BRE PROPERTIES INC /MD/
Form 10-Q
July 30, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001 OR

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

Commission file number 0-5305

BRE PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	94-1722214
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
44 Montgomery Street 36/th/ Floor San Francisco, CA	94104-4809
(Address of principal office)	(Zip Code)

(415) 445-6530

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X   No

Number of shares of common stock outstanding as of July 23, 2001   46,538,139

BRE PROPERTIES, INC.

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June 30, 2001

PART I FINANCIAL INFORMATION

ITEM 1 - Financial Statements

BRE Properties, Inc.

Consolidated Balance Sheets (unaudited)

(Dollar amounts in thousands, except per share data)

	June 30, 2001
Assets	
Real estate portfolio:	
Direct investments in real estate:	
Investments in rental properties	$ 1,682,019
Construction in progress	59,586
Less: accumulated depreciation	(141,387)

	1,600,218
Equity interests in and advances to real estate joint ventures:	
Investments in rental properties	30,288
Construction in progress	39,067
	69,355
Land under development	23,856
Total real estate portfolio	1,693,429
Cash	2,000
Other assets	51,043
Total assets	$ 1,746,472

Liabilities and Shareholders' Equity

Liabilities	
Unsecured senior notes	$ 483,000
Mortgage loans	212,711
Unsecured line of credit	154,000
Accounts payable and accrued expenses	29,560
Total liabilities	879,271
Minority interest	59,267
Shareholders' equity	
Preferred stock; $.01 par value; 10,000,000 shares authorized, liquidation preference $25 per share. Issued and outstanding: 2,150,000 8 1/2% Series A cumulative redeemable shares.	53,750
Common stock; $.01 par value; 100,000,000 shares authorized. Shares issued and outstanding: 46,504,843 at June 30, 2001 and 45,895,281 at December 31, 2000.	465
Additional paid-in capital	713,011
Accumulated net income in excess of cumulative dividends	44,045
Stock purchase loans to executives	(3,337)
Total shareholders' equity	807,934
Total liabilities and shareholders' equity	$ 1,746,472

See notes to consolidated financial statements

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Consolidated Statements of Income (unaudited)

(Amounts in thousands, except per share data)

	For the Three Months Ended June 30, 2001	2000
Revenues		
Rental income	$60,482	$60,088
Partnership and ancillary income	4,257	3,677
Other income	1,483	1,672
Total revenues	66,222	65,437
Expenses		
Real estate	17,386	19,213
Depreciation	9,896	9,680
Interest	12,176	12,094
General and administrative	2,560	2,063
Equity in losses of Internet business	2,855	1,818
Total expenses	44,873	44,868
Income before net gain on sale of investments in rental properties, minority interest and dividends attributable to preferred stock	21,349	20,569
Net gain on sale of investments in rental properties	-	-
Minority interest	1,047	1,430
Net income	20,302	19,139
Dividends attributable to preferred stock	1,142	1,142
Net income available to common shareholders	$19,160	$17,997
Net income per outstanding common share:		
Income before net gain on sale of investments in rental properties less minority interest	$ 0.41	$ 0.40
Net gain on sale of investments in rental properties	-	-
Net income per share - basic	$ 0.41	$ 0.40
Income before net gain on sale of investments in rental properties and minority interest	$ 0.41	$ 0.40
Net gain on sale of investments in rental properties	-	-
Net income per share - assuming dilution	$ 0.41	$ 0.40
Weighted average common shares outstanding - basic	46,430	44,780
Weighted average common shares outstanding - assuming dilution	48,680	48,210

Dividends declared and paid per common share	$ 0.465	$ 0.425

See notes to consolidated financial statements

Consolidated Statements of Income (unaudited)

(Amounts in thousands, except per share data)

	For the Six Months Ended June 30,	
	2001	
Revenues		
Rental income	$120,957	
Partnership and ancillary income	7,631	
Other income	2,995	
Total revenues	131,583	
Expenses		
Real estate	34,941	
Depreciation	19,158	
Interest	24,207	
General and administrative	4,915	
Equity in losses of Internet business	7,163	
Total expenses	90,384	
Income before net gain on sale of investments in rental properties, minority interest and dividends attributable to preferred stock	41,199	
Net gain on sale of investments in rental properties	-	
Minority interest	2,095	
Net income	39,104	
Dividends attributable to preferred stock	2,284	
Net income available to common shareholders	$ 36,820	
Net income per outstanding common share:		
Income before net gain on sale of investments in rental properties less minority interest	$ 0.79	
Net gain on sale of investments in rental properties	-	
Net income per share - basic	$ 0.79	
Income before net gain on sale of investments in rental		

properties and minority interest	$ 0.79
Net gain on sale of investments in rental properties	-
Net income per share - assuming dilution	$ 0.79
Weighted average common shares outstanding - basic	46,320
Weighted average common shares outstanding - assuming dilution	48,680
Dividends declared and paid per common share	$ 0.93

See notes to consolidated financial statements

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Consolidated Statements of Cash Flows (unaudited)

(Dollar amounts in thousands)

	For the Six Mont June 30,
	2001
Cash flows from operating activities:	
Net income	$ 39,104
Adjustments to reconcile net income to net cash flows generated by operating activities:	
Depreciation	19,158
Minority interest	2,095
Equity in losses of Internet business	7,163
Increase in other assets	(1,110)
Increase in accounts payable and accrued expenses	5,135
Net cash flows generated by operating activities	71,545
Cash flows from investing activities:	
Capital expenditures	(2,381)
Rehabilitation and other expenditures	(10,795)
Multifamily properties purchased	-
Proceeds from sale of investment in rental property	7,834
Additions to direct investment construction in progress	(27,504)
Advances to joint ventures-construction in progress	(23,858)
Reimbursements of construction in progress from joint ventures	22,413
Additions to land under development	(6,099)
Distributions from joint ventures, net	904
Investment in other joint ventures	(1,253)
Advances against Internet business	(1,516)
Net cash flows used in investing activities	(42,255)
Cash flows from financing activities:	
Principal payments on unsecured senior notes and mortgage loans	(11,542)
Line of credit:	

Advances	129,000
Repayments	(343,000)
Renewal fees	(3,770)
Issuance of unsecured senior notes, net	246,586
Dividends paid	(45,534)
Proceeds from exercises of stock options, net	2,799
Contributions from minority members	-
Distributions to minority members	(2,091)
Net cash flows (used in) provided by financing activities	(27,552)
Increase (decrease) in cash	1,738
Balance at beginning of period	262
Balance at end of period	$ 2,000
Supplemental disclosure of non cash activity:	
Transfers of direct investments in real estate-construction in progress to investment in rental properties	$ 31,368
Transfers of land under development to direct investment in real estate-construction in progress	$ 5,489
Transfers of land under development to investment in real estate joint ventures-construction in progress	$ 6,898
Transfers of real estate joint ventures-construction in progress to investments in rental properties	$ 3,715
Minority interest unit conversions to common shares	$ 10,449

See notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

June 30, 2001

NOTE A - BASIS OF PRESENTATION

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

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

NOTE B - REPORTABLE SEGMENTS

BRE has determined that it has one operating and reportable segment, multifamily communities, which comprised approximately 97% of BRE's assets and 98% of BRE's revenues for the three months ended June 30, 2001. All multifamily communities owned by the Company are located in the Western United States, in three general markets that it defines as Coastal, Desert and Mountain states.

BRE's business focus is the ownership and operation of multifamily communities and it evaluates performance and allocates resources primarily based on the net operating income ("NOI") of each individual multifamily community. NOI is defined by the Company (and generally by the real estate industry) as the excess of all revenue generated by the community (primarily rental revenue) less direct operating expenses (primarily, but not limited to, payroll, property taxes, insurance and maintenance expense). Accordingly, NOI excludes depreciation, capitalized expenditures and interest expense. NOI from multifamily communities totaled $47,353,000 and $44,552,000 for the three months ended June 30, 2001 and 2000, respectively. All other segment measurements are presently disclosed in the accompanying Consolidated Financial Statements and Notes to Consolidated Financial Statements.

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

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NOTE C - COMMITMENTS AND CONTINGENCIES

As of June 30, 2001, the Company had commitments to sell two communities pursuant to the agreement with G&I III Residential One, LLC. Although there can be no assurance, BRE anticipates that the remaining two communities (totaling 445 units and located in Tucson) will be sold and contributed to a joint venture in the third quarter of 2001. The remaining two communities represent approximately $11,000,000 of a total $280,000,000 sales price for 22 communities. This third closing is subject to customary closing conditions and loan assumptions. Because of uncertainties inherent in closing real estate transactions, these properties are included in direct investments in real estate and depreciated, rather than reclassified to "held for sale."

BRE agreed to provide VelocityHSI, Inc. ("VelocityHSI") with up to $10,000,000 to be used for general corporate purposes through September 30, 2001. BRE also agreed to provide VelocityHSI with funds through September 30, 2001 (originally expected to be $4,000,000) to finance the installation of equipment at properties owned by BRE. Installation of equipment at the Company's apartment communities was suspended during the fourth quarter of 2000 pending VelocityHSI's development of a new operating and capital plan, and assessment of strategic alternatives. VelocityHSI must repay advances on or before September 30, 2001, together with interest on periodic unpaid balances at a rate of 9% per year. Balances under these two agreements were approximately $7,500,000 and $1,200,000, respectively, at June 30, 2001. BRE's investment in VelocityHSI is recorded under the equity method of accounting, with losses being recorded on a 90-day lag basis. BRE is required to record 100% of VelocityHSI's losses to the extent of its investment until VelocityHSI secures an independent source of financing. As of June 30, 2001, BRE's investment, including advances, in VelocityHSI had been reduced to zero under the equity method of accounting. BRE has reduced the funds available to VelocityHSI for general corporate purposes by

$2,400,000, to reserve against potential BRE liabilities related to VelocityHSI. BRE provided for the $2,400,000 reserve as part of its $2,855,000 charge in the second quarter. As a result, no losses related to VelocityHSI are expected to be recorded subsequent to June 30, 2001.

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

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

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June 30, 2001

Overview

BRE Properties, Inc. is a self-administered equity real estate investment trust or "REIT" focused on the acquisition, development, and management of multifamily apartment communities in 10 metropolitan markets of the Western United States. At June 30, 2001, our portfolio had real estate assets with a book value of approximately $1.7 billion that included 72 wholly or majority-owned apartment communities, aggregating 20,267 units; 3 apartment communities that we manage and own in partnerships or other joint venture arrangements, comprised of 780 apartment units; and 10 apartment communities in various stages of construction and development totaling 2,339 units.

During the second quarter of 2001, we began construction on one joint venture development community, Pinnacle at the Creek, located in the Denver suburb of Aurora, Colorado. Upon completion, this community is expected to add 216 apartment units to the portfolio, with a projected total cost of $21,100,000.

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

Liquidity and Capital Resources

At June 30, 2001, BRE's net real estate investments totaled approximately $1,693,000,000, which included 72 wholly or majority-owned apartment communities, three apartment communities that we manage and own in partnerships or other joint venture arrangements, and 10 apartment communities under various stages of construction and development.

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

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

Borrowings under our line of credit totaled $154,000,000 at June 30, 2001, compared to $368,000,000 at December 31, 2000. Drawings on the line of credit are available to fund our investment activities and general corporate purposes. BRE typically reduces its outstanding balance on the line of credit with available cash balances.

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

As of June 30, 2001, BRE had total outstanding debt balances of $850,000,000 and total outstanding shareholders' equity and minority interest of $867,000,000, representing a debt to total book capitalization ratio of approximately 49%.

At June 30, 2001, senior unsecured indebtedness totaled $483,000,000, consisting of the following: (i) $53,000,000 of unsecured senior notes with an interest rate of 7.44% per annum on $35,000,000 and 7.88% per annum on $18,000,000, to be repaid through scheduled principal payments annually from 2001 to 2005; (ii) $50,000,000 principal amount of unsecured senior notes due 2007, with an effective interest rate of approximately 7.8%, (iii) $130,000,000 principal amount of unsecured notes due 2013, with an effective interest rate of 7.3%., and (iv) $250,000,000 principal amount of unsecured notes due 2011, with a 7.45% coupon rate to yield 7.5%. In addition, at June 30, 2001, BRE had mortgage indebtedness totaling $212,711,000 at interest rates ranging from 4.4% to 9.3%, with remaining terms of less than one to 27 years.

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

BRE anticipates that it will continue to require outside sources of financing to meet its long-term liquidity needs beyond 2001, such as scheduled debt repayments, construction funding and property acquisitions. At June 30, 2001, BRE had an estimated cost of $145,900,000 to complete existing direct investment and joint venture construction in progress and land under development, with funding estimated from 2001 through 2002. A portion of the land under development may be contributed to joint ventures, which may significantly lower BRE's required funding.

As of June 30, 2001, BRE has an effective shelf registration on file with the Securities and Exchange Commission under which we may issue up to $390,000,000 of securities including debt, convertible debt, common and preferred stock. Depending upon market conditions, we may issue securities under such shelf registration to invest in additional multifamily communities and to repay borrowings under our line of credit.

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

Results of Operations

Comparison of the Quarters Ended June 30, 2001 and 2000

Revenues

Total revenues were $66,222,000 for the three months ended June 30, 2001, compared to $65,437,000 for the same period in 2000. This increase was primarily due to increases in average monthly rental rates from "same-store" properties as compared with the same period in 2000. We define same-store properties as stabilized apartment communities owned by the company for at least five full quarters. Of the 20,267 apartment units owned by BRE, same-store units totaled 18,227 for the quarter ended June 30, 2001. Multifamily rental revenues from same-store communities increased $3,723,000, or 7%, for the three months ended June 30, 2001 compared to the same period in 2000. This increase in same-store revenues was due primarily to an increase in average monthly rental rates. The increase in rental revenues was offset by a reduction in average occupancy in certain markets. In the San Francisco Bay Area, average occupancy for the quarter dropped to 93% though physical occupancy recovered to 96% by June 30, 2001. In our remaining markets, economic and physical occupancy levels were consistent with historical operating levels.

Revenue growth for the quarter ended June 30, 2001 as compared to the quarter ended June 30, 2000 was offset by a decrease of $2,749,000 in non same-store and partnership income, due to our continued efforts to reinvest proceeds received from a strategic portfolio sale that occurred in the third quarter 2000. In September 2000, we sold a portfolio of apartment communities in Southwestern/ Desert markets totaling $260 million. During fourth quarter 2000, we reinvested approximately $140 million of the proceeds derived from the sale in coastal California markets. As we still have approximately $120 million left to reinvest, non-same store and partnership income has decreased 24% as compared with the prior period in 2000, which included revenues from the communities sold.

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

	Three months ended June 30, 2001		Three months ended June 30, 2000	
	Revenues	% of Total Revenues	Revenues	% of Tota Revenues
Same-store	$56,182	85%	$52,459	
Non same-store and partnership income	8,557	13%	11,306	
Other income	1,483	2%	1,672	
Total revenue	$66,222	100%	$65,437	1

Multifamily communities' physical occupancy rates as of June 30, 2001 and 2000 were as follows:

	2001	
Multifamily: Same-store	96%	
Multifamily: All	95%	

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

Expenses

Real Estate Expenses

Real estate expenses for multifamily properties for the quarter ended June 30, 2001 decreased 10% to $17,386,000 from $19,213,000 in the comparable period in 2000. Same store expense increased only 2%, while non same-store expense decreased 49%. The second quarter 2000 non same-store number includes expenses from the 20 communities we sold in the past twelve months, while the second quarter 2001 non same-store number includes expenses from the 10 communities we acquired or developed in the past twelve months.

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

	Three months ended June 30, 2001		Three months ended June 30, 2000	
	Expense	% of Total Revenue	Expense	% of Total Revenue

Same-store	$15,231		$14,947	
Non same-store	2,155		4,266	
Total real estate expense	$17,386	26.3%	$19,213	29.4 %

Depreciation Expense

Depreciation expense increased by $216,000 to $9,896,000 for the quarter ended June 30, 2001 from the comparable period in 2000. The increase in 2001 resulted primarily from an increased depreciable basis on newly developed and acquired properties.

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Interest Expense

Interest expense was $12,176,000 (net of interest capitalized to the cost of apartment communities under development of $3,292,000) for the quarter ended June 30, 2001, an increase of $82,000 or 1% from the comparable period in 2000. Interest expense was $12,094,000 for the same period in 2000 and was net of $5,192,000 of interest capitalized to the cost of apartment communities under construction. The change in interest expense was due to a greater level of fixed rate debt and a reduced level of capitalized interest.

General and Administrative

General and administrative costs were $2,560,000 or approximately 3.9% of total revenues for the second quarter in 2001 and $2,063,000 or approximately 3.2% of total revenues, for the second quarter in 2000. The increase in general and administrative costs as a percentage of total revenues is primarily the result of the additions of new positions in senior management and increased office rent.

Equity in losses of Internet business

Equity in losses of Internet business totaled $2,855,000 during the quarter ended June 30, 2001 and represents the net losses of VelocityHSI, Inc., our non real-estate investment, which was spun off on August 15, 2000. Subsequent to the spin-off, VelocityHSI is recorded under the equity method of accounting, with losses being recorded on a 90-day lag basis. The loss recognized in the second quarter includes the provision for a reserve of $2,400,000, which the company believes represents the full extent of all future expenditures and losses related to its investment in VelocityHSI.

Minority Interest

Minority interest was $1,047,000 and $1,430,000 for the quarters ended June 30, 2001 and 2000, respectively. The decrease in the second quarter of 2001 is due to lower distributions paid to BRE Property Investors LLC operating company unit holders as several members of the limited liability company exchanged their operating company units for shares of BRE common stock over the past twelve months.

Dividends Attributable to Preferred Stock

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

Net Income Available to Common Shareholders

As a result of the various factors mentioned above, net income available to common shareholders for the three months ended June 30, 2001, was $19,160,000, or $0.41 per diluted share, as compared with $17,997,000, or $0.40 per diluted share, for the comparable period in 2000.

Results of Operations

Comparison of the Six Months Ended June 30, 2001 and 2000

Revenues

Total revenues were $131,583,000 for the six months ended June 30, 2001 compared to $127,040,000 for the same period in 2000. This increase was primarily due to increases in average monthly rental rates from "same-store" properties as compared with the same period in 2000. We define same-store properties as stabilized apartment communities owned by the company for at least five full quarters. Of the 20,267 apartment units owned by BRE, same-store units totaled 18,227 for the six months ended June 30, 2001. Multifamily rental revenues from same-store communities increased $9,037,000, or 9%, for the six months ended June 30, 2001 compared to the same period in 2000. This increase in same-store revenues was due primarily to an average increase in monthly rental rates. Physical occupancy on a same store basis was 96% at June 30, 2001 and 97% at June 30, 2000.

Revenue growth for the six months ended June 30, 2001, as compared to the six months ended June 30, 2000, was offset by a decrease of $4,643,000 in non same-store and partnership income, due to our continued efforts to reinvest proceeds received from a strategic portfolio sale that occurred in the third quarter 2000. In September 2000, we sold a portfolio of apartment communities in Southwestern/ Desert markets totaling $260 million. During fourth quarter 2000, we reinvested approximately $140 million of the proceeds derived from the sale in coastal California markets. As we still have approximately $120 million left to reinvest, non same-store and partnership income has decreased 22% as compared with the prior period in 2000, which included revenues from the communities sold.

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

	Six months ended June 30, 2001		Six months ended June 30, 2000	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
Same-store	$111,942	85%	$102,905	
Non same-store and partnership income	16,646	13%	21,289	
Other income	2,995	2%	2,846	
Total revenue	$131,583	100%	$127,040	1

Expenses

Real Estate Expenses

Real estate expenses for multifamily properties for the six months ended June 30, 2001 decreased 5% to $34,941,000 from $36,618,000 in the comparable period in 2000. Same-store expense increased by 4%, while non same-store expenses decreased 38%. The six months ended June 30, 2000 number includes expenses from the 20 communities we sold in the past twelve months, while the six months ended June 30, 2001 number includes expenses from the 10 communities we acquired or developed in the past twelve months.

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

	Six months ended June 30, 2001		Six months ended June 30, 2000	
	Expense	% of Total Revenue	Expense	% of Total Revenue
Same-store	$30,468		$29,386	
Non same-store	4,473		7,232	
Total real estate expense	$34,941	26.6%	$36,618	28.8 %

Depreciation Expense

Depreciation expense increased by $498,000 to $19,158,000 for the six months ended June 30, 2001 from the comparable period in 2000. The increase in 2001 resulted primarily from an increased depreciable basis on newly developed and acquired properties.

Interest Expense

Interest expense was $24,207,000 (net of interest capitalized to the cost of apartment communities under development of $6,798,000) for the six months ended June 30, 2001, an increase of $478,000 or 2% from the comparable period in 2000. Interest expense was $23,729,000 for the same period in 2000 and was net of $8,130,000 of interest capitalized to the cost of apartment communities under construction. The change in interest expense was due to a greater level of fixed rate debt and a reduced level of capitalized interest.

General and Administrative

General and administrative costs were $4,915,000 or approximately 3.7% of total revenues for the six months ended June 30, 2001 and $3,957,000 or approximately 3.1% of total revenues, for the six months ended June 30, 2000. The increase in general and administrative costs as a percentage of total revenues is primarily the result of the additions of new positions in senior management and increased office rent.

Equity in losses of Internet business

Equity in losses of Internet business totals $7,163,000 during the first six months of 2001 and represents the net losses of VelocityHSI, Inc., our non real-estate investment, which was spun off on August 15, 2000, combined with a $2,400,000 provision for potential future losses related to VelocityHSI. Subsequent to the spin-off, VelocityHSI is recorded under the equity method of accounting, with losses being recorded on a 90-day lag basis. We are required to record 100% of VelocityHSI's losses to the extent of our investment, including advances, until it secures an independent source of financing. As of June 30, 2001 BRE's investment in VelocityHSI has been reduced to zero. The $1,818,000 loss for the six months ended June 30, 2000 relates to losses incurred prior to the spin off.

Minority Interest

Minority interest was $2,095,000 and $2,782,000 for the six months ended June 30, 2001 and 2000, respectively. The decrease is due to lower distributions paid to BRE Property Investors LLC operating company unit holders as several members of the limited liability company exchanged their operating company units for shares of BRE common stock over the past twelve months.

Dividends Attributable to Preferred Stock

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

Net Income Available to Common Shareholders

As a result of the various factors mentioned above, net income available to common shareholders for the six months ended June 30, 2001, was $36,820,000, or $0.79 per diluted share, as compared with $37,192,000, or $0.83 per diluted share, for the comparable period in 2000.

Construction in progress and land under development

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

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

COMMUNITIES	Number of Units	Estimated Cost	Cost Incurred	Balanc Compl
(Dollar amounts in millions)				
Directly Owned Development				
Pinnacle on Lake Washington				
Renton, WA	180	$ 27.5	$ 21.0	$ 6
Pinnacle at Otay Ranch II				
Chula Vista, CA	204	27.1	16.6	10
Pinnacle at Otay Ranch I				
Chula Vista, CA	160	22.1	7.5	14
Pinnacle at Denver Tech Center				
Greenwood Village, CO	420	43.9	20.0	23
Subtotal	964	$120.6	$ 65.1 /(2)/	$ 55
Joint Venture Development (3)				
Pinnacle at Stone Creek				
Paradise Valley, AZ	226	$ 23.5	$ 23.5	$
Pinnacle at MacArthur Place				
Santa Ana, CA	253	56.9	42.3	14
Pinnacle Galleria				
Roseville, CA	236	24.9	19.1	5
Pinnacle at the Creek (4)				
Aurora, CO	216	21.1	6.9	14
Subtotal	931	$126.4	$ 91.8 /(5)/	$ 34
Land Under Development (6)				
Pinnacle at Fullerton				
Fullerton, CA	192	$ 37.5	$ 9.0	$ 28
Pinnacle at Talega				
San Clemente, CA	252	42.2	14.9	27
Subtotal	444	$ 79.7	$ 23.9	$ 55
Total	2,339	$326.7	$180.8	$145

(1) "Completion" is defined as our estimate of when an entire project will have a final certificate of occupancy issued and be ready for occupancy. Completion dates have been updated to reflect our current estimates of receipt of final certificates of occupancy, which are dependent on several factors, including construction delays and the inability to obtain necessary public approvals.

(2) Reflects all recorded and allocated costs incurred as of June 30, 2001, consisting of $59.6 million recorded on our balance sheet as "direct investments in real estate - construction in progress" and $5.5 million of costs for completed buildings located on listed properties, reflected on our balance sheet as "direct investments in real estate-investments in rental properties."

(3) With respect to our aggregated joint ventures, we currently expect to

maintain 35-40% leverage and contribute approximately 30% of the remaining equity.

(4) Pinnacle at the Creek has been transferred from directly owned land under development to "equity interests in and advances to real estate joint ventures-construction in progress." Accordingly, the budget has been adjusted to support development fees, additional contingency and other costs.

(5) Consists of $39.1 million recorded on our consolidated balance sheet as "equity interest in advances to real estate joint ventures-construction in progress" displayed net of $52.7 million in construction loan balances.

(6) "Land under development" represents projects in various stages of predevelopment, development and initial construction, for which construction or supply contracts have not yet been finalized. As these contracts are finalized, projects are moved to construction in progress.

DIVIDENDS AND DISTRIBUTIONS TO MINORITY MEMBERS

A cash dividend has been paid to common shareholders each quarter since our inception in 1970. On February 20, 2001, we increased our annual dividend on our common shares to $1.86 per share from $1.70 per share. Total dividends paid to common shareholders for the six months ended June 30, 2001 and 2000 were $43,250,000 and $38,234,000, respectively. In addition, we paid $2,284,000 in dividends on our 8 1/2% Series A Cumulative Redeemable Preferred Stock in the six months ended June 30, 2001 and 2000.

Total distributions to minority members of our consolidated subsidiaries were $2,091,000 and $4,034,000 for the six months ended June 30, 2001 and 2000, respectively.

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

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

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 2. Changes in Securities and Use of Proceeds

During the three months ended June 30, 2001, an aggregate of 2,500 limited partnership units in BRE Property Investors LLC were exchanged for shares of our common stock. The exchange of limited partnership units for shares of our common stock was exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act and Rule 506 of Regulation D.

ITEM 3. Defaults upon Senior Securities
None.

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

At the Annual Meeting of Shareholders held on May 15, 2001, the Shareholders elected three directors for three-year terms, and approved two other corporate actions by the following votes:

	FOR			AGAINST
	No. of Shares	% of shares Voted for this item	% of outstanding	No. of Shares
Item No. I (Election of Directors)				
Class I				
Robert A. Fiddaman	39,426,110	99%	85%	-
Roger P.Kuppinger	39,420,489	99%	85%	-
Arthur G. von Thaden	37,016,994	93%	80%	-
Item No. II (Approval of increasing maximum shares issuable under the 1999 BRE Stock Incentive Plan to 3,500,000)	35,240,422	88%	76%	4,337,352
Item No. III (Ratification of the Accountants)	37,699,072	94%	81%	2,083,703

ITEM 5. Other Information
None.

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ITEM 6. Exhibits and Reports on Form 8-K
(a) Exhibits:
11 Statement Re Computation of Per Share Earnings
99.1 Other Exhibits -Statement of Computation of Ratio of Earnings to Fixed Charges
(b) Reports on Form 8-K:
None.

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SIGNATURES

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

BRE PROPERTIES, INC.
(Registrant)

Dated: July 23, 2001

/s/ Edward F. Lange, Jr.

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