BNP RESIDENTIAL PROPERTIES INC
Form 10-Q
August 10, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from ________ to ___________

Commission file number: 1-9496

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

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

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

704/944-0100
(Registrant's telephone number)

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No X

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of August 2, 2004 (the latest practicable date).

Common Stock, $.01 par value	8,560,049
(Class)	(Number of shares)

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PART I - Financial Information

Item 1. Financial Statements.

BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Balance Sheets

	June 30 2004 (Unaudited)	Dece 2
Assets		
Real estate investments at cost:		
Apartment properties	$345,718,648	$29
Restaurant properties	37,405,385	3
	383,124,033	33
Less accumulated depreciation	(61,022,918)	(5

	322,101,115	28
Cash and cash equivalents	4,995,954	
Prepaid expenses and other assets	5,338,578	
Intangible assets, net of accumulated amortization:		
Intangible related to acquisition of management operations	1,115,088	
Deferred financing costs	1,507,505	
Total assets	$335,058,240	$28
Liabilities and Shareholders' Equity		
Deed of trust and other notes payable	$265,839,006	$22
Accounts payable and accrued expenses	3,355,966	
Deferred revenue and security deposits	1,379,173	
Deferred credit for defeasance of interest, net of accumulated amortization	-	
Total liabilities	270,574,145	23
Minority interest in operating partnership	15,260,166	1
Shareholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; issued and outstanding shares-- 909,090 at June 30, 2004, and December 31, 2003	10,000,000	1
Common stock, $.01 par value, 100,000,000 shares authorized; issued and outstanding shares-- 7,135,431 at June 30, 2004, 5,907,133 at December 31, 2003	71,354	
Additional paid-in capital	85,113,968	7
Dividend distributions in excess of net income	(45,961,393)	(4
Total shareholders' equity	49,223,929	3
Total liabilities and shareholders' equity	$335,058,240	$28

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30		Six months ende June 30	
	2004	2003	2004	
Revenues				
Apartment rental income	$10,579,186	$ 8,951,665	$20,632,246	$
Restaurant rental income	957,447	981,383	1,914,894	

Management fee income	207,860	222,534	405,401	
Interest and other income	113,195	24,538	136,335	
	11,857,688	10,180,120	23,088,876	
Expenses				
Apartment operations	4,387,815	3,851,990	8,249,942	
Apartment administration	614,046	413,110	1,040,422	
Corporate administration	560,742	657,275	1,226,913	
Depreciation	2,689,967	2,489,079	5,229,555	
Amortization of deferred loan costs	67,604	81,812	155,609	
Interest	3,329,553	3,242,092	6,570,047	
	11,649,727	10,735,358	22,472,488	
Income (loss) before minority interest	207,961	(555,238)	616,388	
Minority interest in operating partnership	(8,673)	(162,716)	26,695	
Net income (loss)	216,634	(392,522)	589,693	
Cumulative preferred dividend	250,000	125,000	500,000	
Income (loss) available to common shareholders	$ (33,366)	$ (517,522)	$ 89,693	$
Per share amounts:				
Basic earnings per share - Net income (loss)	$ 0.03	$(0.06)	$0.09	
Income (loss) available to common shareholders	$(0.01)	$(0.08)	$0.01	
Diluted earnings per share - Net income	$ 0.02	$(0.07)	$0.07	
Income (loss) available to common shareholders	$(0.01)	$(0.08)	$0.01	
Dividends declared	$ 0.25	$ 0.25	$0.50	
Weighted average common shares outstanding	7,119,280	5,857,298	6,762,612	

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statement of Shareholders' Equity
(Unaudited)

Divid

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional paid-in capital	distribu in exce net in
Balance December 31, 2003	909,090	$10,000,000	5,907,133	$59,071	$71,473,473	$(42,79
Common stock issued	-	-	1,191,565	11,916	13,233,713	
Dividends paid - preferred	-	-	-	-	-	(25
Dividends paid - common	-	-	-	-	-	(1,47
Net income	-	-	-	-	-	37
Balance March 31, 2004	909,090	10,000,000	7,098,698	70,987	84,707,186	(44,15
Common stock issued	-	-	36,733	367	463,081	
Costs of stock issues	-	-	-	-	(56,299)	
Dividends paid - preferred	-	-	-	-	-	(25
Dividends paid - common	-	-	-	-	-	(1,77
Net income	-	-	-	-	-	21
Balance June 30, 2004	909,090	$10,000,000	7,135,431	$71,354	$85,113,968	$(45,96

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Cash Flows
(Unaudited)

	Six months ende June 30 2004	
Operating activities:		
Net income (loss)	$ 589,693	$
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Minority interest in operating partnership	26,695	
Depreciation and amortization of loan costs	5,385,164	
Amortization of defeasance credit	(104,960)	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(1,761,313)	
Accounts payable and accrued expenses	1,746,347	
Deferred revenue and security deposits	(123,906)	
Net cash provided by operating activities	5,757,720	
Investing activities:		
Acquisitions of apartment properties	(19,512,573)	
Additions to apartment properties, net	(1,543,467)	
Sale of restaurant property	-	
Net cash used in investing activities	(21,056,040)	

Financing activities:		
Net proceeds from issuance of common stock	13,401,378	
Distributions to operating partnership minority unitholders	(920,548)	
Dividends paid to preferred shareholder	(500,000)	
Dividends paid to common shareholders	(3,251,458)	
Proceeds from notes payable	59,155,790	
Principal payments on notes payable	(47,590,236)	
Payment of deferred financing costs	(565,078)	
Net cash provided by financing activities	19,729,848	
Net increase (decrease) in cash and cash equivalents	4,431,528	
Cash and cash equivalents at beginning of period	564,426	
Cash and cash equivalents at end of period	$ 4,995,954	$

BNP RESIDENTIAL PROPERTIES, INC.

Notes to Consolidated Financial Statements - June 30, 2004
(Unaudited)

Note 1. Interim financial statements

Our independent accountants have not audited the accompanying financial statements of BNP Residential Properties, Inc., except for the balance sheet at December 31, 2003. We derived the amounts in the balance sheet at December 31, 2003, from the financial statements included in our 2003 Annual Report on Form 10-K. We believe that we have included all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position and results of operations for the periods presented.

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. You should read these financial statements in conjunction with our 2003 Annual Report on Form 10-K.

Note 2. 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"). The company is the general partner and owns a majority interest in the operating partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Stock-based compensation
The company has one employee Stock Option and Incentive Plan in place. We account for this plan using the intrinsic value method, under the recognition and measurement principles of APB Opinion No. 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 FASB Statement No. 123, Accounting for Stock-Based Compensation, to this significant

estimate for stock-based employee compensation, the effect would have been to reduce net income as reported by less than $100 for the six months ended June 30, 2004 and 2003, respectively, with no impact on basic and diluted earnings per share amounts as reported.

Note 3. Apartment property acquisitions

During the second quarter of 2004, we completed the following apartment acquisitions:

- Bridges at Wind River Apartments (formerly named Oakwood Raleigh Apartments) - 346-unit property located in Durham, North Carolina, acquired May 12, 2004, for a contract price of $25.0 million, including issuance of operating partnership units with an imputed value of approximately $511,000, assumption of approximately $24.3 million debt, and assumption of estimated $0.2 million net operating liabilities in excess of operating assets acquired. We received approximately $105,000 cash in this transaction.

- Carriage Club Apartments - 268-unit property located in Mooresville, North Carolina, acquired June 29, 2004, for a contract price of $19.65 million, paid in cash.

Note 4. Financing transactions

During the second quarter of 2004, we completed the following financing transactions:

- $11.5 million variable-rate note payable, effective April 30, 2004, secured by a deed of trust and assignment of rents of Chason Ridge Apartments. The note provides for interest at 30-day LIBOR plus 1.75%, payable monthly, and principal due May 2007, subject to an optional 24-month extension. If the loan is extended, principal payments of approximately $27,000 will be payable monthly beginning June 2007, with the remaining principal balance of approximately $10.9 million due April 2009. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately $95,000. We applied approximately $9.4 million of these proceeds to retire an existing 8.5% deed of trust note related to Chason Ridge.

- $19.7 million fixed-rate note payable, effective May 12, 2004, secured by a deed of trust and assignment of rents of Bridges at Wind River Apartments. The note provides for interest at 5.57% payable in monthly installments of principal and interest of approximately $113,000, with a balloon payment of approximately $16.5 million at maturity in June 2014, subject to an optional extension for one year with interest at a variable rate. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately $160,000. We applied the proceeds of this note, along with additional funds drawn on our revolving line of credit, to retire the existing $24.3 million loan obligation related to Bridges at Wind River.

- $14.9 million fixed-rate note payable, effective June 29, 2004, secured by a deed of trust and assignment of rents of Carriage Club Apartments. The note provides for interest at 5.15% payable in monthly installments of approximately $65,000 through July 2005, then principal and interest payable in monthly installments of approximately $81,000 August 2005 through June 2009, with a balloon payment of approximately $14.0 million at maturity in July 2009. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately $90,000 through June 30, 2004.

In June 2004, we modified our revolving line of credit with a bank secured by the Latitudes Apartments to increase the maximum loan amount to $30.0 million, extend the term of the loan through November 2007, and to reduce the variable interest rate on outstanding amounts to 30-day LIBOR plus 1.65%. In conjunction with this modification, we paid and recorded deferred loan costs of approximately $185,000.

During the second quarter of 2004, we made draws on this line of credit totaling $9.6 million in conjunction with the acquisitions of Bridges at Wind River and Carriage Club. We also made a draw of $3.4 million on June 30, 2004, in conjunction with the July 1, 2004, acquisition of Savannah Shores Apartments (discussed in Note 6 below).

We estimate future scheduled principal payments will be as follows. This schedule includes maturities of debt in place as of July 31, 2004.

2004 (remainder)	$ 11,064,000
2005	7,649,000
2006	17,082,000
2007	73,034,000
2008	38,337,000
2009 and thereafter	111,144,000
	$258,310,000

Note 5. Shareholders' equity

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. Through June 30, 2004, we incurred costs associated with this placement totaling approximately $800,000. We expect to use the net proceeds to fund future acquisitions, repay bank debt, and for general corporate purposes. We immediately applied $13.0 million of the net proceeds to reduce our revolving line of credit secured by Latitudes Apartments.

In May 2004, we issued 16,733 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan ("DRIP") for proceeds of approximately $212,000. In February 2004, we issued 16,046 shares of our common stock through our DRIP for proceeds of approximately $195,000.

Also in May 2004, we issued 20,000 shares of our common stock with an imputed value of $251,000 in exchange for operating partnership units formerly held by a minority unitholder. We issued these shares to Paul Chrysson, a member of our Board of Directors.

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

	Three months ended June 30		Six months en June 30
	2004	2003	2004

Numerators:				
Numerator for basic earnings per share -				
Net income (loss)	$ 216,634	$ (392,522)	$ 589,693	$
Cumulative preferred dividend	(250,000)	(125,000)	(500,000)	
Income (loss) available to common shareholders	$ (33,366)	$ (517,522)	$ 89,693	$
Numerator for diluted earnings per share -				
Net income (1)	$ 207,961	$ (555,238)	$ 616,388	$
Cumulative preferred dividend	(250,000)	(125,000)	(500,000)	
Income available to common shareholders (1)	$ (42,039)	$ (680,238)	$ 116,388	$

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	Three months ended June 30 2004	Three months ended June 30 2003	Six months en[ded] June 30 2004	
Denominators:				
Denominator for basic earnings per share - weighted average common shares outstanding	7,119,280	5,857,298	6,762,612	
Effect of dilutive securities:				
Convertible Operating Partnership units	1,850,367	1,844,264	1,845,733	
Stock options (2)	24,283	5,360	19,183	
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	8,993,930	7,706,922	8,627,528	

Note 6. Subsequent events

Dividend declaration
On July 20, 2004, the Board of Directors declared a regular quarterly cash dividend of $0.25 per share to be paid on August 16, 2004, to common shareholders of record on August 2, 2004. The Board of Directors also authorized the payment of dividends totaling $250,000 to the Series B Preferred shareholder

in accordance with the investment agreement for those shares.

Apartment acquisitions and related financing transactions

Effective July 1, 2004, we acquired Savannah Shores Apartments, a 198-unit apartment property located in Myrtle Beach, South Carolina, for an initial purchase price of $12.5 million. The acquisition agreement provides for potential earn-out of additional purchase price of up to $1.7 million within a three-year period; this would be funded through the issuance of operating partnership units with a total imputed value of $13.00 per unit to the contributors. We paid the initial purchase price through issuance of operating partnership units with an imputed value of approximately $0.1 million, assumption of $12.1 million in debt, and assumption of approximately $0.3 million net operating liabilities in excess of operating assets acquired. Two members of the contributor group in this transaction serve on our Board of Directors. Prior to this transaction, we managed the property under a third-party management contract.

Also effective July 1, 2004, we issued a $9.0 million variable-rate note payable, secured by a deed of trust and assignment of rents of Savannah Shores Apartments. The three-year note provides for interest at 30-day LIBOR plus 1.8%, payable monthly, and principal due July 2007,

subject to an optional 24-month extension. If the loan is extended, principal payments of approximately $16,000 will be payable monthly beginning August 2007, with the remaining principal balance of approximately $8.6 million due July 2009. We applied proceeds of this loan, along with additional funds drawn on our revolving line of credit, to retire the existing $12.1 million loan obligation related to Savannah Shores.

Effective August 5, 2004, we acquired the Fairington Apartments, a 250-unit apartment property located in Charlotte, North Carolina, for a contract price of $18.5 million, paid in cash. In conjunction with this acquisition, we issued a $13.4 million variable-rate note payable, secured by a deed of trust and assignment of rents of Fairington. The note provides for interest at 30-day LIBOR plus 1.75%, payable monthly, with principal due August 2007, subject to an optional 24-month extension.

Other financing transactions

Effective July 13, 2004, we issued a $15.0 million fixed-rate note payable, secured by a deed of trust and assignment of rents of The Harrington Apartments. The note provides for interest at 5.15% payable in monthly installments of approximately $65,000 through August 2005, then principal and interest payable in monthly installments of approximately $82,000 September 2005 through July 2009, with a balloon payment of approximately $14.1 million at maturity in August 2009. In conjunction with this transaction, we paid and initially recorded deferred loan costs of approximately $82,000. We applied the proceeds to retire a $14.4 million variable-rate note payable.

Common stock issue

On July 19, 2004, we issued 1,420,000 shares of common stock at a price of $12.50 per share, to a number of institutional investors and mutual funds pursuant to a registered direct placement, for a total purchase price of approximately $17.75 million. We estimate costs associated with this placement will total approximately $0.8 million. We expect to use the net proceeds to fund future acquisitions, repay bank debt, and for general corporate purposes. We immediately applied $17.0 million of the net proceeds to reduce our revolving line of credit secured by Latitudes Apartments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

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

o Our markets could suffer unexpected increases in the development of apartment, 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 cause our debt service costs to exceed expectations;

o we may not be able to meet our long-term liquidity requirements on favorable terms; and

o we could lose the services of key executive officers.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to disclose 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 the discussion in conjunction with the financial statements and notes thereto included in this Quarterly Report and our Annual Report on Form 10-K.

Company Profile

BNP Residential Properties, Inc. is a self-administered and self-managed real estate investment trust with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. As of August 2, 2004, we currently own 23 apartment communities containing 5,671 units and provide third-party management services for seven communities containing a total of 1,799 units. In addition to our apartment communities, we own 40 properties that we lease on a triple-net basis to a restaurant operator.

We are structured as an UpREIT, or umbrella partnership real estate investment trust. The company is the sole general partner and owns a controlling interest in BNP Residential Properties Limited Partnership, through which we conduct all of our operations. We refer to this partnership as the operating partnership. We refer to the limited partners of the operating partnership as minority unitholders or as the minority interest.

Our executive offices are located at 301 South College Street, Suite 3850, Charlotte, North Carolina 28202-6024, telephone 704/944-0100.

Results of Operations

Summary

At the end of the first quarter of 2004, we reported improvement in apartment operating results, attributed primarily to a 4.5% increase in same-units occupancy at our apartment communities. We indicated that while we were confident that we would be able to sustain the gains in occupancy, we were somewhat apprehensive about our ability to raise rents.

In the second quarter of 2004, we are pleased to report that we were in fact able to maintain occupancy at acceptable levels while obtaining meaningful increases in rental rates. For the second quarter, average economic occupancy for our apartments owned for the full six months in both 2003 and 2004 increased by 3.7%, while revenue per occupied unit increased by 2.4%, as compared to the second quarter of 2003.

We are optimistic about the long-term prospects for our apartment properties, our apartment markets and the outlook for the company, and are actively working to increase the size and scope of the company. We are continuing to build our apartment portfolio. During the second quarter we acquired two apartment communities, and subsequent to quarter end we completed the acquisition of two additional communities. We have expanded our equity and investor base through two placements of common stock with institutional investors and mutual funds: $13.8 million in the first quarter and $17.75 million early in the third quarter.

It is important to note that our optimism is tempered somewhat by uncertainty over a number of factors, including the strength of the current economic recovery, the outlook for changes in interest rates, the impact of rapidly expanding state and federal deficits, and the threat of terrorism. While these issues make it extremely difficult to predict with any certainty the outlook for the near-term future, we are confident that we are well positioned for the long term.

Revenues

Total revenues in the second quarter of 2004 were $11.9 million, an increase of 16.5% compared to the second quarter of 2003. Total revenues through the first six months of 2004 were $23.1 million, a 13.1% increase compared to the first six months of 2003.

Apartment rental income totaled $10.6 million in the second quarter of 2004, an increase of 18.2% compared to the second quarter of 2003. Through the first six months of 2004, apartment rental income totaled $20.6 million, a 15.7% increase compared to the first six months of 2003. These increases are primarily attributable to apartment acquisitions in 2003 and 2004 - The Place, acquired March 2003; The Harrington, acquired August 2003; Bridges at Wind River, acquired May 2004. These acquisitions contributed approximately $1.2 million in revenue in the

second quarter of 2004 and approximately $2.1 million in revenue through the first six months of 2004.

On a "same-units" basis (the 18 apartment communities that we owned through the first six months of both 2004 and 2003), apartment rental income increased by 6.5% in the second quarter of 2004 compared to the second quarter of 2003, and by 5.5% for the first six months of 2004 compared to the first six months of 2003. This increase was the result of improvements in occupancy as well as revenue per occupied unit. On a same-units basis, average economic occupancy was 95.2% for the second quarter of 2004, compared to 91.5% for the second quarter of 2003; and 95.2% for the first six months of 2004, compared to 91.2% for the first six months of 2003. On a same-units basis, average revenue per occupied unit was $737 for the second quarter of 2004, compared to $720 for the second quarter of 2003; and $734 for the first six months of 2004, compared to $726 for the first six months of 2003.

Summary amounts for our apartment communities' occupancy and revenue per occupied unit for the second quarter and first six months of 2004 follow:

		Three months ended June 30		Six months June
	Number of apartment units	Average economic occupancy	Average monthly revenue per occupied unit	Average economic occupancy
Abbington Place	360	92.8%	$759	93.1%
Allerton Place	228	95.5%	776	94.3%
Barrington Place	348	94.1%	756	94.8%
Brookford Place	108	97.1%	679	97.5%
Carriage Club (2)	268			
Chason Ridge	252	98.7%	793	98.2%
The Harrington (1)	288	94.2%	749	92.2%
Harris Hill	184	96.2%	640	95.5%
Latitudes	448	97.8%	913	97.0%
Madison Hall	128	96.0%	592	94.8%
Marina Shores Waterfront	290	95.5%	766	94.2%
Oakbrook	162	94.4%	693	96.2%
Oak Hollow	461	93.0%	611	94.0%

Paces Commons	336	96.6%	630	96.4%
Paces Village	198	92.7%	669	93.4%
Pepperstone	108	96.1%	673	97.1%
Savannah Place	172	93.7%	709	93.4%
Summerlyn Place	140	93.8%	842	94.4%
The Place (1)	144	97.3%	557	97.5%
Waterford Place	240	95.5%	876	94.8%
Woods Edge	264	95.0%	712	95.7%
Bridges at Wind River (1)	346	90.9%	843	
All apartments				
- 2004	5,473	95.0%	735	95.0%
- 2003	4,571	91.4%	715	91.1%

		Three months ended June 30		Six months June
	Number of apartment units	Average economic occupancy	Average monthly revenue per occupied unit	Average economic occupancy
Same units (1)	4,427			
- 2004		95.2%	737	95.2%
- 2003		91.5%	720	91.2%

Restaurant rental income was $1.0 million in the second quarters of both 2004 and 2003. Through the first six months of 2004, restaurant rental income was $1.9 million, compared to $2.0 million through the first six months of 2003. A slight decline in 2004 restaurant rental income as compared to 2003 is attributable to the sale of two restaurant properties during 2003. "Same-store" (those 40 restaurant properties that operated through the first six months of both 2004 and 2003) sales at our restaurant properties increased by 15.8% compared to the second quarter of 2003, and by 15.9% compared to the first six months of 2003. For the first time in almost nine years, during the second quarter of 2004, sales at our restaurant properties exceeded the threshold for percentage rent; however, on a year-to-date basis, sales would have to increase by 2.3% before we would earn rent exceeding the minimum rent for 2004. Under the master lease for these 40 restaurant properties, annual rent is the greater of $3,829,787 or 9.875% of food sales.

Management fee income totaled $208,000 in the second quarter of 2004, compared to $223,000 in the second quarter of 2003. Through the first six months of 2004, management fee income totaled $405,000, compared to $450,000 through the first six months of 2003. This decrease is attributable to the termination of management contracts for several properties in 2003. We expect that management fee income will further decline following the July 1, 2004, acquisition of Savannah Shores Apartments, which we previously managed, and termination of the management contract for another property. Management fees for these two properties totaled approximately $65,000 through the first six months of 2004.

Expenses

Total expenses, including non-cash charges for depreciation and amortization, were $11.6 million in the second quarter of 2004, an increase of 8.5% compared to the second quarter of 2003. Through the first six months of 2004, total expenses were $22.5 million, an increase of 7.9% compared to the first six months of 2003.

Apartment operations expense (the direct costs of on-site operations at our apartment communities) in the second quarter of 2004 totaled $4.4 million, a 13.9% increase compared to the second quarter of 2003. Through the first six months of 2004, apartment operations expense totaled $8.2 million, an increase of 12.6% compared to the first six months of 2003. These increases are primarily attributable to apartment acquisitions in 2003 and 2004; these

communities generated apartment operations expense of $548,000 in the second quarter and $937,000 through the first six months of 2004. On a same-units basis, apartment operations expense increased by 3.6% for the second quarter, and 1.9% through the first six months, of 2004 as compared to 2003.

Operating expenses for restaurant properties are insignificant because the triple-net lease arrangement requires the lessee to pay virtually all of the expenses associated with the restaurant properties.

Apartment administration (the costs associated with oversight, accounting and support of our apartment management activities for both owned and third-party properties) and corporate administration expense totaled $1.2 million in the second quarter of 2004, a 9.8% increase compared to the second quarter of 2003. Through the first six months of 2004, administrative expenses totaled $2.3 million, an 8.8% increase compared to the first six months of 2003. These increases are attributable to additional corporate support staff, software and insurance costs.

Depreciation expense totaled $2.7 million in the second quarter of 2004, an 8.1% increase compared to the second quarter of 2003. Through the first six months of 2004, depreciation expense totaled $5.2 million, an 8.4% increase compared to the first six months of 2003. These increases are primarily attributable to the addition of apartment communities.

Interest expense totaled $3.3 million in the second quarter of 2004, an increase of 2.7% compared to the second quarter of 2003. Through the first six months of 2004, interest expense totaled $6.6 million, an increase of 2.0% compared to the first six months of 2003. Overall, weighted average interest rates were 5.7% for the second quarter and first six months of 2004, compared to 6.0% for the same periods in 2003. (See further discussion in "Capital Resources and Liquidity - Capital Resources" below.)

Net Income

Operating partnership earnings before non-cash charges for depreciation and amortization totaled $3.0 million for the second quarter of 2004, a 47.1% increase compared to $2.0 million for the second quarter of 2003. Through the first six months of 2004, operating partnership earnings before depreciation and amortization totaled $6.0 million, a 31.2% increase compared to $4.6 million through the first six months of 2003. These increases are attributable to the positive impact of new apartment communities, as well as improvement in apartments operating results, particularly in apartment revenues.

Income before minority interest (operating partnership income, before deductions for the minority interest in the operating partnership and the cumulative preferred dividend) was $208,000 for the second quarter of 2004, compared to a loss of $555,000 for the second quarter of 2003. Through the first six months of 2004, income before minority interest totaled $616,000, compared to a loss of $403,000 through the first six months of 2003. Net income (after deduction for the minority interest, but before the cumulative preferred dividend) was $217,000 for the second quarter of 2004, compared to a loss of $393,000 for the second quarter of 2003. Through the first six months of 2004, net income was $590,000, compared to a loss of $247,000 through the first six months of 2003. These comparisons again reflect the improvement in apartments operating results.

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 $250,000 for each of the first two quarters of 2004, compared to $125,000 for each of the first two quarters of 2003.

Funds from Operations

Funds from operations is frequently referred to as "FFO." FFO is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as "net income (computed in accordance with generally accepted accounting principles), excluding gains (losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures." Our calculation of FFO is consistent with FFO as defined by NAREIT. Because we hold all of our assets in and conduct all of our operations through the operating partnership, we measure FFO at the operating partnership level (i.e., before minority interest).

Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. In fact, real estate values have historically risen or fallen with market conditions. FFO is intended to be a standard supplemental measure of operating performance that excludes historical cost depreciation from - or "adds it back" to - GAAP net income. We consider FFO to be useful in evaluating potential property acquisitions and measuring operating performance.

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

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

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

Funds from operations totaled $2.6 million in the second quarter of 2004, a 46.4% increase compared to the second quarter of 2003. Through the first six months of 2004, funds from operations totaled $5.3 million, a 28.2% increase compared to the first six months of 2003. This comparison reflects the improvement in apartments operating results.

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We calculated funds from operations as follows (all amounts in thousands):

	Three months ended June 30		Six months en June 30
	2004	2003	2004
Income before minority interest	$ 208	$ (555)	$ 616
Cumulative preferred dividend	(250)	(125)	(500)
Depreciation	2,690	2,489	5,230
Funds from operations	$2,648	$1,809	$5,346

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

	Three months ended June 30		Six months en June 30
	2004	2003	2004
Funds from operations	$2,648	$1,809	$5,346
Amortization of loan costs	68	82	156
Recurring capital expenditures	(626)	(408)	(901)
Funds available for distribution	$2,089	$1,483	$4,600

A further reconciliation of FAD to net cash provided by operating activities follows (all amounts in thousands):

	Three months ended June 30		Six months en June 30
	2004	2003	2004

Funds available for distribution	$2,089	$1,483	$4,600
Cumulative preferred dividend	250	125	500
Recurring capital expenditures	626	408	901
Amortization of deferred interest defeasance	(26)	(42)	(105)
Changes in operating assets and liabilities	(626)	(4)	(139)
Net cash provided by operating activities	$2,313	$1,970	$5,758

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

	Three months ended June 30 2004	2003	Six months en June 30 2004
Net cash provided by (used in):			
Operating activities	$ 2,313	$ 1,970	$ 5,758
Investing activities	(20,498)	(600)	(21,056)
Financing activities	21,988	(1,171)	19,730
Dividends and distributions paid to:			
Preferred shareholders	$ 250	$ 125	$ 500
Common shareholders	1,775	1,462	3,251
Minority unitholders in operating partnership	460	462	921
Scheduled debt principal payments	$ 297	$ 285	$ 614
Non-recurring capital expenditures	359	193	642
Weighted average shares outstanding			
Preferred shares	909	455	909
Common shares	7,119	5,857	6,763
Weighted average Operating Partnership minority units outstanding	1,850	1,844	1,846

By virtually any measure, we had a very good first six months in 2004. As a result of continued improvement in apartment operations, funds from operations, funds available for distribution and earnings per share all increased by significant amounts as compared to the first six months of 2003.

Capital Resources and Liquidity

Capital Resources

We completed a number of significant investing and financing transactions during the second quarter of 2004 and in July of 2004. We completed the following apartment community acquisitions:

- Bridges at Wind River Apartments, effective May 12, 2004 - We acquired this 346-unit property located in Durham, North Carolina, for a contract price of $25.0 million, including issuance of 39,270 operating partnership units at an imputed value of $13.00 per unit, or approximately $511,000, assumption of approximately $24.3 million debt, and assumption of approximately $0.2 million net operating liabilities in excess of operating assets acquired. We received approximately $105,000 cash in this acquisition.

- Carriage Club Apartments, effective June 29, 2004 - We acquired this 268-unit property located in Mooresville, North Carolina, for a contract price of $19.65 million, paid in cash.

- Savannah Shores Apartments, effective July 1, 2004 - We acquired this 198-unit property located in Myrtle Beach, South Carolina, for an initial purchase price of $12.5 million. The acquisition agreement provides for potential earn-out of additional purchase price of up to $1.7 million within a three-year period, which would be funded through the issuance of up to 130,769 operating partnership units at an imputed value of $13.00 per unit to the contributors. Prior to this acquisition, we managed this property under a third-party management contract. In conjunction with this acquisition, we issued 7,695 operating partnership units at an imputed value of $13.00 per unit, or approximately $100,000, assumed approximately $12.1 million in debt; and assumed approximately $0.3 million net operating liabilities in excess of operating assets acquired.

During the second quarter and in July of 2004, we completed the following financing transactions:

- $11.5 million variable-rate loan, effective April 30, 2004, proceeds applied to retire the $9.4 million balance on the existing deed of trust note at 8.5% related to Chason Ridge Apartments. The three-year note payable is secured by a deed of trust and assignment of rents of Chason Ridge, and provides for interest at 30-day LIBOR plus 1.75%, payable monthly, with the principal balance due May 2007, subject to an optional 24-month extension.

- $19.7 million fixed-rate loan, effective May 12, 2004, proceeds applied to retire the existing $24.3 million loan obligation related to Bridges at Wind River Apartments. The ten-year note payable is secured by a deed of trust and assignment of rents of Bridges at Wind River, and provides for interest at 5.57% payable in monthly installments of principal and interest of approximately $113,000 per month through May 2014, with a balloon payment of approximately $16.5 million at maturity in June 2014.

- $14.9 million fixed-rate loan, effective June 29, 2004, secured by a deed of trust and assignment of rents of Carriage Club Apartments. The five-year note provides for interest at 5.15% payable in monthly installments of approximately $65,000 through July 2005, then principal and interest installments of approximately $81,000 per month through June 2009, with a balloon payment of approximately $14.0 million at maturity in July 2009.

- $9.0 million variable-rate loan, effective July 1, 2004, proceeds applied to retire the existing $12.1 million loan obligation related to Savannah Shores Apartments. The three-year note is secured by a deed of trust and assignment of rents of Savannah Shores Apartments, and provides for interest at 30-day LIBOR plus 1.8% payable monthly, with the principal balance due July 2007, subject to an optional 24-month extension.

o $15.0 million fixed-rate note payable, effective July 13, 2004, proceeds applied to retire the existing variable-rate $14.4 million deed of trust note related to The Harrington Apartments. The five-year note is secured by a deed of trust and assignment of rents of The Harrington, and provides for interest at 5.15% payable in monthly installments of approximately $65,000 through August 2005, then principal and interest payable in

monthly installments of approximately $82,000 September 2005 through July 2009, with a balloon payment of approximately $14.1 million at maturity in August 2009.

o In conjunction with the financing transactions related to acquisitions, we made draws of $13.0 million on our line of credit secured by Latitudes Apartments during the quarter ended June 30, 2004.

In May 2004 we issued 20,000 shares of our common stock with an imputed value of $251,000 in exchange for operating partnership units formerly held by a minority unitholder. We issued these shares to Paul Chrysson, a member of our Board of Directors.

Effective July 19, 2004, we completed the placement of 1.42 million shares of common stock at a price of $12.50 per share to a number of institutional investors and mutual funds pursuant to a registered direct placement. We expect that net proceeds of this placement will be approximately $16.9 million. We expect to use the net proceeds to fund future acquisitions, repay bank debt, and for general corporate purposes. We immediately applied proceeds of the stock issue to reduce our revolving line of credit secured by Latitudes Apartments by $17.0 million.

During the first quarter of 2004, we issued 1.18 million 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 net proceeds of approximately $13.0 million. We immediately applied $13.0 million of the net proceeds to reduce our revolving line of credit secured by Latitudes Apartments.

As of June 30, 2004, total long-term debt was $265.8 million, including $193.0 million of notes payable at fixed interest rates ranging from 5.06% to 8.55%, and $72.8 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.5% at June 30, 2004, down from 5.9% at March 1, 2004.

As of July 31, 2004, total long-term debt was $258.3 million, including $207.9 million of notes payable at fixed interest rates ranging from 5.06% to 8.55%, and $50.4 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding at July 31, 2004, was 5.8%. A 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately $510,000.

Cash Flows and Liquidity

Net cash flows from operating activities were $2.3 million in the second quarter of 2004, compared to $2.0 million in the second quarter of 2003. Through the first six months of 2004, net cash flows from operating activities were $5.8 million, compared to $4.2 million through the first six months of 2003. Improvements in operating results produced approximately $1.0 million of the increase in second quarter comparisons and $1.4 million of the increase in six month comparisons; remaining differences are attributable to timing of cash receipts and disbursements.

Investing and financing activities, other than those described under "Capital Resources" above, focused on capital expenditures at apartment communities, along with payment of dividends and distributions.

We have announced that the company will pay a regular quarterly dividend of $0.25 per share (approximately $2.1 million) on August 16, 2004, to shareholders of record of our common stock as of August 2, 2004, as well as $250,000 dividends to the preferred shareholder.

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

Critical Accounting Policies - Capital expenditures and depreciation

We identify and discuss our significant accounting policies in the notes to our financial statements included in our Annual Report on Form 10-K. Our policy and practice regarding capital expenditures and depreciation, which may be of particular interest to readers of this Quarterly Report, are further discussed below.

In general, for the 15 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 apartment properties acquired in 2002 and later, we have or will perform analyses of components of the real estate assets acquired. For these properties, we assign 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 the first six months of 2004 totaled approximately $1.5 million, including approximately $251,000 for acquisition improvements, $391,000 for additions and betterments, and $901,000 for recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our apartment communities during the first six months of 2004 totaled approximately $2.9 million, including $1.2 million in compensation of service staff and $1.7 million in payments for materials and contracted services.

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A summary of capital expenditures at our apartment communities through June 30, 2004, in aggregate and per apartment unit, follows:

	Total	Per unit
	(000's)	
Recurring capital expenditures:		
Floor coverings	$374	$ 76
Appliances/HVAC	161	33
Exterior paint	-	-
Computer/support equipment	31	6
Other	335	68
	$901	$183
Non-recurring capital expenditures:		
Acquisition improvements at apartment properties	$251	
Additions and betterments at apartment properties	360	
Computer/support equipment	31	
	$642	

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We completed a number of significant acquisition and financing transactions during the second quarter of 2004 and during the month of July, 2004.

As of June 30, 2004, total long-term debt was $265.8 million, including $193.0 million of notes payable at fixed interest rates ranging from 5.06% to 8.55%, and $72.8 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.5% at June 30, 2004, down from 5.9% at March 1, 2004.

As of July 31, 2004, total long-term debt was $258.3 million, including

$207.9 million of notes payable at fixed interest rates ranging from 5.06% to 8.55%, and $50.4 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding at July 31, 2004, was 5.8%. A 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately $510,000.

The table below provides information about our long-term debt instruments and presents expected principal maturities and related weighted average interest rates on instruments in place as of July 31, 2004 (all amounts in thousands).

	Expected maturity dates					
	2004	2005	2006	2007	2008	Later
Fixed rate notes	$ 489	$ 6,816	$ 1,599	$49,518	$38,337	$111,144
Average interest rate	5.43%	8.12%	6.06%	6.94%	6.56%	6.10%

	Expected maturity dates					
	2004	2005	2006	2007	2008	Later
Variable rate notes	$ 10,575	$ 833	$15,483	$23,516	-	-
Average interest rate	3.01%	2.97%	2.97%	2.92%		

Item 4. 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 SEC'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 and chief financial officer, to allow timely decisions regarding required disclosures.

Based on our most recent evaluation, which was completed as of the end of the second quarter of 2004, our chief executive officer and chief financial officer believe that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the completion of this evaluation.

Part II - Other Information

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

We held our Annual Meeting of Shareholders on May 20, 2004. Of the 7,098,698 shares of common stock issued, outstanding, and entitled to vote at this meeting, 5,994,594, or 84.45%, were present in person or by proxy. The following proposal was approved:

	For	Against	Withheld/ Abstained
Election of directors to serve until the 2007 annual meeting:			
Stephen R. Blank	5,755,948	-0-	238,646
Philip S. Payne	5,762,268	-0-	232,326
Election of a Series B director to serve until the 2005 annual meeting: Peter J. Weidhorn (elected by the holders of Series B Cumulative Preferred Stock)	909,090	-0-	-0-

Other directors, whose terms of office as directors continue after the meeting, are as follows:

Serving until the 2005 annual meeting:
D. Scott Wilkerson
Paul G. Chrysson

Serving until the 2006 annual meeting:
W. Michael Gilley

Item 5. Other Information

Re-appointment of officers

The Company has announced the re-appointment of the following officers:

D. Scott Wilkerson	President and Chief Executive Officer
Philip S. Payne	Chairman, Chief Financial Officer, and Assistant Secretary
Pamela B. Bruno	Vice President, Treasurer, Chief Accounting Officer, and Assistant Secretary
Eric S. Rohm	Vice President, Secretary, and General Counsel

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

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

Exhibit No.	
3.1*	Amended and Restated Bylaws of BNP Residential Properties, Inc., adopted May 20, 2004 (filed as Exhibit 3.1 to the BNP Residential Properties, Inc. Current Report on Form 8-K dated July 14, 2004, and incorporated by reference herein).
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

b) Reports on Form 8-K

We issued the following current reports on Form 8-K during the quarter ended June 30, 2004:

- Current report on Form 8-K dated May 4, 2004, 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 March 31, 2004.

- Current report on Form 8-K dated May 12, 2004, to report under Item 5 the acquisition of Page Park Holdings, LLC, and its primary asset, Bridges at Wind River Apartments (formerly named Oakwood Raleigh Apartments).

- Current report on Form 8-K dated May 17, 2004, to report under Item 12 our report to shareholders announcing the results of operations and financial condition of the company as of and for the quarter ended March 31, 2004.

- Current report on Form 8-K dated June 1, 2004, to report under Item 5 a press release announcing the resignation and retirement of B. Mayo Boddie from our Board of Directors.

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.

BNP RESIDENTIAL PROPERTIES, INC.
(Registrant)

August 9, 2004

/s/ Philip S. Payne

Philip S. Payne
Chairman and
Chief Financial Officer
(Duly authorized officer)

August 9, 2004

/s/ Pamela B. Bruno

Pamela B. Bruno
Vice President, Treasurer and
Chief Accounting Officer

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INDEX TO EXHIBITS

*Incorporated herein by reference

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