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BNP RESIDENTIAL PROPERTIES INC
Form 10-Q
May 05, 2006

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

FORM 10-Q

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

For the quarterly period ended March 31, 2006

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
State or other jurisdiction of
incorporation or organization

56-1574675
(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. X Yes _ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer: Large accelerated filer _
Accelerated filer X Non-accelerated filer _

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). _ Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of May 1, 2006 (the latest practicable date).

Common Stock, \$.01 par value

(Class)

10,407,448

(Number of shares)

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PART I - Financial Information

Item 1. Financial Statements.

BNP RESIDENTIAL PROPERTIES, INC.

 Consolidated Balance Sheets
 (all amounts in thousands except share amounts)

| | March 31 2006 | Dece 2 |
|-----------------------------------|----------------------|-----------|
| | ----- (Unaudited) | |
| Assets | | |
| Real estate investments at cost: | | |
| Apartment properties | \$ 561,851 | |
| Restaurant properties | 37,405 | |
| | ----- | |
| | 599,256 | |
| Less accumulated depreciation | (92,188) | |
| | ----- | |
| | 507,068 | |
| Cash and cash equivalents | 2,689 | |
| Prepaid expenses and other assets | 8,813 | |
| Deferred financing costs, net | 2,600 | |
| Intangible assets, net | 1,174 | |
| | ----- | |
| Total assets | \$ 522,345 | |
| | ===== | |

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| | |
|---|------------|
| Liabilities and Shareholders' Equity | |
| Deed of trust and other notes payable | \$ 435,898 |
| Accounts payable and accrued expenses | 2,995 |
| Accrued interest on notes payable | 1,844 |
| Consideration due for completed acquisitions | - |
| Deferred revenue and security deposits | 2,188 |
| | ----- |
| Total liabilities | 442,925 |
| Minority interest in operating partnership | 21,553 |
| Shareholders' equity: | |
| Common stock, \$.01 par value, 100,000,000 shares authorized; 10,407,448 shares issued and outstanding at March 31, 2006, 10,385,890 shares issued and outstanding at December 31, 2005 (including 200,000 nonvested shares issued and outstanding at both dates) | 102 |
| Additional paid-in capital | 122,869 |
| Dividend distributions in excess of net income | (65,104) |
| | ----- |
| Total shareholders' equity | 57,867 |
| | ----- |
| Total liabilities and shareholders' equity | \$ 522,345 |
| | ===== |

See accompanying notes

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Operations - Unaudited
(all amounts in thousands except per share amounts)

| | Three months March 31 2006 |
|---|----------------------------------|
| | ----- |
| Revenues | |
| Apartment rental income | \$ 19,001 |
| Restaurant rental income | 957 |
| Interest and other income | 182 |
| | ----- |
| | 20,140 |
| Expenses | |
| Apartment operations | 7,262 |
| Apartment administration | 908 |
| Corporate administration | 1,021 |
| Interest | 6,266 |
| Penalties paid at debt refinance | - |
| Depreciation | 4,723 |
| Amortization of deferred loan costs | 137 |
| Write-off of unamortized loan costs at debt refinance | - |
| Deficit distributions to minority partners | 90 |

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| | |
|--|--------------------------|
| | ----- 20,407 ----- |
| (267) (7,358) | |
| Loss attributed to minority interests | |
| - Consolidated limited partnerships | - |
| - Operating partnership | 52 |
| | ----- |
| Loss from continuing operations | (214) |
| Discontinued operations: | |
| Income from discontinued operations | - |
| (Income) attributed to minority interests | - |
| | ----- |
| Income from discontinued operations, net | - |
| | ----- |
| Net loss | (214) |
| Less cumulative preferred dividend | - |
| | ----- |
| Loss attributed to common shareholders | \$ (214) |
| | ===== |
| Weighted average | |
| common shares outstanding | 10,396 |
| Earnings per common share - basic and diluted: | |
| Loss from | |
| - Continuing operations | \$ (0.02) |
| - Discontinued operations | - |
| | ----- |
| Net loss | (0.02) |
| Loss attributed to common shareholders | (0.02) |
| Dividends declared per common share | \$ 0.26 |

See accompanying notes

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statement of Shareholders' Equity - Unaudited
(all amounts in thousands)

| | Common Stock | | Additional | Dividend | |
|---|--------------|--------|------------|---------------|----|
| | Shares | Amount | paid-in | distributions | |
| | | | capital | in excess of | |
| | | | | net income | |
| | | | | | |
| Balance December 31, 2005 | 10,386 | \$ 102 | \$ 122,516 | \$ (62,189) | \$ |
| Common stock issued | 21 | - | 268 | - | |
| Service cost, nonvested common stock | - | - | 86 | - | |
| Dividends paid - common | - | - | - | (2,701) | |
| Net loss, first quarter | - | - | - | (214) | |
| | | | | ----- | |

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| | | | | | |
|------------------------|--------|--------|------------|-------------|-------|
| Balance March 31, 2006 | 10,407 | \$ 102 | \$ 122,869 | \$ (65,104) | \$ |
| | ===== | ===== | ===== | ===== | ===== |

See accompanying notes

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Cash Flows - Unaudited
(all amounts in thousands)

| | Three months end March 31 2006 |
|--|--------------------------------------|
| | ----- |
| Operating activities: | |
| Apartment rental receipts, net | \$ 19,191 |
| Restaurant rental receipts | 957 |
| Interest and other income receipts | 69 |
| Operating and administrative expense payments | (8,946) |
| Interest payments | (5,813) |
| Penalties paid at debt refinance | - |
| | ----- |
| Net cash provided by operating activities | 5,460 |
| Investing activities: | |
| Acquisitions of apartment properties | - |
| Acquisition of Boddie Investment Company, net of cash included in accounts of consolidated limited partnerships | - |
| Additions to apartment properties, net | (2,491) |
| Net release (funding) of lender reserves | (78) |
| Casualty proceeds | 1,141 |
| Deposits for pending investing transactions | (140) |
| | ----- |
| Net cash used in investing activities | (1,569) |
| Financing activities: | |
| Net proceeds from issuance of common stock | 317 |
| Distributions to minority partners in consolidated limited partnerships | (90) |
| Distributions to operating partnership minority unitholders | (652) |
| Dividends paid to preferred shareholder | - |
| Dividends paid to common shareholders | (2,701) |
| Proceeds from notes payable | - |
| Principal payments on notes payable | (768) |
| Deposits for pending financing transactions | (63) |
| Payment of deferred financing costs | (357) |
| | ----- |
| Net cash (used in) provided by financing activities | (4,313) |
| | ----- |
| Net (decrease) increase in cash and cash equivalents | (422) |
| Cash and cash equivalents at beginning of period | 3,111 |
| | ----- |
| Cash and cash equivalents at end of period | \$ 2,689 |

(continued)

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Cash Flows - Unaudited - continued
(all amounts in thousands)

| | Three months end March 31 2006 |
|--|--------------------------------------|
| Reconciliation of net loss to net cash provided by operating activities: | |
| Net loss | \$ (214) |
| Amortization of intangible for in-place leases at acquisitions | 66 |
| Casualty gains | (113) |
| Amortization of debt premium | (46) |
| Depreciation and amortization of deferred loan costs | 4,859 |
| Depreciation and amortization, discontinued operations | - |
| Write off of unamortized loan costs at debt refinancing | - |
| Deficit distributions to minority partners in consolidated limited partnerships | 90 |
| Minority interest in consolidated limited partnerships | - |
| Minority interest in operating partnership | (52) |
| Service cost related to nonvested common stock | 86 |
| Changes in operating assets and liabilities: | |
| Prepaid expenses and other assets | (1,390) |
| Accounts payable and accrued expenses | 2,075 |
| Deferred revenue, prepaid rent and security deposits | 99 |
| Net cash provided by operating activities | \$ 5,460 |

See accompanying notes

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BNP RESIDENTIAL PROPERTIES, INC.

Notes to Consolidated Financial Statements - March 31, 2006
(Unaudited)

Note 1. Interim financial statements

We prepared the accompanying condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form

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10-Q and Rule 10-01 of Regulation S-X. These interim financial statements do not include all information and notes required by GAAP for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of BNP Residential Properties, Inc. for the year ended December 31, 2005. You should read these financial statements in conjunction with our 2005 Annual Report on Form 10-K. When we use the terms "we," "us," or "our," we mean BNP Residential Properties, Inc. and all entities included in our consolidated financial statements. We believe that we have included all adjustments (including normal recurring accruals) necessary for a fair presentation. Operating results for the three months ended March 31, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

We have reclassified certain amounts in our prior period consolidated financial statements and notes to conform to the current period presentation.

Note 2. Basis of presentation

These 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.

The consolidated financial statements also include the accounts of three real estate limited partnerships (the "limited partnerships") in which we have general partner interests. The assets of consolidated limited partnerships controlled by the operating partnership generally are not available to pay creditors of the company or the operating partnership.

We have eliminated all significant intercompany balances and transactions in the consolidated financial statements.

Retrospective presentation of first quarter 2005 results

In January 2005 we acquired the general partner interest in three limited partnerships. We initially accounted for our investment in one of these partnerships, Villages of Chapel Hill - Phase 5 Limited Partnership ("Villages Phase 5 Partnership") by applying the equity method. During the third quarter of 2005, in accordance with new accounting rules, we consolidated the accounts and activities of this partnership in our consolidated financial statements. In addition, during the fourth quarter of 2005 we sold an apartment property. We have therefore revised the presentation of our operating results for the first quarter of 2005 to reflect these changes on a retrospective basis as follows:

| | | Retrospective adjustments for: | |
|------------------------|-------------------------|--------------------------------|-------|
| As currently presented | Discontinued Operations | Villages Phase 5 Partnership | p |
| (000's) | (000's) | (000's) | |
| Revenues | \$ 15,035 | \$ (435) | \$ 80 |
| Expenses | 22,393 | (405) | 96 |
| | (7,358) | (30) | (16) |

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| | | | |
|---|------------|------|---------|
| Loss attributed to minority interests | 1,362 | 5 | 3 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Loss from continuing operations | (5,995) | (25) | (13) |
| Income from discontinued operations, net | 25 | 25 | - |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Net loss | \$ (5,970) | \$ - | \$ (13) |
| <hr style="border-top: 3px double black;"/> | | | |

These adjustments are insignificant to the consolidated statement of operations and do not change reported earnings per share amounts for the first quarter of 2005.

Accounting for stock-based compensation

The company has one employee Stock Option and Incentive Plan in place.

Prior to July 1, 2005, we accounted for this plan using the intrinsic value method under the recognition and measurements principles of APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations, as permitted by FASB Statement 123, "Accounting for Stock-Based Compensation." No stock-based employee compensation cost was 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. All outstanding options were fully vested prior to the end of 2004.

Effective July 1, 2005, we adopted the fair value recognition provisions of FASB Statement 123(R), "Share Based Payment," ("FAS 123(R)") using the modified-prospective transition method. Under this transition method, compensation cost includes compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of FAS 123(R).

If we had applied the fair value recognition provisions of FAS 123 to options outstanding prior to July 1, 2005, there would have been no impact on net income as reported for the three months ended March 31, 2005, and no impact on basic and diluted earnings per share amounts as reported.

Nonvested common stock

Effective August 1, 2005, the Board of Directors granted and issued 200,000 restricted shares of the company's common stock to four of our executive officers. All of the shares were unvested on the date of grant, and will vest 10% per year beginning on July 1, 2006, and on each July 1 thereafter until fully vested. Once vested, the shares will be fully transferable without restriction. All shares carry dividend and voting rights.

Because grantees fully participate in dividends, the fair value of the nonvested shares is equal to the market value at the grant date, \$15.70 per share, or a total of \$3,140,000. Because the grantee

group is limited to four key executives, we estimate that 100% of these shares will vest. We will recognize the cost of these awards on a straight-line basis for each annual vesting period ending June 30 through 2015.

During the quarter ended March 31, 2006, we recorded \$86,000 in compensation cost related to nonvested common stock, included in corporate administration expense in our statement of operations and as an increase to additional paid-in capital. As of March 31, 2006, unrecognized service cost related to nonvested

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common stock totaled \$2.9 million.

Stock options

Options have been granted to employees at prices equal to the fair market value of the stock on the dates the options were granted or repriced. We calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. Options are generally exercisable in four annual installments beginning one year after the date of grant, and expire ten years after the date of grant.

During the first quarter of 2006, two employees exercised stock options for a total of 7,000 shares of common stock. Changes in outstanding stock options during the first three months of 2006 were as follows:

| | Shares | Weighted Average Exercise Price |
|-------------------------------|---------|------------------------------------|
| | ----- | ----- |
| Beginning balance | 270,000 | \$ 12.08 |
| Exercised | (7,000) | 10.11 |
| | ----- | ----- |
| Ending balance | 263,000 | \$ 12.14 |
| | ===== | ===== |
| Exercisable at March 31, 2006 | 263,000 | \$ 12.14 |
| | ===== | ===== |

Note 3. Shareholders' equity

During the first quarter of 2006, we issued 14,558 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan and 7,000 shares of our common stock upon exercise of options by two employees.

We calculated basic and diluted earnings per common share using the following amounts (in thousands):

| | Three months ended March 31 | |
|---|--------------------------------|------------|
| | 2006 | 2005 |
| | ----- | ----- |
| | (000's) | (000's) |
| Numerators: | | |
| ----- | | |
| For per common share amounts - | | |
| Net loss | \$ (214) | \$ (5,970) |
| Cumulative preferred dividend | - | (250) |
| | ----- | ----- |
| Loss attributed to common shareholders - basic and diluted | \$ (214) | \$ (6,220) |
| | ===== | ===== |

| Three months ended March 31 | |
|--------------------------------|-------|
| 2006 | 2005 |
| ----- | ----- |

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| | (000's) | (000's) |
|--|---------|---------|
| Denominators: | | |
| ----- | | |
| For per common share amounts - | | |
| Weighted average | | |
| common shares outstanding | 10,396 | 8,983 |
| Less weighted average nonvested common | | |
| shares outstanding | (200) | - |
| | ----- | ----- |
| Weighted average | | |
| common shares - basic | 10,196 | 8,983 |
| Effect of potentially dilutive securities: | | |
| Convertible operating | | |
| partnership units (1) | - | - |
| Nonvested common shares (2) | - | - |
| Stock options (3) | - | - |
| | ----- | ----- |
| For diluted earnings per share | | |
| amounts - adjusted weighted | | |
| average shares and assumed | | |
| conversions | 10,196 | 8,983 |
| | ===== | ===== |

- (1) Including operating partnership units would serve to reduce the net loss per share, and they have been excluded from the calculation.
- (2) Including nonvested common shares would serve to reduce the net loss per share, and they have been excluded from the calculation.
- (3) We excluded options to purchase 263,000 shares of common stock at prices ranging from \$9.25 to \$13.125 from the calculation of diluted earnings per share for the three months ended March 31, 2006. We also excluded options to purchase 270,000 shares of common stock at prices ranging from \$9.25 to \$13.125 from the calculation of diluted earnings per share for the three months ended March 31, 2005. Inclusion of these options would reduce the net loss per share.

Note 4. Subsequent events

The Board of Directors declared a regular quarterly dividend of \$0.26 per common share on April 20, 2006, payable on May 15, 2006, to shareholders of record as of May 1, 2006.

Effective April 6, 2006, we acquired the Sterling Bluff Apartments, located in Carrboro, North Carolina, for a contract purchase price of \$9.4 million, from an unaffiliated third party. We funded this acquisition by a draw on our existing revolving line of credit. We plan to operate the apartment community as Bridges at Chapel Hill 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.

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

- o Our markets could suffer unexpected increases in the development of 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 a decline in revenues from, or a sale of, our restaurant properties could adversely affect our financial condition and results of operations;
- 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 revise these forward-looking statements if future events or circumstances render them inaccurate.

You should read this discussion in conjunction with the financial statements and notes thereto included in this Quarterly Report and our Annual Report on Form 10-K, including the risk factors disclosed in our Annual Report.

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 March 31, 2006, we owned and managed 30 apartment communities containing 7,946 units, and served as general partner of limited partnerships that owned three properties with 713 units, which we also managed. In addition to our apartment communities, we own 40 restaurant 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

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minority unitholders or as the minority interest in the operating partnership.

As of May 1, 2006, we have 10,407,448 shares of common stock outstanding. Our shares are listed on the American Stock Exchange and trade under the symbol "BNP." The operating partnership has an additional 2,608,693 operating partnership minority common units outstanding.

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

The first quarter of 2006 was a very good quarter for us, with substantial improvement in virtually every category. Most notably, funds from operations increased by 28.9%, and funds available for distribution increased by 30.0%, over first quarter of 2005 levels. (We define and discuss funds from operations and funds available for distribution under the caption "Funds from Operations" beginning on page 20 of this Current Report.)

The results for the first quarter reflect the marked growth in our apartment portfolio in 2005, improved apartment operations and improved market conditions.

From both a performance and operations point of view, the first quarter of the year tends to be relatively weak for us. Winter is generally the period in which we experience our lowest occupancy. Normally, our focus in the first quarter is on building occupancy back to strong levels so that we can enter our higher demand seasons, spring and summer, in position to focus on increasing rental rates. This year was somewhat different. We ended 2005 with good occupancy levels and had strong demand for our apartments throughout the first quarter. As a result, same-units revenue increased by 4.0% for the first quarter of 2006 over the first quarter of 2005. ("Same-units" refers to the 23 apartment communities that we owned as of both January 1, 2005 and 2006.) Occupancy for these same-units increased to 95.0% in the first quarter of 2006 from 94.5% in the first quarter of 2005. What was particularly pleasing about the quarter was that revenue per occupied unit for these same-units increased by 3.4% to \$768 in the first quarter of 2006, from \$743 in the first quarter of 2005.

The improvement in apartment operations appears to be the result of improving market conditions, improvements in the company's operating systems, and the impact of our capital maintenance and improvement program.

We began to see the first signs of a shift towards strengthening rental markets in the summer of 2003, and this trend has continued, albeit slowly, to gain momentum. Rising home mortgage rates, home prices, and the cost of new construction appear to have slowed the out flow of residents from rental apartments to privately owned homes. At the same time, rapidly rising material and construction costs combined with rising interest rates have inhibited the construction of new apartment properties, especially those that compete directly in our middle-market niche. The combined effect of these two trends has been to bolster demand for our apartments.

Also contributing to the improvement in apartment operations in the quarter was our program to improve the company's operating systems. Beginning in 2005 we embarked on a major campaign to improve the efficiency and effectiveness of our operations and systems, both at the corporate and apartment operating levels. This effort involves considerable upfront investment; costs that we are

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currently bearing and that will continue for several quarters to come. We believe, however, that in the long run this program will not only save us money by improving the efficiency of our operations, but will facilitate our growth by making it easier for us to assimilate new acquisitions into our portfolio. We were encouraged that in the first quarter we began to realize some of the benefits and promise of our efforts in this area.

We are committed to the maintenance and improvement of our assets. Our mission is to provide high quality, middle market apartments at reasonable prices. We believe that to accomplish this mission we must maintain our apartment assets to very high standards. Not only does this make our properties more attractive to prospective residents, it preserves and enhances the value of our investment. To this end, we have an ongoing maintenance and improvement program that includes both newly acquired and existing properties. While it would have been easy to defer this program while we waited for our markets to improve, we believed that it was in the company's best interest to continue to work diligently to maintain and improve the portfolio. In addition to routine maintenance and numerous special projects, we completed exterior rehabilitations of two apartment properties in 2005 and have just begun an exterior rehabilitation of one additional property. As a result of these efforts, the portfolio is in excellent physical condition.

We are very positive in our outlook. We believe our portfolio is well positioned to benefit from continued improvement in our markets. We are optimistic that we will continue to see strong occupancy and good growth in rental rates at our apartment communities for the next few quarters.

We provide the following supplemental consolidating information, in response to requests from members of the investment community, for use in comparing our operating results for 2006 and 2005:

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| | 2006 | | | |
|---|--------------|---------|---------------------|---------------------|
| | Consolidated | Elim | Consolidated LPs | Owned Properties |
| | (000's) | (000's) | (000's) | (000's) |
| Operating Results - 3 months ended March 31: | | | | |
| Revenues: | | | | |
| Apartment rental income | \$ 19,001 | \$ - | \$ 1,978 | \$ 17,022 |
| Restaurant rental income | 957 | - | - | 957 |
| Management fee income | 9 | (101) | - | 110 |
| Casualty gains | 113 | - | - | 113 |
| Interest and other income | 60 | (42) | 2 | 100 |
| | 20,140 | (143) | 1,981 | 18,302 |
| Expenses: | | | | |
| Apartment operations | 7,262 | (101) | 829 | 6,534 |
| Administration expenses | 1,929 | - | - | 1,929 |
| Interest | 6,266 | (42) | 668 | 5,639 |
| Penalties paid at debt refinance | - | - | - | - |
| Depreciation | 4,723 | - | 394 | 4,329 |

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| | | | | |
|--|----------|-------|---------|----------|
| Amortization, loan costs | 137 | - | 15 | 122 |
| Write-off of unamortized loan costs at debt refinance | - | - | - | - |
| Deficit distributions to minority partners of consolidated limited partnerships(2) | 90 | - | 90 | - |
| | 20,407 | (143) | 1,996 | 18,554 |
| Loss from continuing operations | (267) | - | (15) | (252) |
| Income from discontinued operations | - | - | - | - |
| Loss before minority interests | (267) | \$ - | \$ (15) | \$ (252) |
| Minority interests - | | | | |
| - Consolidated limited partnerships | - | | | |
| - Operating partnership | 52 | | | |
| Net loss | \$ (214) | | | |
| Loss before minority interests | \$ (267) | \$ - | \$ (15) | \$ (252) |
| Casualty gains | (113) | - | - | (113) |
| Cumulative preferred dividend | - | - | - | - |
| Amortization, lease intangible | 66 | - | - | 66 |
| Depreciation | 4,723 | - | 394 | 4,329 |
| Depreciation related to discontinued operations | - | - | - | - |
| Deficit distributions to minority partners of consolidated limited partnerships(1) | 90 | - | 90 | - |
| | 4,499 | - | 469 | 4,030 |
| Minority interest in FFO of consolidated limited partnerships | (218) | - | (218) | - |
| Funds from operations(2) | \$ 4,281 | \$ - | \$ 251 | \$ 4,030 |

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2006

| | Consolidated | Elim | Consolidated LPs | Owne Properties | P |
|---|--------------|---------|------------------|--------------------|---|
| | (000's) | (000's) | (000's) | (000's) | |
| Balance Sheet at March 31, 2006, compared to December 31, 2005: | | | | | |
| Real estate investments | \$507,068 | \$ - | \$41,729 | \$465,339 | |
| Cash and cash equivalents | 2,689 | - | 936 | 1,753 | |
| Prepaid expenses and other assets | 8,813 | 4,432 | 852 | 3,530 | |
| Deferred financing costs, net | 2,600 | - | 435 | 2,165 | |

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| | | | | |
|---|-----------|------------|----------|-----------|
| Intangible assets, net | 1,174 | - | - | 1,174 |
| | ----- | ----- | ----- | ----- |
| | \$522,345 | \$ 4,432 | \$43,953 | \$473,960 |
| | ===== | ===== | ===== | ===== |
| Notes payable | \$435,898 | \$ (2,324) | \$50,251 | \$387,972 |
| Accounts payable and accrued expenses | 2,995 | (86) | 354 | 2,727 |
| Accrued interest | 1,844 | - | 204 | 1,640 |
| Consideration due for acquisitions | - | - | - | - |
| Deferred revenue and security deposits | 2,188 | - | 2 | 2,186 |
| | ----- | ----- | ----- | ----- |
| | 442,925 | (2,410) | 50,810 | 394,526 |
| Minority interests - | | | | |
| - Consolidated limited partnerships | - | - | - | - |
| - Operating partnership | 21,553 | - | - | 21,553 |
| Shareholders' equity | 57,867 | 6,842 | (6,857) | 57,882 |
| | ----- | ----- | ----- | ----- |
| | \$522,345 | \$ 4,432 | \$43,953 | \$473,960 |
| | ===== | ===== | ===== | ===== |

We sold an apartment community in October 2005, and we present the results of operations of this apartment community as discontinued operations in our statement of operations for 2005. Unless noted otherwise, the following discussion of operating results relates to our continuing operations.

Revenues

Total revenues in the first quarter of 2006 were \$20.1 million, compared to \$15.0 million in the first quarter of 2005. The increase is primarily attributable to increases in apartment rental income.

Apartment rental income totaled \$19.0 million in the first quarter of 2006, an increase of \$5.3 million, or 38.3%, compared to the first quarter of 2005. This increase is attributable to:

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- o \$4.1 million increase related to apartment acquisitions in 2005 - these new communities contributed \$4.1 million in the first quarter of 2006. During 2005 we acquired eight new properties, which we operate as seven apartment communities; we acquired the first four of these properties on March 31, 2005.
- o \$0.7 million increase related to apartment communities that we consolidated effective late January 2005 - these three partial-interest communities generated \$2.0 million in the first quarter of 2006 and \$1.3 million in February and March of 2005.
- o \$0.5 million increase related to apartment communities that we owned as of January 1, 2005.

On a "same-units" basis (the 23 apartment communities that we owned as of both January 1, 2005 and 2006), apartment rental income in the first quarter of 2006 totaled \$12.9 million, a 4.0% increase compared to the first quarter of 2005, reflecting improvements in both occupancy and rental rates.

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On a same-units basis, apartment NOI (apartment rental income less apartment operating expenses) for the first quarter of 2006 increased by 4.2% compared to the first quarter of 2005.

Summary amounts for our apartment communities' occupancy and revenue per occupied unit for the first quarter of 2006 follow:

| | Three months ended March 31, 2006 | | |
|------------------------------------|--------------------------------------|--|--------|
| Number of apartment units | Average economic occupancy | Average monthly revenue per occupied unit | |
| Owned apartment communities: | | | |
| Same-units communities: | | | |
| Abbington Place | 360 | 93.6% | \$ 787 |
| Allerton Place | 228 | 94.8% | 824 |
| Barrington Place | 348 | 92.5% | 785 |
| Brookford Place | 108 | 95.6% | 700 |
| Carriage Club | 268 | 97.0% | 800 |
| Chason Ridge | 252 | 98.2% | 773 |
| Fairington | 250 | 95.1% | 765 |
| Latitudes | 448 | 94.9% | 994 |
| Madison Hall | 128 | 92.9% | 622 |
| Mallard Creek 1 | 184 | 94.0% | 655 |
| Mallard Creek 2 | 288 | 94.6% | 821 |
| Marina Shores Waterfront | 290 | 94.7% | 828 |
| Oakbrook | 162 | 96.7% | 735 |
| Oak Hollow 1 | 221 | 96.9% | 620 |
| Oak Hollow 2 | 240 | 92.9% | 611 |
| Paces Commons | 336 | 94.1% | 672 |
| Paces Village | 198 | 94.6% | 699 |
| Pelham | 144 | 97.4% | 611 |
| Pepperstone | 108 | 95.3% | 706 |
| Savannah Place | 172 | 97.6% | 723 |
| Southpoint | 192 | 97.0% | 693 |

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| | Three months ended March 31, 2006 | | |
|------------------------------------|--------------------------------------|--|-----|
| Number of apartment units | Average economic occupancy | Average monthly revenue per occupied unit | |
| Summerlyn Place | 140 | 97.1% | 873 |
| Waterford Place | 240 | 93.2% | 917 |
| Woods Edge | 264 | 97.6% | 694 |
| Wind River | 346 | 94.1% | 827 |

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| | | | |
|------------------------------------|-------|-------|-------|
| Acquired in 2005: | | | |
| Canterbury | 630 | 96.3% | 639 |
| Hamptons | 232 | 95.9% | 752 |
| Laurel Springs 1 | 240 | 93.2% | 618 |
| Laurel Springs 2 | 96 | 86.0% | 816 |
| Paces Watch | 232 | 97.1% | 870 |
| Salem Ridge | 120 | 96.7% | 536 |
| Timbers | 240 | 90.5% | 907 |
| Waverly Place | 240 | 93.8% | 696 |
| All apartments | | | |
| - 2006 | 7,945 | 94.9% | 755 |
| - 2005 | 6,113 | 94.4% | 745 |
| Same units | | | |
| - 2006 | 5,915 | 95.0% | 768 |
| - 2005 | | 94.5% | 743 |
| Consolidated limited partnerships: | | | |
| Marina Shores | 392 | 95.4% | 1,186 |
| Villages of Chapel Hill | 264 | 98.9% | 677 |
| Villages - Phase 5 | 57 | 98.7% | 801 |

Restaurant rental income was \$957,000 in the first quarters of both 2006 and 2005. We received the minimum rent specified in the lease agreement in both periods. We currently hold 40 restaurant properties under this lease, and minimum rent is currently set at \$319,000 per month, or \$3.8 million per year.

Expenses

Total expenses were \$20.4 million in the first quarter of 2006, compared to \$22.4 million in the first quarter of 2005. We experienced increases in both operating and financing expenses attributable to growth in the size of our apartment operations during 2005. However, expenses in the first quarter of 2005 include significant one-time charges related to a loan refinance as well as a one-time \$6.8 million distribution to a minority partner from refinance proceeds.

Apartment operations expense (the direct costs of on-site operations at our apartment communities) totaled \$7.3 million in the first quarter of 2006, an increase of \$2.0 million, or 37.8%, compared to the first quarter of 2005. This increase is primarily attributable to \$1.5 million in expenses for apartments we acquired since April 2005, along with a \$0.4 million

increase for consolidated limited partnership communities (we have included three months of activity for these communities in 2006, compared to only two months in 2005).

On a same-units basis, apartment operations expense increased by 3.8% in the first quarter of 2006 compared to the first quarter of 2005, due primarily to expected increases in grounds maintenance and property tax costs.

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 costs (the costs associated with oversight, accounting, and support of our apartment management activities) totaled \$0.9

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million in the first quarter of 2006, a 34.9% increase compared to the first quarter of 2005. This increase is primarily attributable to additional corporate support and operations staff and computer system costs.

Corporate administration expense totaled \$1.0 million in the first quarter of 2006, a 15.3% increase compared to the first quarter of 2005. This increase is primarily attributable to executive compensation costs, including \$86,000 in charges for service cost related to nonvested common stock issued in August 2005.

Interest expense totaled \$6.3 million in the first quarter of 2006, an increase of \$1.8 million, or 38.9%, compared to the first quarter of 2005. This increase is primarily attributable to new debt issued in conjunction with 2005 apartment acquisitions, along with the impact of consolidating three limited partnerships for three full months in 2006 (compared to only two months in the first quarter of 2005). Overall, weighted average interest rates were 5.7% in the first quarter of 2006, down from 5.8% in the fourth quarter of 2005 and the first quarter of 2005, in spite of steadily rising variable interest rates. The decline in this interest rate measurement reflects the favorable impact of finance transactions completed in 2005 that lowered average fixed interest rates and reduced our exposure to variable interest rates.

Depreciation expense totaled \$4.7 million in the first quarter of 2006, an increase of \$1.3 million, or 36.8%, compared to the first quarter of 2005. This increase is primarily attributable to acquisitions in 2005.

We reflect the unaffiliated partners' interests in Marina Shores Associates One Limited Partnership ("Marina Shores Partnership"), The Villages of Chapel Hill Limited Partnership ("Villages Partnership"), and The Villages of Chapel Hill - Phase 5 Limited Partnership ("Villages Phase 5 Partnership") as minority interest in consolidated limited partnerships. Minority interest in consolidated limited partnerships represents the minority partners' share of the underlying net assets of these consolidated limited partnerships. When these consolidated limited partnerships make cash distributions to partners in excess of the carrying amount of the minority interest, we record a charge equal to the amount of such excess distributions, even though there is no economic effect or cost to the operating partnership. We report this charge in our consolidated statements of operations as deficit distributions to minority partners. We recorded charges for deficit distributions to the minority partner in the Marina Shores Partnership totaling \$90,000 in the first quarter of 2006, compared to \$6.8 million in the first quarter of 2005. We currently expect that the Marina Shores Partnership will continue to make regular distributions of approximately \$360,000 per year each to the limited partner and our operating partnership.

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Net Income

Consolidated earnings from continuing operations before non-cash charges (for depreciation, amortization and write-off of unamortized loan costs at refinance) and before the charge for deficit distributions to a minority partner totaled \$4.7 million in the first quarter of 2006, an increase of \$1.5 million, or 47.3%, compared to the first quarter of 2005. This increase reflects the \$1.0 million impact of new apartment communities and improvements in apartment revenues; in addition, the comparable amount for the first quarter of 2005 includes a charge of \$0.5 million for penalties paid in conjunction with a refinance transaction for one of the consolidated limited partnerships.

We measure and allocate proportional income and losses of the consolidated limited partnerships to minority partners; however, if those partners' capital accounts have been reduced to \$-0- as a result of previous

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loss allocations or distributions, we record a charge to absorb the losses that could not be allocated to minority partners' accounts, or we may recover previously absorbed losses or distributions if the limited partnership results are positive.

Minority interests in the consolidated limited partnerships and the operating partnership absorbed \$52,000 of the consolidated losses from continuing operations in the first quarter of 2006, compared to \$1.4 million in the first quarter of 2005. After allocating those losses to minority interests, the net loss from continuing operations was \$0.2 million in the first quarter of 2006, compared to \$6.0 million in the first quarter of 2005.

Amounts for discontinued operations reflect the operating results of Savannah Shores Apartments, which we sold in October 2005. Income from discontinued operations, net of the operating partnership minority interest, totaled \$25,000 in the first quarter of 2004.

In November 2005, we redeemed all of the outstanding shares of preferred stock in exchange for shares of our common stock. Because the preferred shareholder had priority over common shareholders for receipt of dividends prior to this conversion, we deduct the amount of net income to be paid to the preferred shareholder, \$250,000, in calculating net income available to common shareholders for the first quarter of 2005.

The net loss attributed to common shareholders was \$0.2 million in the first quarter of 2006. After deducting \$250,000 for the cumulative preferred dividend, net loss attributed to common shareholders was \$6.2 million in the first quarter of 2005.

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., after deducting the minority interests in FFO of the consolidated limited partnerships, but before deducting the minority interest in the operating partnership).

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

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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 define FAD as FFO plus non-cash expenses, plus (less) gains (losses) from sales of property, 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

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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 GAAP. Nor do FFO or FAD measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to shareholders and unitholders. 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 from operating, investing or financing activities (as defined by GAAP) as measures of liquidity. Further, FFO and FAD as disclosed by other REITs might not be comparable to our calculation of FFO or FAD.

Funds from operations totaled \$4.3 million in the first quarter of 2006, an increase of \$1.0 million, or 28.9%, compared to the first quarter of 2005. This comparison reflects the positive impact of apartment additions and the improvement in apartment operating results.

Funds available for distribution totaled \$3.8 million in the first quarter of 2006, an increase of \$0.9 million, or 30.0%, compared to the first quarter of 2005. The disparity between comparisons of FFO and FAD against prior year periods arises from the impact of timing of recurring capital expenditures, which we deduct in our measurement of FAD. Recurring capital expenditures include operating replacements such as floor coverings, appliances and HVAC, as well as expenditures for capital replacements such as roofs and exterior paint.

We calculated FFO of the operating partnership as follows:

| | Three months ended March 31 | |
|---|--------------------------------|------------------|
| | 2006 | 2005 |
| | ----- (000's) | ----- (000's) |
| Net loss | \$ (214) | \$ (5,970) |
| Loss attributed to minority interests | (52) | (1,358) |
| Less cumulative preferred dividend | - | (250) |
| Less casualty gains | (113) | - |
| Add amortization of in-place lease intangibles | 66 | - |
| Add depreciation | 4,723 | 3,453 |
| Add depreciation related to discontinued operations | - | 84 |
| Add deficit distributions to minority partners of consolidated limited | | |

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| | Three months ended March 31 | |
|--|--------------------------------|------------------|
| | 2006 | 2005 |
| | ----- (000's) | ----- (000's) |
| partnerships(1) | 90 | 6,821 |
| Add (less) minority interest in FFO of consolidated limited partnerships | (218) | 540 |
| Funds from operations | \$ 4,281 | \$ 3,320 |
| | ===== | ===== |

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- (1) In accordance with GAAP, deficit distributions to minority partners are charges recognized in our statement of operations when a consolidated limited partnership distributes cash to a minority partner in excess of the positive balance in such partner's capital account. We are required to record these charges for GAAP purposes even though there is no cash outlay by the operating partnership. The economic cost of these distributions is borne by the limited partnership making the distributions.

Deficit distributions to minority partners may occur when the fair value of the underlying real estate exceeds its depreciated net book value because the underlying real estate has appreciated or maintained its value. As a result, deficit distributions to minority partners represent, in substance, either our recognition of depreciation previously allocated to the non-controlling partner or a cost related to the non-controlling partner's share of real estate appreciation. Based on NAREIT guidance that requires that real estate depreciation and gains be excluded from FFO, we add back deficit distributions in our reconciliation of net income to FFO.

A reconciliation of net cash provided by operating activities (as defined by GAAP and reflected in our consolidated statements of cash flows) to FAD follows:

| | Three months ended March 31 | |
|---|--------------------------------|------------------|
| | 2006 | 2005 |
| | ----- (000's) | ----- (000's) |
| Net cash provided by operating activities | \$ 5,460 | \$ 2,677 |
| Less cumulative preferred dividend | - | (250) |
| Less recurring capital expenditures | (664) | (458) |
| Add (less) change in net operating assets and liabilities | (784) | 591 |
| Add (less) minority interest in consolidated limited partnerships' share of reconciling items | (185) | 384 |
| | ----- | ----- |
| Funds available for distribution | \$ 3,826 | \$ 2,943 |
| | ===== | ===== |

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

| | Three months ended March 31 | |
|--------------------------------------|--------------------------------|------------------|
| | 2006 | 2005 |
| | ----- (000's) | ----- (000's) |
| Net cash provided by (used in): | | |
| Operating activities | \$ 5,460 | \$ 2,677 |
| Investing activities | (1,569) | (1,674) |
| Financing activities | (4,313) | 1,228 |
| Dividends and distributions paid to: | | |
| Preferred shareholders | \$ - | \$ 250 |
| Common shareholders | 2,701 | 2,272 |

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| | | |
|--|--------|-------|
| Minority partners in consolidated limited partnerships | 90 | 6,821 |
| Minority unitholders in operating partnership | 652 | 466 |
| Scheduled debt principal payments | 768 | 450 |
| Non-recurring capital expenditures | 1,827 | 832 |
| Weighted average shares outstanding during the period: | | |
| Preferred shares | - | 909 |
| Common shares | 10,396 | 8,983 |
| Operating partnership minority units | 2,535 | 1,870 |
| Shares and units outstanding at end of period: | | |
| Preferred B shares | - | 909 |
| Common shares | 10,407 | 9,233 |
| Operating partnership minority units | 2,609 | 2,408 |

Capital Resources and Liquidity

Cash Flows and Liquidity

Net cash flows from operating activities totaled \$5.5 million in the first quarter of 2006, compared to \$2.7 million in the first quarter of 2005. The increase in comparative amounts reflects the growth in size of our apartment operations, along with fluctuations in timing of payments for operating assets and liabilities. In addition, cash flows from operating activities in the first quarter of 2005 included \$0.5 million for penalties paid at refinance by a consolidated limited partnership.

Investing and financing activities focused on capital expenditures at apartment communities, along with payment of dividends and distributions - there were no significant investing or financing transactions during the first quarter of 2006.

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We have announced that the company will pay a regular quarterly dividend of \$0.26 per share, or approximately \$2.7 million, on May 15, 2006, to shareholders of record of our common stock as of May 1, 2006. We expect to pay regular quarterly distributions totaling approximately \$0.7 million to operating partnership minority unitholders on the same date.

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 future 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.

Investing and financing transactions subsequent to March 31, 2006

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In early April 2006, we acquired the Sterling Bluff Apartments, located in Carrboro, North Carolina, for a contract purchase price of \$9.4 million, from an unaffiliated third party. We funded this acquisition by a draw on our existing revolving line of credit. We plan to operate the apartment community as Bridges at Chapel Hill Apartments.

Critical Accounting Policies

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 policies and practice regarding our accounting for our general partner interests in limited partnerships, for acquisitions, capital expenditures and depreciation, and for stock compensation, which may be of particular interest to readers of this Quarterly Report, are further discussed below.

Accounting for general partner interests in limited partnerships

As managing general partner in three real estate limited partnerships, we have the ability to exercise significant influence over operating and financial policies and activities. The appropriate accounting treatment for our interests in these partnerships varies.

If the partnership is considered a variable interest entity ("VIE") and we are the "primary beneficiary," as defined by GAAP, we include the accounts of the partnership in our consolidated financial statements. We initially record all of the VIE's assets, liabilities and minority interests at fair value. We account for our interest in the Villages Partnership using this approach.

If we, as general partner, control a partnership that is not a VIE, we also include the accounts of the partnership in our consolidated financial statements. We initially record our prorata interest in the partnership's assets and liabilities at the lower of our cost or fair value; we reflect the minority partners' interest in the partnership's assets and liabilities at historical cost, except to adjust an existing deficit capital account balance to \$-0-. We account for our interests in the Marina Shores Partnership and the Villages Phase 5 Partnership using this approach.

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If a consolidated limited partnership makes distributions to a minority partner in excess of the positive balance in such partner's capital account, we record a charge to our earnings for "deficit distributions to minority partners," even though the cash outlay is made by the consolidated limited partnership, and not by our operating partnership.

We allocate proportional income and losses of the consolidated limited partnerships to minority partners; however, we may allocate losses to a minority partner only to the extent of his positive capital account balance. If losses attributable to a minority partner exceed his capital account balance, we record a charge to our earnings to absorb those losses, even though our operating partnership suffers no adverse economic effect.

We may subsequently recover such deficit distributions or absorbed losses if and when the consolidated limited partnership generates positive net income.

Purchase price allocation for apartment community acquisitions

In connection with the acquisition of an apartment community, we perform a valuation and allocation to each significant asset and liability in such transaction, based on their estimated fair values at the date of

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acquisition. Significant tangible asset values generally include real estate investments, which we subsequently depreciate over their estimated useful lives. We include an estimate of intangible asset values, generally consisting of at-market, in-place leases, and amortize these amounts over the remaining lease terms as a reduction in reported rental income. In general, we have found that the average remaining life of in-place leases at acquisition date ranged from five to nine months, and such intangible assets represented approximately 0.1% to 0.3% of contract prices.

Capital expenditures and depreciation

In general, for the 16 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 after 2001, we performed detailed analyses of components of the real estate assets acquired. For these properties, we assigned estimated useful lives, based on age and condition at acquisition, as follows: base building structure, 43-60 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 (planned expenditures we identify when we acquire the property and that are intended to position the property consistent with our physical standards) within one to two years of acquisition of the related apartment property. 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.

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We expense ordinary repairs and maintenance costs at apartment communities. Costs of repairs, maintenance, and capital replacements and improvements at restaurant properties are borne by the lessee.

Impairment of long-lived assets

We evaluate our real estate assets when significant adverse changes in operations or economic conditions occur in order to assess whether any impairment indicators are present that affect the recovery of the recorded values. If we considered any real estate assets to be impaired as defined by GAAP, we would record a loss to reduce the carrying value of the property to its estimated fair value. To date, there have been no such circumstances, and we considered none of our assets impaired.

Revenue recognition

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

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balance sheet), and we record a corresponding liability for security deposits on our balance sheet.

We amortize any cash concessions given at the inception of an apartment lease over the approximate life of the lease, which is generally one year or less. In general, cash concessions range from \$100 to \$300 and are taken by residents during the first two months of the lease.

Stock-based compensation

The company has one employee Stock Option and Incentive Plan in place, which we describe in more detail in the notes to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2005. Prior to July 1, 2005, we accounted for options granted under this plan using the intrinsic value method; no stock-based employee compensation expense was reflected in our earnings, as all outstanding options had been granted at exercise prices equal to market value of the underlying stock on the dates of grant. All outstanding options were fully vested by the end of 2004.

Effective July 1, 2005, we adopted the fair value recognition provisions of Statement No. 123, as revised in 2004 ("FAS 123(R)"), using the modified-prospective transition method. Under this transition method, compensation cost recognized in the second half of 2005 and the first quarter of 2006 includes compensation cost for all share-based payments granted subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of FAS 123(R). Under the modified-prospective transition method, there is no compensation cost recognized for previously granted options that were fully vested prior to July 1, 2005.

Additional information regarding capital expenditures

We provide the following information to analysts and other members of the financial community for use in their detailed analyses.

A summary of capital expenditures for our owned apartment communities during the first quarter of 2006, in aggregate and per apartment unit, follows:

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| | Total | Per |
|---|----------|-------|
| | ----- | ----- |
| | (000's) | |
| Recurring capital expenditures: | | |
| Floor coverings | \$ 281 | |
| Appliances/HVAC | 95 | |
| Computer/support equipment | 25 | |
| Other | 194 | |
| | ----- | ----- |
| | \$ 595 | |
| | ===== | ===== |
| Non-recurring capital expenditures: | | |
| Acquisition improvements at apartment properties | \$ 1,367 | |
| Casualty replacements | 256 | |
| Additions and betterments at apartment properties | 123 | |
| Computer/support equipment | 66 | |
| | ----- | |
| | \$ 1,812 | |

=====

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our owned apartment communities during the first quarter of 2006 totaled \$2.3 million, including \$0.8 million in compensation of service staff and \$1.5 million in payments for material and contracted services.

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

There were no significant acquisition or financing transactions during the first quarter of 2006.

As of March 31, 2006, long-term debt, on a consolidated basis, totaled \$435.9 million, including \$382.3 million of notes payable at fixed rates ranging from 5.0% to 7.4%, and \$53.6 million at variable rates indexed primarily on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.9% at March 31, 2006, compared to 5.8% at December 31, 2005. A 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$0.5 million.

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 March 31, 2006.

Expected maturity dates

| | 2006 | 2007 | 2008 | 2009 | 2010 | Later |
|-----------------------------------|----------|----------|----------|----------|----------|-----------|
| ----- | | | | | | |
| (all dollar amounts in thousands) | | | | | | |
| For owned properties: | | | | | | |
| Fixed rate notes | \$ 1,558 | \$ 2,254 | \$41,946 | \$31,247 | \$20,914 | \$236,454 |
| Average interest rate | 5.9% | 5.9% | 6.5% | 5.3% | 6.8% | 5.7% |

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Expected maturity dates

| | 2006 | 2007 | 2008 | 2009 | 2010 | Later |
|-----------------------------------|----------|----------|----------|----------|------|-------|
| ----- | | | | | | |
| (all dollar amounts in thousands) | | | | | | |
| Variable rate notes | \$ 8,006 | \$ 8,237 | \$24,296 | \$13,062 | \$ - | \$ - |
| Average interest rate | 6.8% | 6.8% | 6.7% | 6.7% | | |

For consolidated limited partnerships:

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| | | | | | | | | | | | | |
|-----------------------|----|------|----|------|----|------|----|------|----|------|----|--------|
| Fixed rate notes (1) | \$ | 463 | \$ | 664 | \$ | 698 | \$ | 743 | \$ | 786 | \$ | 43,594 |
| Average interest rate | | 5.7% | | 5.7% | | 5.7% | | 5.7% | | 5.7% | | 5.8% |

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 chairman, 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 first quarter of 2006, our chairman, chief executive officer and chief financial officer believe that our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting identified in connection with our first quarter 2006 evaluation of such internal control that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 6. Exhibits

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

Exhibit No.

- 31.1 Rule 13a-14(a)/15d-14(a) Certification by Chairman
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer
- 31.3 Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer
- 32.1 Section 1350 Certification by Chairman, Chief Executive Officer, and Chief Financial Officer

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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.

BNP RESIDENTIAL PROPERTIES, INC.
(Registrant)

May 4, 2006

/s/ Philip S. Payne

Philip S. Payne
Chairman

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May 4, 2006

/s/ Pamela B. Bruno

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

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INDEX TO EXHIBITS

Exhibit No.

| | |
|------|--|
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