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

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

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

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

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

### PART II

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

##### Market Information and Dividends

Our common stock is traded on the American Stock Exchange under the

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

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

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

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

### Sales of Unregistered Securities

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

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

On November 17, 2003, we issued 19,507 shares of common stock under our dividend reinvestment plan. Of these shares, 14,544 exceeded the number authorized under the plan and under the registration statement registering the

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

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

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

### ITEM 6. SELECTED FINANCIAL DATA

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

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

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

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

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

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

- (1) We adopted Statement of Financial Accounting Standards ("FAS") No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. The intangible related to our 1994 acquisition of management operations is no longer amortized after December 31, 2001. Amortization expense related to this intangible was approximately \$406,000 per year in 1998 through 2001.
- (2) Earnings before interest, taxes, depreciation and amortization, funds from operations, and funds available for distribution amounts reflect measurements for the Operating Partnership (before deduction for minority interest).

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

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

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



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

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

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

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

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

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

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

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

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

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

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- o we could lose key executive officers.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

You should read this discussion in conjunction with the financial statements and notes thereto included in this Annual Report.

### Results of Operations

2003 compared to 2002

#### Revenues

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

Apartment rental income in 2003 totaled \$37.5 million, an increase of 13.9%, or \$4.6 million, compared to 2002. This increase is attributable to rental income at five apartment communities that we acquired during 2002 and 2003, which offsets a slight decline at other communities. On a same-units basis

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(for the 3,681 units that we owned throughout all of both 2003 and 2002), apartment rental income declined by 0.4% in 2003 compared to 2002.

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

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

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

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

Management fee income in 2003 totaled \$873,000, a decline of 20.3% compared to 2002. This decrease is attributable to our acquisition of two previously managed properties in May 2002, as well as the termination of management contracts for several smaller properties in the first quarter of 2003. We do not expect any significant increase in management fee income in 2004.

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

### Expenses

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

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

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

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

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

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

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

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

### Net income

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

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

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

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

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

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2002 compared to 2001

### Reclassifications

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

### Revenues

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

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

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

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

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

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

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

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

### Expenses

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

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

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

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

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

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

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

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

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

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

Net income

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

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

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

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

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

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

### Funds from Operations

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

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

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

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

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

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

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

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

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

#### Capital Resources and Liquidity

##### Capital Resources

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

##### Long-term Debt



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As of December 31, 2003, all of our properties were encumbered by or served as collateral for debt. As of December 31, 2003, total long-term debt was \$229.7 million, including \$168.3 million at fixed interest rates ranging from 5.13% to 8.55%, and \$61.4 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding at December 31, 2003, was 5.8%, compared to 6.1% at December 31, 2002. This reduction is primarily due to declines in variable rates during 2003. At our current level of variable-rate debt, a 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$625,000.

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

- o \$25.9 million, secured by a deed of trust and assignment of rents of Latitudes Apartments, due November 2004. Interest-only payments on the outstanding balance are due monthly at a variable interest rate of 30-day LIBOR plus 1.75%. At December 31, 2003, the outstanding balance on this line was \$20.0 million, with approximately \$5.9 million available under this revolving line of credit.
- o \$16.3 million, secured by deeds of trust and assignments of rents of 40 restaurant properties, due January 2006. Interest-only payments on the outstanding balance are due monthly at a variable interest rate of 30-day LIBOR plus 1.80%. The available line of credit declines to \$15.5 million effective January 2005. At December 31, 2003, the outstanding balance on this line was \$16.3 million, the current maximum amount.

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

- o In August 2003, we acquired The Harrington Apartments for a total cost of approximately \$17.9 million. We financed this acquisition with a \$14.4 million variable-rate note payable, secured by a deed of trust on the community, and draws on our line of credit secured by Latitudes Apartments.
- o In March 2003, we acquired The Place Apartments for a total cost of approximately \$5.6 million. We financed this acquisition with a \$4.6 million fixed-rate note payable, secured by a deed of trust on the community, and draws on our line of credit secured by Latitudes Apartments.

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

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

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

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

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

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### Capital Stock and Operating Partnership Units

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

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

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

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

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

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### Cash Flows and Liquidity

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

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

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

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

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

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

### Critical Accounting Policies

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

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### Capital expenditures and depreciation

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

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

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

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

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

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

### Impairment of long-lived assets

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

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### Valuation of leases in place at property acquisitions

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

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

### Revenue recognition

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

### Inflation

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

### Environmental Matters

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

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

### Additional Information

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

### ITEM 9A. CONTROLS AND PROCEDURES

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

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

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

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

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

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

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

Stephen R. Blank - Director. Mr. Blank is a Senior Fellow, Finance, with the Urban Land Institute, and an Adjunct Professor at the Columbia University Graduate School of Business. From 1993 to 1998, he was the Managing Director for Real Estate Investment Banking with CIBC Oppenheimer Corp. He is an independent trustee of Ramco-Gershenson Properties Trust and Atlantic Realty Trust, and serves on the boards of directors of WestCoast Hospitality Corporation and MFA Mortgage Investments, Inc. In addition, he serves as a member of the board of advisors of Paloma, LLC, the principal investor in a private multifamily real



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estate investment trust. Mr. Blank serves as the chair of the audit committees for both Ramco-Gershenson Properties Trust and MFA Mortgage Investments, Inc. He has over 20 years experience as a senior real estate investment banking officer, advising and evaluating a wide array of real estate companies, including publicly reporting companies.

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

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

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

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

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

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

### Audit Committee Financial Experts

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

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### Section 16(a) Beneficial Ownership Reporting Compliance

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

### Code of Ethics

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

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### ITEM 11. EXECUTIVE COMPENSATION

#### Executive Compensation

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

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

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

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End Exercisable/Unexercisable	Value of Unexercised In-the- Options at Fiscal Year Exercisable/Unexercisable
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D. Scott Wilkerson	150,000	-	-
Philip S. Payne	150,000	-	-
Pamela B. Bruno	40,000	-	-

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

### Compensation of Directors

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

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

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

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

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

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### Compensation Committee Interlocks and Insider Participation

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

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

#### Equity Compensation Plan

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

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

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

#### Security Ownership of Certain Beneficial Owners and Management - Common Stock

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

Common Shares

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

(1) Address for each person listed herein is 301 South College Street, Suite 3850, Charlotte NC 28202.

(2) Includes exercisable options for 150,000 shares of common stock.

(3) Includes 269,073 shares issuable (at the company's option) in satisfaction of the right to redeem the same number of units owned by Mr. Chrysson in BNP Residential Properties Limited Partnership, the company's Operating Partnership.

(4) Includes 264,452 shares issuable (at the company's option) in satisfaction of the right to redeem the same number of units owned by Mr. Gilley in BNP Residential Properties Limited Partnership, the company's Operating Partnership.

(5) Does not include 909,090 shares of Series B Cumulative Convertible Preferred stock in BNP Residential Properties, Inc. owned by Preferred Investment I, LLC (of which Mr. Weidhorn is the managing director), that will be convertible into shares of common stock in December 2004.

(6) Includes exercisable options for 40,000 shares of common stock.

(7) Includes exercisable options for 60,000 shares of common stock.

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

### Security Ownership of Certain Beneficial Owners and Management - Preferred Stock

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

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

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

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

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

BNP Residential Properties, Inc. and Boddie Investment Company

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

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

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

BNP Residential Properties, Inc. and the Chrysson Parties

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

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

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### Notes Receivable from Management

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

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

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

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

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

### PART IV

### ITEM 15. 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	Page
Financial Statements and Notes:	
Report of Independent Auditors	39

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Consolidated Balance Sheets as of December 31, 2003 and 2002	40
Consolidated Statements of Operations for the Years Ended December 31, 2003, 2002, and 2001	41
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2003, 2002, and 2001	42
Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002, and 2001	43
Notes to Consolidated Financial Statements	44
Schedules:	
Schedule III - Real Estate and Accumulated Depreciation	58

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

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#### Exhibit No.

- 3.3\* incorporated herein by reference)  
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)



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- 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\* Second Amended and Restated Agreement of Limited Partnership of Boddie-Noell Properties Limited Partnership dated as of March 17, 1999 (filed as Exhibit 10.1 to the company's Annual Report on Form 10-K for the year ended 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, and December 1, 2002, 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 as Exhibit 10.7 to BNP Residential Properties, Inc. Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference)
- 21 Subsidiaries of the Registrant
- 23 Consent of Ernst & Young LLP
- 31.1 Section 302 Certification by Chief Executive Officer
- 31.2 Section 302 Certification by Chief Financial Officer
- 32.1 Section 906 Certification by Chief Executive Officer
- 32.2 Section 906 Certification by Chief Financial Officer

\* Incorporated herein by reference

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(b) Reports on Form 8-K during the fourth quarter of 2003.

- o Current Report on Form 8-K filed October 27, 2003, to furnish under Item 12 a press release announcing the results of operations and financial condition of the company as of and for the quarter ended September 30, 2003.
- o Current Report on Form 8-K filed November 17, 2003, to furnish under Item 12 a report to shareholders announcing the results of operations and financial condition of the company as of and for the quarter ended September 30, 2003.

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: February 23, 2004

/s/ Philip S. Payne

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Philip S. Payne  
Chairman of the Board of Directors,  
Treasurer, Chief Financial Officer

Date: February 23, 2004

/s/ Pamela B. Bruno

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Pamela B. Bruno  
Vice President,  
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:
<p>/s/ Philip S. Payne ----- Philip S. Payne</p>	<p>Chairman of the Board of Directors, Treasurer, Chief Financial Officer</p>	<p>February 23, 2004</p>
<p>/s/ D. Scott Wilkerson ----- D. Scott Wilkerson</p>	<p>President, Chief Executive Officer, Director</p>	<p>February 23, 2004</p>
<p>/s/ Pamela B. Bruno ----- Pamela B. Bruno</p>	<p>Vice President, Chief Accounting Officer</p>	<p>February 23, 2004</p>
<p>/s/ Stephen R. Blank ----- Stephen R. Blank</p>	<p>Director</p>	<p>February 23, 2004</p>
<p>/s/ B. Mayo Boddie ----- B. Mayo Boddie</p>	<p>Director</p>	<p>February 23, 2004</p>
<p>/s/ Paul G. Chrysson ----- Paul G. Chrysson</p>	<p>Director</p>	<p>February 23, 2004</p>

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/s/ W. Michael Gilley Director

February 23, 2004

-----  
W. Michael Gilley

/s/ Peter J. Weidhorn Director

February 23, 2004

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Peter J. Weidhorn

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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, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(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, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, 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.

In 2003, as discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections."

/s/ ERNST & YOUNG LLP

Raleigh, North Carolina  
January 13, 2004, except for Note 11

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as to which the date is February 23, 2004

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BNP RESIDENTIAL PROPERTIES, INC.  
Consolidated Balance Sheets

	Dece 2003
<b>Assets</b>	
Real estate investments at cost:	
Apartment properties	\$299,661,224
Restaurant properties	37,405,385
	337,066,609
Less accumulated depreciation	(56,052,569)
	281,014,040
Cash and cash equivalents	564,426
Prepaid expenses and other assets	3,308,127
Notes receivable	100,000
Intangible assets, net of accumulated amortization:	
Intangible related to acquisition of management operations	1,115,088
Deferred financing costs	1,098,025
	\$287,199,706
<b>Liabilities and Shareholders' Equity</b>	
Deed of trust and other notes payable	\$229,714,263
Accounts payable and accrued expenses	353,710
Accrued interest on deed of trust and other notes payable	1,054,949
Prepaid rents and security deposits	803,675
Deferred cable equipment rental revenue	540,324
Deferred credit for interest defeasance	104,960
	232,571,881
Minority interest in Operating Partnership	15,894,909
Shareholders' equity:	
Preferred stock, \$.01 par value, 10,000,000 shares authorized, 909,090 shares issued and outstanding at December 31, 2003, 454,545 shares issued and outstanding at December 31, 2002	10,000,000
Common stock, \$.01 par value, 100,000,000 shares authorized, 5,907,133 shares issued and outstanding at December 31, 2003, 5,831,077 shares issued and outstanding at December 31, 2002	59,071
Additional paid-in capital	71,473,473
Dividend distributions in excess of net income	(42,799,628)
	38,732,916
Total shareholders' equity	38,732,916
	\$287,199,706
Total liabilities and shareholders' equity	\$287,199,706

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See accompanying notes.

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BNP RESIDENTIAL PROPERTIES, INC.  
Consolidated Statements of Operations

	Years ended Decem	
	2003	2002
		(Restated)
<b>Revenues</b>		
Apartment rental income	\$37,475,181	\$32,889,8
Restaurant rental income	3,908,472	4,021,2
Management fee income	872,742	1,095,1
Interest and other income	404,049	157,6
	42,660,444	38,163,9
<b>Expenses</b>		
Apartment operations	15,458,472	12,681,9
Apartment administration	1,711,406	1,364,3
Corporate administration	2,195,879	1,993,6
Interest	12,999,668	11,452,0
Depreciation	10,039,615	8,794,3
Amortization of deferred loan costs	321,833	256,0
Write-off of unamortized loan costs at debt refinance	-	95,0
	42,726,873	36,637,4
(Loss) income before minority interest	(66,429)	1,526,5
Minority interest in Operating Partnership	(173,774)	278,5
Net income	107,345	1,247,9
Cumulative preferred dividend	660,616	322,6
(Loss) income available to common shareholders	\$ (553,271)	\$ 925,3
 <b>Per common share amounts - basic:</b>		
Net income	\$ 0.02	\$ 0.
(Loss) income available to common shareholders	(0.09)	0.
<b>Per common share amounts - diluted:</b>		
Net (loss) income	(0.01)	0.
(Loss) income available to common shareholders	(0.09)	0.
Common stock dividends declared	1.00	1.
Weighted average common shares outstanding	5,867,934	5,787,1

See accompanying notes.

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

	Preferred Stock		Common Stock		Additional	Divid
	Shares	Amount	Shares	Amount	paid-in	distribu
					capital	in exce
						net in
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 - common	-	-	-	-	-	(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)
Preferred stock issued	227,272	2,500,000	-	-	(108,095)	
Common stock issued	-	-	86,204	862	959,808	
Dividends paid - preferred	-	-	-	-	-	(200)
Dividends paid - common	-	-	-	-	-	(7,163)
Net income	-	-	-	-	-	1,247
Balance December 31, 2002	454,545	5,000,000	5,831,077	58,311	70,724,671	(36,511)
Preferred stock issued	454,545	5,000,000	-	-	(53,909)	
Common stock issued	-	-	76,056	760	802,711	
Dividends paid - preferred	-	-	-	-	-	(536)
Dividends paid - common	-	-	-	-	-	(5,858)
Net income	-	-	-	-	-	107
Balance December 31, 2003	909,090	\$10,000,000	5,907,133	\$59,071	\$71,473,473	\$(42,799)

See accompanying notes.

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BNP RESIDENTIAL PROPERTIES, INC.  
Consolidated Statements of Cash Flows

	Years ended Dec	
	2003	2002
		(Restated)
Operating activities		
Net income	\$ 107,345	\$ 1,247,94
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Minority interest in Operating Partnership	(173,774)	278,59
Depreciation and amortization of intangibles	10,361,448	9,050,41
Write-off of unamortized loan costs at debt refinance	-	95,03

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Amortization of defeasance credit	(228,416)	(166,65)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(84,152)	(135,59)
Accounts payable and accrued expenses	(96,518)	(162,96)
Deferred revenue, prepaid rent and security deposits	(78,970)	(222,58)
Net cash provided by operating activities	9,806,963	9,984,20
Investing activities		
Acquisitions of apartment properties	(23,382,176)	(29,803,90)
Additions to apartment communities	(3,349,394)	(2,731,43)
Sale of restaurant properties	1,244,038	
Net cash acquired in buy-out of Management Company	-	
Net cash used in investing activities	(25,487,532)	(32,535,33)
Financing activities		
Net proceeds from issuance of preferred stock	4,946,091	2,231,90
Net proceeds from issuance of common stock	770,086	863,55
Redemption of Operating Partnership minority units	-	
Distributions to Operating Partnership minority unitholders	(1,845,425)	(2,171,11)
Payment of dividends to preferred shareholder	(536,644)	(200,00)
Payment of dividends to common shareholders	(5,858,583)	(7,163,20)
Proceeds from notes payable	25,985,610	43,346,77
Principal payments on notes payable	(7,856,282)	(14,425,38)
Payment of deferred financing costs	(244,174)	(464,70)
Net cash provided by (used in) financing activities	15,360,679	22,017,83
Net (decrease) increase in cash and cash equivalents	(319,890)	(533,30)
Cash and cash equivalents at beginning of year	884,316	1,417,61
Cash and cash equivalents at end of year	\$ 564,426	\$ 884,31

See accompanying notes.

BNP RESIDENTIAL PROPERTIES, INC.  
Notes to Consolidated Financial Statements  
December 31, 2003

### 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. As of December 31, 2003, we managed 28 multi-family communities containing 6,920

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units. Of these, we own 20 apartment communities, containing 4,859 units. Third parties own the remaining 8 communities, containing 2,061 units, and we manage them on a contract basis. In addition to our apartment communities, at December 31, 2003, we owned 40 properties that we lease to a third party under a master lease on a triple-net lease basis. 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"). 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. 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.

### 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. At December 31, 2003, we owned approximately 76% of the common ownership units of the Operating Partnership and 100% of the preferred ownership units of the Operating Partnership. We refer to the limited partners of the Operating Partnership as minority common 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.

### Reclassifications

We adopted Statement of Financial Accounting Standards ("FAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections," effective January 1, 2003. FAS 145 generally requires gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as extraordinary items as previously required under FAS 4. We have reclassified the extraordinary items for loss on early extinguishment of debt in 2002 and 2001 to conform to FAS 145. While adoption of FAS 145 has no impact on net income, it reduces income before extraordinary items and eliminates those extraordinary items as previously reported. We have adjusted the 2002 and 2001 comparative amounts in our consolidated financial statements to conform to the 2003 presentation as follows:

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	As Currently Presented	Adjustments	As P R
Year ended December 31, 2002			
Revenues	\$ 38,163,974	\$ -	\$
Expenses	36,637,427	95,032	



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Income before minority interest and extraordinary item	1,526,547	(95,032)	
Minority interest in Operating Partnership	278,599	(21,735)	
<hr/>			
Income before extraordinary item	1,247,948	(73,297)	
Extraordinary item - loss on early extinguishment of debt	-	(73,297)	
<hr/>			
Net income	\$ 1,247,948	\$ -	\$
<hr/>			
Year ended December 31, 2001			
Revenues	\$ 36,261,773	\$ -	\$
Expenses	33,792,171	129,239	
<hr/>			
Income before minority interest and extraordinary item	2,469,602	(129,239)	
Minority interest in Operating Partnership	567,192	(29,662)	
<hr/>			
Income before extraordinary item	1,902,410	(99,577)	
Extraordinary item - loss on early extinguishment of debt	-	(99,577)	
<hr/>			
Net income	\$ 1,902,410	\$ -	\$
<hr/>			

### 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. In general, for properties acquired prior to 2002, we compute depreciation using the straight-line method over composite estimated useful lives of the related assets, generally 40 years for buildings, 20 years for land improvements, 10 years for fixtures and equipment, and five years for floor coverings. For properties acquired after 2001, we performed detailed analyses of components of the real estate assets acquired. For these properties, we assigned estimated useful lives as follows: base building structure, 45-60 years; land improvements, 7-20 years; short-lived building components, 5-20 years; and fixtures, equipment and floor coverings, 5-10 years.

We generally complete and capitalize acquisition improvements (expenditures that have been identified at the time the property is acquired, and which are intended to position the property consistent with our physical standards) within one to two years of acquisition. We capitalize non-recurring expenditures for additions and betterments to buildings and land improvements. In addition, we generally capitalize recurring capital expenditures for exterior painting, roofing, and other major maintenance projects that substantially extend the useful life of existing assets. For financial reporting purposes, we depreciate

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these additions and replacements on a straight-line basis over estimated useful lives of 5-20 years. We capitalize

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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. 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, 2003 and 2002, 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 adopted FAS 142, Goodwill and Other Intangible Assets, effective January 1, 2002. Goodwill and intangible assets deemed to have indefinite lives are no longer amortized after December 31, 2001, but are subject to annual impairment tests in accordance with the Statement. We perform these annual tests as of October 1 of each year. Based on our tests through October 1, 2003, we determined that the intangible related to our 1994 acquisition of management operations, net of accumulated amortization, is not impaired. The historical cost of this asset is approximately \$3.7 million, with accumulated amortization of approximately \$2.6 million at December 31, 2003 and 2002, respectively.

The following table reflects the effect of the amortization of the intangible related to our acquisition of management operations on the 2001 results of operations and provides pro forma amounts as though we had adopted FAS 142 on January 1, 2001.

	Pro Forma	Adjustments	As R
Year ended December 31, 2001			
Revenues	\$36,261,773	\$ -	\$
Expenses	33,385,971	(406,200)	
Income before minority interest	2,875,802	406,200	
Minority interest in Operating Partnership	660,566	93,374	
Net income	\$ 2,215,236	\$ 312,826	\$
Basic and diluted earnings per share:			
Net income	\$0.39		
Income available to common shareholders	0.39		

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

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maturity, we write off the related unamortized financing costs, reflected as a charge to operations. Accumulated amortization on these assets was approximately \$870,000 at December 31, 2003, and \$699,000 at December 31, 2002.

In late December 2003, we completed a modification of our line of credit secured by our restaurant properties (see Note 3). In January 2004, we paid and recorded deferred financing costs of approximately \$41,000 related to this modification.

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As of December 31, 2003, we estimate future amortization of deferred financing costs will be approximately as follows:

2004	\$294,000	2007	\$148,000
2005	214,000	2008	94,000
2006	179,000	Thereafter	210,000

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.

### 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. The aggregate fair value of our deed of trust and other notes payable was approximately \$242 million at December 31, 2003, and \$219 million at December 31, 2002.

### 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 assessment of the continuing value of this asset. Actual results could differ from these estimates.

### Revenue Recognition

We record rental and other revenue as it is earned. We record rental payments received prior to the first of a given month as prepaid rent. We hold tenant security deposits in trust in bank accounts separate from operating cash. Tenant security deposits totaled \$393,000 at December 31, 2003, and \$306,000 at December 31, 2002; 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 are recognizing 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 approximately \$504,000 in 2003, \$419,000 in 2002, and \$342,000 in 2001.

### Stock-Based Compensation

The company has one employee Stock Option and Incentive Plan in place, which is

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described more fully in Note 4. As allowed by FAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," and FAS 123, "Accounting for Stock-Based Compensation," we account for this plan using the intrinsic value method under the recognition and measurement principles of Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. If we had applied the fair value recognition provisions of FAS 123 to stock-based employee compensation, the effect would have been to reduce net income as reported by approximately \$200 in 2003, \$5,000 in 2002, and \$10,000 in 2001, with no impact on basic and diluted earnings per share amounts as reported.

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### 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 2003, 2002, or 2001, other than net income as reported.

### Note 2. Real Estate Investments

Real estate investments consist of the following:

	2003	2002
	-----	-----
Apartment properties		
Land	\$ 30,779,923	\$ 28,359,923
Buildings and improvements	267,900,807	246,473,769
Computer and support equipment	980,494	879,171
Less accumulated depreciation	(44,789,417)	(38,364,606)
	-----	-----
	254,871,807	237,348,257
Restaurant properties		
Land	10,444,823	10,935,813
Buildings and improvements	26,960,562	28,223,108
Less accumulated depreciation	(11,263,152)	(11,084,219)
	-----	-----
	26,142,233	28,074,702
	-----	-----
	\$281,014,040	\$265,422,959
	=====	=====

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

#### 2003 acquisitions:

- o The Harrington Apartments, acquired August 2003, for a total cost of approximately \$17.9 million, paid in cash.
- o The Place Apartments, acquired March 2003, for a total cost of approximately \$5.6 million, paid in cash.

#### 2002 acquisitions:

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- o Marina Shores Waterfront Apartments (formerly named Alta Harbour Apartments), acquired September 2002, for a total cost of approximately \$19.2 million, paid in cash.
- o Barrington Place Apartments and Brookford Place Apartments, acquired May 2002, for a total cost of approximately \$32.2 million, including assumption of a deed of trust loan with a balance of approximately \$20.3 million, assumption and retirement of existing liabilities of the former owners totaling approximately \$10.0 million, and issuance of Operating Partnership units with an imputed value of approximately \$1.8 million.

We present the following unaudited pro forma summary information as if we had owned these five properties throughout all of 2003, 2002 and 2001. These pro forma amounts may not represent how we would have performed if these acquisitions had really occurred prior to 2001. In addition, they do not purport to project our results of operations for any future period.

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	2003	2002	
Total revenue	\$44,307,000	\$44,713,000	\$45
Net income	78,000	1,095,000	2
(Loss) income available to common shareholders	(582,000)	772,000	2
Basic earnings per share:			
Net income	\$ 0.01	\$ 0.19	
(Loss) income available to common shareholders	(0.10)	0.13	
Diluted earnings per share:			
Net (loss) income	(0.01)	0.18	
(Loss) income available to common shareholders	(0.10)	0.13	

During 2003, we sold two restaurant properties to the lessee for their net carrying values, totaling approximately \$1,244,000. During 2001, we sold one restaurant property to the lessee for its net carrying value of approximately \$406,000. 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:

	2003	2002
Lines of credit with a bank:		
Revolving line of credit for principal sum of up to \$25.9 million, due November 2004 (as modified December 2002), 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 % (2.91% at December 31, 2003).	\$ 19,975,080	\$ 18,118,135

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Principal sum of up to \$16.3 million through January 2005, then \$15.5 million, due January 2006 (as modified December 2003), secured by deeds of trust and assignments of rents of 40 restaurant properties. Interest-only payments on the outstanding balance due monthly at a variable interest rate of 30-day LIBOR plus 1.80% (2.96% at December 31, 2003).	16,315,857	18,000,000
---	------------	------------

Variable rate notes payable:

Note payable to a bank in the principal amount of up to \$11.7 million, 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% through January 2003. Beginning February 2003 through November 2004, monthly installments of approximately \$51,000 including principal and interest (3.01% at December 31, 2003). Maturity in December 2004, with an estimated balloon payment of approximately \$10.5 million.	10,744,562	10,835,842
--	------------	------------

Note payable to a bank, secured by a deed of trust and assignment of rents of The Harrington Apartments. Interest-only payments on the outstanding principal balance due monthly at a variable interest rate of 30-day LIBOR plus 1.75% (2.91% at December 31, 2003)

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due monthly through September 2006. Beginning October 2006 through August 2008, monthly installments (estimated at approximately \$60,000 per month) including principal and interest based on rates then in effect. Maturity in August 2008, with an estimated balloon payment of approximately \$13.8 million.	14,400,000	-
--	------------	---

Fixed rate notes payable:

Notes payable comprised of eight loans (seven loans in 2002), payable in monthly installments totaling approximately \$565,000 including principal and interest at rates ranging from 5.13% to 8.55%, with maturities in 2005 through 2034. Secured by deeds of trust and assignments of rents of eight apartment communities.	83,851,775	80,169,151
--	------------	------------

Notes payable comprised of ten 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 assignments of rents of ten apartment communities.	84,365,500	84,365,500
--	------------	------------

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Notes payable, comprised of 11 loans, payable in monthly installments totaling approximately \$2,700 including principal and interest at 7.90% to 7.99%, with maturities in 2005 and 2006. Secured by 11 vehicles.

	61,489	96,307
	-----	-----
	\$229,714,263	\$211,584,935
	=====	=====

In conjunction with the acquisition of The Harrington Apartments in August 2003, we executed a \$14.4 million note payable, secured by the assets and assignment of rents of the apartment community. This variable-rate loan is described in the table above. We paid and recorded deferred loan costs of approximately \$118,000 related to this loan.

In conjunction with the acquisition of The Place Apartments in March 2003, we executed a \$4.6 million note payable, secured by the assets and assignment of rents of the apartment community. This loan provides for interest at an effective rate of 5.13% and monthly payments including principal and interest of approximately \$25,000, with maturity in March 2013. We paid and recorded deferred loan costs of approximately \$63,000 related to this loan.

In conjunction with the acquisition of Marina Shores Waterfront Apartments (formerly named Alta Harbour Apartments) in September 2002, we executed a \$15.9 million note payable, secured by the assets and assignment of rents of the apartment community. This loan provides for interest at an effective rate of 5.93% and monthly payments including principal and interest of approximately \$94,000, with maturity in September 2012. We paid and recorded deferred loan costs of approximately \$150,000 related to this loan.

In conjunction with the acquisition of Barrington Place Apartments and Brookford Place Apartments in May 2002, we assumed a first deed of trust loan secured by the assets and assignment of rents of Barrington Place Apartments with a balance of approximately \$20.3 million. This loan provides for interest at an effective rate of approximately 7.0% and monthly payments including principal and interest of approximately \$136,000, with maturity in November 2010. We paid and recorded deferred loan costs of approximately \$160,000 related to this loan assumption.

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In June 2002, we applied \$4.9 million proceeds from a fixed-rate loan to retire existing loan obligations of the former owners of Barrington Place Apartments and Brookford Place Apartments. A deed of trust and assignment of rents of Brookford Place Apartments secure this loan. This loan provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately \$32,000, with maturity in June 2012. We paid and recorded deferred loan costs of approximately \$60,000 related to this loan transaction.

In January 2002, we applied a \$6.0 million draw on our line of credit secured by Latitudes Apartments to retire a note payable in the amount of \$6.1 million, secured by a deed of trust and assignment of rents of Oakbrook Apartments. In February 2002, we subsequently issued a note payable in the amount of \$7.9 million secured by a deed of trust and assignment of rents of Oakbrook Apartments. The note provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately \$52,000, with maturity in February 2012. We applied the proceeds of the Oakbrook note to reduce our Latitudes line of credit. In conjunction with the February refinance transaction, we paid and recorded deferred loan costs of approximately \$90,000.

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In conjunction with the January 2002 retirement, we wrote off unamortized loan costs of approximately \$95,000.

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 an effective rate of 6.96%. Interest-only payments of approximately \$97,000 were 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.

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 with interest at 8.5% and mortgage insurance with a premium of 0.5% of the loan balance. The interest rate on this loan exceeded current market rates at the time of the acquisition, and the note may not be prepaid until May 2004. 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.

We modified our Latitudes revolving line of credit with a bank in December 2002 to increase the maximum balance available under the Latitudes line of credit from \$23.0 million to \$25.9 million. In conjunction with this modification, we paid and recorded \$30,000 in deferred loan costs in January 2003. We modified and extended our Restaurants line of credit with a bank in December 2003 to extend the maturity date of this loan to January 2006. In conjunction with this modification, we paid and recorded \$41,000 in deferred loan costs in January 2004. As of December 31, 2003, approximately \$5.9 million is available for draw under our Latitudes line of credit.

Interest payments totaled \$13.2 million in 2003, \$11.5 million in 2002, and \$11.3 million in 2001.

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.

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As of December 31, 2003, we estimate future scheduled principal payments will be approximately as follows:

2004	\$31,700,000	2007	\$49,200,000
2005	7,300,000	2008	51,700,000
2006	16,600,000	Thereafter	73,200,000

#### 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.

We have issued 909,090 shares of the Company's Series B Cumulative Convertible Preferred stock to a single accredited investor, as follows:



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Date	Number of Shares	Net Proceeds
September 2003	454,545	\$4,946,091
September 2002	227,272	2,391,905
December 2001	227,273	2,274,594

These preferred shares have a purchase price and liquidation preference of \$11.00 per share. The agreement for these shares 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 beginning in December 2004 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 4.3 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 72,890 shares in 2003, 77,607 shares in 2002, and 37,923 shares in 2001 through the Plan.

#### Redemption of Operating Partnership Units

We redeemed 3,166 Operating Partnership units in 2003, and 8,597 Operating Partnership units in 2002, from former minority unitholders by issuing shares of the company's common stock on a one-for-one basis.

#### Earnings per Common Share

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

	2003	2002	
		(Restated)	
Numerators:			
Numerator for basic earnings per share -			
Net income	\$ 107,345	\$1,247,948	\$1
52			
	2003	2002	
		(Restated)	
Cumulative preferred dividend	(660,616)	(322,603)	
(Loss) income available to common shareholders	\$ (553,271)	\$ 925,345	\$1

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Numerator for diluted earnings per share (1) -			
(Loss) income before minority interest	\$ (66,429)	\$1,526,547	\$2
Cumulative preferred dividend	(660,616)	(322,603)	
(Loss) income available to common shareholders	\$ (727,045)	\$1,203,944	\$2
Denominators:			
Denominator for basic earnings per share -			
Weighted average common shares outstanding	5,867,934	5,787,154	5
Effect of dilutive securities:			
Convertible Operating Partnership units	1,842,980	1,786,069	1
Stock options (2)	5,980	8,182	
Dilutive potential common stock	1,848,960	1,794,251	1
Denominator for diluted earnings per share -			
Adjusted weighted average common shares and assumed conversions	7,716,894	7,581,405	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, 2003.

	Weighted Average Remaining Contractual Life (Years)	Number of Options Outstanding	Number of Options Exercisable
Exercise price \$9.25 per share	6.15	47,500	35,625
Exercise price \$11.25 per share	4.83	60,000	60,000
Exercise price \$13.125 per share	4.50	120,000	120,000
Exercise price \$12.25 per share	3.33	110,000	110,000
Exercise price \$12.50 per share	0.88	140,000	140,000
All options outstanding	5.37	477,500	465,625

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 2003, 2002 or 2001, and there were no changes in outstanding stock options during 2003, 2002 or 2001. Options outstanding and exercisable at December 31 of each year were as follows:

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	2003		2002		2001
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Total outstanding	477,500	\$12.12	477,500	\$12.12	477,500
Total exercisable	465,625	\$12.19	453,750	\$12.27	396,875

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. Assuming renewal of the lease, after December 31, 2007, Enterprises has the right to terminate the lease on up to five restaurant properties per year by offering to purchase them under specified terms.

In addition, we entered into a separate agreement with Enterprises that, after December 31, 1997, allowed Enterprises to purchase, under specified terms, up to seven restaurant properties deemed non-economic. During 2003 we sold two restaurants to Enterprises, the lessee, under this agreement. We previously sold one restaurant in 2001 and four restaurants in previous years to Enterprises under this clause.

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 2003, 2002 and 2001. We expect annual minimum rent will be approximately \$3.8 million in years 2004 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% 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

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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 will report real estate investments with a total cost basis of approximately \$310 million and accumulated depreciation of approximately \$72 million as of December 31, 2003.

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	2003 Estimate	2002 Actual	
		(Restated)	(R
(Loss) income subject to income tax -			
Operating Partnership	\$ (66,429)	\$ 1,526,547	\$ 2
Reconciling items:			
Add book depreciation	10,039,615	8,794,361	7
Less regular tax depreciation	(9,894,525)	(8,110,834)	(7
Add amortization of intangible related to			
acquisition of management operations	-	-	
Other book/tax differences, net	(214,661)	(313,778)	
Adjusted taxable (loss) income -			
Operating Partnership	(136,000)	1,896,296	3
Less minority share of taxable income	190,000	(367,302)	
Taxable income subject to dividend requirement	\$ 54,000	\$ 1,528,994	\$ 3
Minimum dividend required (90% of			
taxable income)	\$ 49,000	\$ 1,376,095	\$ 2

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 the dividends paid deduction taken by the company (the portion of dividends paid that are taxable as ordinary income to shareholders) on its tax returns to cash dividends paid.

	2003 Estimate	2002 Actual	
Dividends paid deduction for			
Preferred dividends paid	\$ 536,644	\$ 200,000	\$
Common dividends paid	-	1,897,773	3

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	536,644	2,097,773	3
Portion of common dividends designated return of capital	5,858,583	5,265,428	3
Total dividends paid	\$ 6,395,227	\$ 7,363,201	\$ 7

We paid dividend distributions totaling \$1.00 per share to common shareholders in 2003, and \$1.24 per share to common shareholders each year during 2002 and 2001. 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:

	2003		2002		2001
	\$	%	\$	%	\$
Ordinary income	\$0.17	17.0%	\$0.24	19.4%	\$0.58
Return of capital	0.83	83.0%	1.00	80.6%	0.66
	\$1.00	100.0%	\$1.24	100.0%	\$1.24

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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 9.2% of our revenue in 2003 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 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." Between December 1997 and June 2002, we issued 1,496,918 Operating Partnership units in conjunction with acquisitions of these apartment communities. Certain current directors of the company were shareholders and officers in the Chrysson Parties.

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

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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 approximately \$59,000 in 2003, \$60,000 in 2002, and \$85,000 in 2001. In addition, we received guarantee fees of \$12,000 in 2003 and 2002, and \$37,500 in 2001. We received \$383,000 of the fixed portion during 2002 and 2001. 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, 2003 and 2002, 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	567,434
Less reserve for collection of fixed portion	(567,434)
	-----
	\$100,000
	=====

In 1996 through 1999, we made loans totaling \$180,000 to certain officers of the company. These loans are included in our balance sheets in other current assets.

### 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 approximately \$57,000 in 2003, \$59,000 in 2002, and \$68,000 in 2001.

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### Note 9. Commitments and Contingencies

We currently lease approximately 7,800 square feet of office space in downtown Charlotte, North Carolina, for our corporate and administrative offices. Rent expense totaled approximately \$163,000 in 2003, \$169,000 in 2002 and \$166,000 in 2001. The lease provides for monthly rental of approximately \$14,000 and expires June 2008.

We have agreements with four 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, 2003 and 2002:

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	Net Income (Loss)			
	Revenues	Total	Per Share	
			Basic	Diluted
2003				
First quarter	\$10,242,780	\$ 145,790	\$ 0.02	\$ 0.02
Second quarter	10,180,120	(392,522)	(0.06)	(0.07)
Third quarter	10,876,088	137,097	0.02	0.01
Fourth quarter	11,361,456	216,980	0.04	0.03
	\$42,660,444	\$ 107,345	\$ 0.02	\$ (0.01)
2002				
First quarter	\$8,826,002	\$ 492,575	\$ 0.09	\$ 0.08
Second quarter	9,216,482	517,928	0.09	0.09
Third quarter	9,936,444	353,804	0.06	0.06
Fourth quarter	10,185,046	(116,359)	(0.02)	(0.03)
	\$38,163,974	\$ 1,247,948	\$ 0.22	\$ 0.20

Note 11. Subsequent Events

The Board of Directors declared a regular quarterly dividend of \$0.25 per common share on January 22, 2004, payable on February 16, 2004, to shareholders of record on February 2, 2004. The Board of Directors also authorized the payment of dividends totaling \$250,000 to the Series B Preferred shareholder.

On February 23, 2004, we issued 1,175,519 shares of common stock at a price of \$11.75 per share to a number of institutional investors and mutual funds pursuant to a private placement for a total purchase price of approximately \$13,812,000. We expect to use the net proceeds to repay bank debt, to fund future acquisitions, and for general corporate purposes.

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BNP RESIDENTIAL PROPERTIES, INC.

Schedule III - Real Estate and Accumulated Depreciation  
Year ended December 31, 2003

Description	Encumb.	Costs Capitalized		
		Land	Buildings & Improvem'ts	Subsequent to Acquisition
Apartment Properties:				
North Carolina:				
Abbingtion Place, Greensboro	\$ 15,785,250	\$ 2,302,000	\$ 23,598,676	\$ 270,206
				\$ 2,302,000

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Allerton Place, Greensboro	10,270,000	1,384,000	14,650,428	199,161	1,384,000
Barrington Place, Charlotte	19,995,416	2,604,000	24,002,687	215,375	2,604,000
Brookford Place, Greensboro	4,792,061	465,000	5,157,507	68,715	465,000
Chason Ridge, Fayetteville	9,438,034	624,000	11,790,472	842,139	994,606
Harrington, Charlotte	14,400,000	1,790,000	16,113,942	136,206	1,790,000
Harris Hill, Charlotte	5,622,598	1,003,298	7,867,857	887,446	1,003,298
Madison Hall, Clemmons	4,245,000	303,000	6,054,307	240,184	303,000
Marina Sh. Waterfront, Cornelius	15,683,443	4,144,000	15,062,322	803,253	4,144,000
Oak Hollow, Cary	8,385,000	1,480,000	10,808,689	975,688	1,480,000
Oak Hollow - Phase 2, Cary	10,744,562	1,914,000	10,485,239	1,861,475	1,914,000
Oakbrook, Charlotte	7,731,440	848,835	8,523,384	972,815	848,835
Paces Commons, Charlotte	16,070,186	1,430,158	12,871,424	1,608,461	1,448,184
Paces Village, Greensboro	7,000,000	1,250,000	9,416,580	639,451	1,250,000
Pepperstone, Greensboro	3,883,750	552,000	5,015,153	317,197	552,000
Savannah Place, Winston-Salem	7,312,500	790,000	10,032,721	398,365	790,000
Summerlyn Place, Burlington	6,645,000	837,000	9,559,115	130,265	837,000
Waterford Place, Greensboro	11,089,000	1,686,000	16,745,972	(15,809)	1,686,000
Woods Edge, Durham	9,750,000	994,000	13,061,195	1,599,029	994,000
Computer and support equipment	61,488	-	-	980,494	-
	188,904,728	26,401,291	230,817,669	13,130,117	26,789,923
South Carolina:					
The Place, Greenville	4,518,598	630,000	4,991,397	152,400	630,000
Virginia:					
Latitudes, Virginia Beach	19,975,080	3,360,000	18,606,667	1,571,683	3,360,000
Total Apartment Properties	213,398,406	30,391,291	254,415,733	14,854,200	30,779,923

Description	Gross Amount at Which Carried at Close of Period (2)		Accumulated Depreciation	Date of Constr.	Date Acquired	Life (Years)
	Buildings & Improvem'ts	Total				
Apartment Properties:						
North Carolina:						
Abbington Place, Greensboro	\$ 23,868,882	\$26,170,882	\$5,159,794	1997	Dec-97	40
Allerton Place, Greensboro	14,849,589	16,233,589	2,661,137	1998	Sep-98	40
Barrington Place, Charlotte	24,218,062	26,822,062	1,111,152	1999	May-02	60
Brookford Place, Greensboro	5,226,222	5,691,222	282,078	1998	May-02	60
Chason Ridge, Fayetteville	12,262,005	13,256,611	1,914,281	1994	Jan-99	40
Harrington, Charlotte	16,250,148	18,040,148	141,179	1997	Aug-03	60
Harris Hill, Charlotte	8,755,303	9,758,601	2,341,679	1988	Dec-94	40
Madison Hall, Clemmons	6,294,491	6,597,491	1,069,884	1997	Aug-98	40
Marina Sh. Waterfront, Cornelius	15,865,575	20,009,575	604,269	1994	Sep-02	60
Oak Hollow, Cary	11,784,377	13,264,377	1,895,078	1983	Jul-98	40
Oak Hollow - Phase 2, Cary	12,346,714	14,260,714	1,363,405	1986	Dec-00	40
Oakbrook, Charlotte	9,496,199	10,345,034	2,543,522	1985	Jun-94	40
Paces Commons, Charlotte	14,461,859	15,910,043	4,234,186	1988	Jun-93	40
Paces Village, Greensboro	10,056,031	11,306,031	2,346,291	1988	Apr-96	40
Pepperstone, Greensboro	5,332,350	5,884,350	1,126,826	1992	Dec-97	40
Savannah Place, Winston-Salem	10,431,086	11,221,086	2,158,142	1991	Dec-97	40
Summerlyn Place, Burlington	9,689,380	10,526,380	1,573,393	1998	Sep-98	40
Waterford Place, Greensboro	16,730,163	18,416,163	3,549,485	1997	Dec-97	40



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Woods Edge, Durham	14,660,224	15,654,224	2,526,002	1985	Jun-98	40
Computer and support equipmen	980,494	980,494	558,140			
	-----	-----	-----			
	243,559,154	270,349,077	39,159,923			
South Carolina:						
The Place, Greenville	5,143,797	5,773,797	175,649	1985	Mar-03	45
Virginia:						
Latitudes, Virginia Beach	20,178,350	23,538,350	5,453,845	1989	Oct-94	38
	-----	-----	-----			
Total Apartment Properties	268,881,301	299,661,224	44,789,417			

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Description	Encumb.	Costs			Land
		Initial Costs	Capitalized	Subsequent	
-----	-----	-----	-----	-----	-----
		Land	Buildings & Improvem'ts	to Acquisition	
Restaurant Properties:					
North Carolina:					
Burlington	(1)	162,411	417,629	-	162,411
Denver	(1)	275,484	708,387	-	275,484
Eden	(1)	253,282	651,296	-	253,282
Fayetteville (Ramsey)	(1)	260,135	668,919	-	260,135
Fayetteville (N.Eastern)	(1)	308,271	792,696	-	308,271
Gastonia (E. Franklin)	(1)	230,421	592,511	-	-
Hillsborough	(1)	290,868	747,948	-	290,868
Kinston (W. Vernon)	(1)	237,135	609,777	-	237,135
Kinston (Richlands)	(1)	231,678	595,743	-	231,678
Newton	(1)	223,453	574,594	-	223,453
Siler City	(1)	268,312	689,945	-	268,312
Spring Lake	(1)	218,925	562,949	-	218,925
Thomasville (E. Main)	(1)	253,716	652,411	-	253,716
Thomasville (Randolph)	(1)	327,727	842,726	-	327,727
		-----	-----	-----	-----
		3,541,818	9,107,531	-	3,311,397
Virginia:					
Ashland	(1)	296,509	762,452	-	296,509
Blackstone	(1)	275,565	708,596	-	275,565
Bluefield	(1)	205,700	528,947	-	205,700
Chester	(1)	300,165	771,852	-	300,165
Clarksville	(1)	211,545	543,972	-	211,545
Clintwood	(1)	222,673	572,588	-	222,673
Dublin	(1)	364,065	936,168	-	364,065
Franklin	(1)	287,867	740,230	-	287,867
Galax	(1)	309,578	796,057	-	309,578
Hopewell	(1)	263,939	678,701	-	263,939
Lebanon	(1)	266,340	684,876	-	266,340

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Lynchburg (Langhorne)	(1)	249,865	642,509	-	249,865
Lynchburg (Timberlake)	(1)	276,153	710,107	-	276,153
Norfolk	(1)	325,822	837,829	-	325,822
Orange	(1)	244,883	629,699	-	244,883
Petersburg	(1)	357,984	920,531	-	357,984
Richmond (Forest Hill)	(1)	196,084	504,216	-	196,084
Richmond (Midlothian)	(1)	270,736	696,179	-	270,736

Description -----	Gross Amount at Which Carried at Close of Period (2)					
	Buildings & Improvem'ts	Total	Accumulated Depreciation	Date of Constr.	Date Acquired	Life (Years)
Restaurant Properties:						
North Carolina:						
Burlington	417,629	580,040	174,470	Oct-85	Apr-87	40
Denver	708,387	983,871	295,939	Jul-83	Apr-87	40
Eden	651,296	904,578	272,088	Jun-73	Apr-87	40
Fayetteville (Ramsey)	668,919	929,054	279,451	Oct-73	Apr-87	40
Fayetteville (N.Eastern)	792,696	1,100,967	331,160	Sep-83	Apr-87	40
Gastonia (E. Franklin)	-	-	-	Apr-63	Apr-87	40
Hillsborough	747,948	1,038,816	312,465	Mar-78	Apr-87	40
Kinston (W. Vernon)	609,777	846,912	254,743	Jul-62	Apr-87	40
Kinston (Richlands)	595,743	827,421	248,880	Dec-81	Apr-87	40
Newton	574,594	798,047	240,046	Mar-76	Apr-87	40
Siler City	689,945	958,257	288,235	May-79	Apr-87	40
Spring Lake	562,949	781,874	235,180	Mar-76	Apr-87	40
Thomasville (E. Main)	652,411	906,127	272,554	Feb-66	Apr-87	40
Thomasville (Randolph)	842,726	1,170,453	352,060	Apr-74	Apr-87	40
	8,515,020	11,826,417	3,557,271			
Virginia:						
Ashland	762,452	1,058,961	318,525	Apr-87	Apr-87	40
Blackstone	708,596	984,161	296,027	Sep-79	Apr-87	40
Bluefield	528,947	734,647	220,975	Feb-85	Apr-87	40
Chester	771,852	1,072,017	322,452	May-73	Apr-87	40
Clarksville	543,972	755,517	227,252	Oct-85	Apr-87	40
Clintwood	572,588	795,261	239,206	Jan-81	Apr-87	40
Dublin	936,168	1,300,233	391,098	Jul-83	Apr-87	40
Franklin	740,230	1,028,097	309,241	Feb-75	Apr-87	40
Galax	796,057	1,105,635	332,563	Jun-74	Apr-87	40
Hopewell	678,701	942,640	283,537	Jun-78	Apr-87	40
Lebanon	684,876	951,216	286,117	Jun-83	Apr-87	40
Lynchburg (Langhorne)	642,509	892,374	268,417	Sep-82	Apr-87	40
Lynchburg (Timberlake)	710,107	986,260	296,657	Aug-83	Apr-87	40
Norfolk	837,829	1,163,651	350,015	Aug-84	Apr-87	40
Orange	629,699	874,582	263,065	Aug-74	Apr-87	40
Petersburg	920,531	1,278,515	384,565	Mar-74	Apr-87	40
Richmond (Forest Hill)	504,216	700,300	210,643	Nov-74	Apr-87	40
Richmond (Midlothian)	696,179	966,915	290,838	Jan-74	Apr-87	40

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Description	Encumb.	Initial Costs		Costs Capitalized	
		Land	Buildings & Improvem'ts	Subsequent to Acquisition	Land
Richmond (Myers)	(1)	321,946	827,861	-	321,946
Roanoke (Hollins)	(1)	257,863	663,076	-	257,863
Roanoke (Abenham)	(1)	235,864	606,507	-	235,864
Rocky Mount	(1)	248,434	638,829	-	248,434
Smithfield	(1)	223,070	573,608	-	223,070
Staunton	(1)	260,569	670,035	-	-
Verona	(1)	191,631	492,765	-	191,631
Virginia Beach (Lynnhaven)	(1)	271,570	698,322	-	231,731
Virginia Beach (Holland)	(1)	277,943	714,710	-	277,943
Wise	(1)	219,471	564,355	-	219,471
		7,433,834	19,115,577	-	7,133,426
Total Restaurant Properties	16,315,857	10,975,652	28,223,108	-	10,444,823
Total Real Estate	\$229,714,263	\$41,366,943	\$ 282,638,841	\$ 14,854,200	\$41,224,746

Description	Gross Amount at Which Carried at Close of Period (2)					
	Buildings & Improvem'ts	Total	Accumulated Depreciation	Date of Constr.	Date Acquired	Life (Years)
Richmond (Myers)	827,861	1,149,807	345,851	Apr-83	Apr-87	40
Roanoke (Hollins)	663,076	920,939	277,010	Feb-73	Apr-87	40
Roanoke (Abenham)	606,507	842,371	253,377	Nov-82	Apr-87	40
Rocky Mount	638,829	887,263	266,879	May-80	Apr-87	40
Smithfield	573,608	796,678	239,633	Apr-77	Apr-87	40
Staunton	-	-	-	Sep-83	Apr-87	40
Verona	492,765	684,396	205,859	Jan-85	Apr-87	40
Virginia Beach (Lynnhaven)	698,322	930,053	291,734	Jun-80	Apr-87	40
Virginia Beach (Holland)	714,710	992,653	298,580	Aug-83	Apr-87	40
Wise	564,355	783,826	235,765	Jun-80	Apr-87	40
	18,445,542	25,578,968	7,705,881			

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Total Restaurant Properties	26,960,562	37,405,385	11,263,152
Total Real Estate	\$ 295,841,863	\$337,066,609	\$56,052,569

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BNP RESIDENTIAL PROPERTIES, INC.

Schedule III - Real Estate and Accumulated Depreciation

	2003	2002
Real estate investments:		
Balance at beginning of year	\$ 314,871,784	\$ 260,748,391
Additions during year		
Acquisitions	23,525,339	51,435,516
Effect of consolidation (1)	-	-
Improvements, etc.	3,350,919	2,785,303
Deductions during year	(4,681,433)	(97,426)
Balance at close of year	\$ 337,066,609	\$ 314,871,784
Accumulated depreciation:		
Balance at beginning of year	\$ 49,448,825	\$ 40,751,890
Effect of consolidation (1)	-	-
Provision for depreciation	10,039,615	8,794,361
Deductions during year	(3,435,871)	(97,426)
Balance at close of year	\$ 56,052,569	\$ 49,448,825

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## INDEX TO EXHIBITS

Exhibit No.		Page
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*	Second Amended and Restated Agreement of Limited Partnership of Boddie-Noell Properties Limited Partnership dated as of March 17, 1999 (filed as Exhibit 10.1 to the company's Annual Report on Form 10-K for the year ended 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	-

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10.3*	Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)	-
10.4*	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)	-
10.5*	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)	-
10.6*	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)	-

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10.6*	Form and description of Employment Agreements dated July 15, 1997, and December 1, 2002, 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 as Exhibit 10.7 to BNP Residential Properties, Inc. Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference)	-
21	Subsidiaries of the Registrant	64
23	Consent of Ernst & Young LLP	65
31.1	Section 302 Certification by Chief Executive Officer	66
31.2	Section 302 Certification by Chief Financial Officer	67
32.1	Section 906 Certification by Chief Executive Officer	68
32.2	Section 906 Certification by Chief Financial Officer	69

\* Incorporated herein by reference

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