GABLES RESIDENTIAL TRUST
Form 10-Q
November 14, 2001

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 September 30, 2001

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

Commission File Number: 1-12590

GABLES RESIDENTIAL TRUST

(Exact name of Registrant as specified in its Charter)

MARYLAND	**58-2077868**
(State of Incorporation)	(I.R.S. Employer Identification No.)

2859 Paces Ferry Road, Suite 1450
Atlanta, Georgia 30339
(Address of principal executive offices, including zip code)

(770) 436 - 4600
(Registrant's telephone number, including area code)

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

Common shares of beneficial interest, par value $0.01 per share, 24,305,948 shares
The number of shares outstanding of each of the registrant's classes of common stock, as of October 31, 2001

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 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.

(1)	(X) YES	( ) NO
(2)	(X) YES	( ) NO

GABLES RESIDENTIAL TRUST
FORM 10 - Q INDEX

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Financial Statements

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PART I. - FINANCIAL INFORMATION
ITEM 1. - FINANCIAL STATEMENTS

$ 252,631	$ 209,470
1,232,751	1,106,900
110,566	93,578
140,304	122,947
21,199	24,626
10,066	30,323
1,767,517	1,587,844
-227,888	-195,706
1,539,629	1,392,138
936	4,252
11,156	17,902
4,652	3,981
34,584	34,747
$1,590,957	**$1,453,020**

The accompanying notes are an integral part of these consolidated balance sheets.

GABLES RESIDENTIAL TRUST
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and Amounts in Thousands, Except Per Share Data)

		Three Months Ended September 30,		**Nine Months Ended September 30,**	
		2001	**2000**	2000	
	$165,460				
	9,764				
	175,224				
	4,524				
	555				
	115				
	637				
	1,857				
	7,688				
	182,912				
Expenses:					
		20,752	19,256	57,831	56,594
Property operating and maintenance		11,921	10,894	34,416	32,686
(exclusive of items shown separately below)		1,451	1,511	4,264	4,390
Real estate asset depreciation and amortization		1,348	1,085	3,701	3,122
Property management - owned		11,376	11,214	33,906	33,767
Property management - third party		267	228	791	680

Interest expense and credit enhancement fees	1,829	1,814	5,386	5,703
Amortization of deferred financing costs	6,247	-	6,647	-
General and administrative	227	171	567	488
Unusual items	55,418	46,173	147,509	137,430
Corporate asset depreciation and amortization				
Total expenses				
Gain on sale of real estate assets	515	19,310	10,119	19,310
Income before minority interest	8,276	33,394	45,522	63,296
Minority interest of common unitholders in Operating	-961	-6,674	-7,363	-11,617
Partnership	-1,078	-1,078	-3,234	-3,234
Minority interest of preferred unitholders in Operating				
Partnership				
Net income	6,237	25,642	34,925	48,445
Dividends to preferred shareholders	-2,443	-2,443	-7,328	-7,328
Net income available to common shareholders	**$ 3,794**	**$23,199**	**$27,597**	**$41,117**
Weighted average number of common shares	24,189	23,197	23,746	23,872
outstanding - basic	30,479	29,995	30,236	30,615
Weighted average number of common shares				
outstanding - diluted				
Per Common Share Information:				
	$0.16	$1.00	$1.16	$1.72
	$0.16	$1.00	$1.16	$1.72
Net income - basic				
Net income - diluted				

	Nine Months Ended September 30 ,	
	2001	**2000**

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income
Adjustments to reconcile net income to net cash provided
by operating activities:
Depreciation and amortization
Equity in income of joint ventures
Minority interest of unitholders in Operating Partnership
Gain on sale of real estate assets
Long-term compensation expense
Non-cash or non-operating unusual items
Operating distributions received from joint ventures
Change in operating assets and liabilities:
Restricted cash
Other assets
Other liabilities, net
Net cash provided by operating activities

$34,925

35,774
-115
10,597
-10,119

1,074
6,427
1,475

-617
-1,676
4,599
82,344

$48,445

33,854
-404
14,851
-19,310
890
-
1,129

359
-481
6,985
86,318

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition and construction of real estate assets
Restricted cash released from (held in) escrow, net
Net proceeds from sale of real estate assets
Investment in joint ventures
Proceeds from contribution of real estate assets to joint venture
Other
Net cash used in investing activities

-208,921
7,909
39,384
-3,240
18,361
-4,002
-150,509

-75,044
-21,425
79,950
-2,110
-
-
-18,629

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from the exercise of share options
Treasury share purchases and Unit redemptions
Payments of deferred financing costs

Notes payable proceeds
Notes payable repayments
Principal escrow deposits
Preferred dividends paid
Preferred distributions paid
Common dividends paid ($1.7375 and $1.6300 per share, respectively)
Common distributions paid ($1.7375 and $1.6300 per share, respectively)
Net cash provided by (used in) financing activities

Net change in cash and cash equivalents
Cash and cash equivalents, beginning of period
Cash and cash equivalents, end of period
14,008
-
-1,858
295,000
-178,977
-546
-7,160
-3,234
-41,472
-10,912
64,849

-3,316
4,252
$ 936

4,233
-42,670
-460
104,906
-75,874
-549
-7,160
-3,234
-38,792
-10,855
-70,455

-2,766
7,963
$ 5,197

Supplemental disclosure of cash flow information:

Cash paid for interest
Interest capitalized
Cash paid for interest, net of amounts capitalized

$39,505
6,390
$33,115

$39,851
6,876
$32,975

The accompanying notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited and Amounts in Thousands, Except Property and Per Share Data)

Unless the context otherwise requires, all references to "we," "our" or "us" in this report refer collectively to Gables Residential Trust ("Gables"), a Maryland real estate investment trust ("REIT"), and its subsidiaries, including Gables Realty Limited Partnership, a Delaware limited partnership, considered as a single enterprise. Gables GP, Inc., a wholly-owned subsidiary of Gables Residential Trust, is the sole general partner of Gables Realty Limited Partnership.

1. ORGANIZATION AND FORMATION

We are a REIT formed in 1993 under Maryland law to continue and expand the operations of our privately owned predecessor organization. We completed our initial public offering on January 26, 1994.

We are a fully integrated real estate company engaged in the multifamily apartment community management, development, construction, acquisition and disposition businesses. We also provide related brokerage and corporate rental housing services. Substantially all of these businesses are conducted through Gables Realty Limited Partnership (the "Operating Partnership"). We control the Operating Partnership through Gables GP, Inc., a wholly-owned subsidiary and the sole general partner of the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT or "UPREIT." At September 30, 2001, we were a 79.9% economic owner of the common equity of the Operating Partnership. Our third party management businesses are conducted through a subsidiary, Gables Residential Services, Inc.

Our limited partnership and indirect general partnership interests in the Operating Partnership entitle us to share in cash distributions from, and in the profits and losses of, the Operating Partnership in proportion to our ownership interest therein and entitles us to vote on all matters requiring a vote of the limited partners. Generally, the other limited partners of the Operating Partnership are persons who contributed their direct or indirect interests in certain properties to the Operating Partnership primarily in connection with the IPO and the 1998 acquisition of the properties and operations of Trammell Crow Residential South Florida ("South Florida"). The Operating Partnership is obligated to redeem each common unit of limited partnership interest ("Unit") held by a person other than us at the request of the holder for an amount equal to the fair market value of one of our common shares at the time of such redemption, provided that we, at our option, may elect to acquire each Unit presented for redemption for one common share or cash. With each redemption, our percentage ownership interest in the Operating Partnership will increase. In addition, whenever we issue common shares or preferred shares, we are obligated to contribute any net proceeds to the Operating Partnership and the Operating Partnership is obligated to issue an equivalent number of common or preferred units, as applicable, to us.

As of September 30, 2001, we owned 77 stabilized multifamily apartment communities comprising 22,397 apartment homes, an indirect 25% interest in a stabilized apartment community comprising 345 apartment homes, an indirect 20% interest in four stabilized apartment communities comprising 1,359 apartment homes, and an indirect 9% interest in three stabilized apartment communities comprising 1,118 apartment homes. We also owned seven multifamily apartment communities under development or in lease-up at September 30, 2001 that are expected to comprise 1,586 apartment homes upon completion and an indirect 20% interest in four apartment communities under development or in lease-up at September 30, 2001 that are expected to comprise 1,070 apartment homes upon completion. In addition, as of September 30, 2001, we owned a parcel of land on which we intend to develop an apartment community that we currently expect will comprise an estimated 450 apartment homes. We also have rights to acquire additional parcels of land on which we believe we could develop communities. Any future development is subject to permits and other governmental approvals, as well as our ongoing business review, and may not be undertaken or completed.

2. COMMON AND PREFERRED EQUITY ACTIVITY

Secondary Common Share Offerings

Since the IPO, we have issued a total of 14,831 common shares in eight offerings, generating $347,771 in net proceeds which were generally used (1) to reduce outstanding indebtedness under interim financing vehicles utilized to fund development and acquisition activities and (2) for general working capital purposes, including funding of future development and acquisition activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited and Amounts in Thousands, Except Property and Per Share Data)

Preferred Share Offerings

On July 24, 1997, we issued 4,600 shares of 8.30% Series A Cumulative Redeemable Preferred Shares (liquidation preference $25.00 per share). The net proceeds from this offering of $111.0 million were used to reduce outstanding indebtedness under interim financing vehicles. The Series A Preferred Shares may be redeemed at $25.00 per share plus accrued and unpaid dividends on or after July 24, 2002. The Series A Preferred Shares have no stated maturity, sinking fund, or mandatory redemption and are not convertible into any other Gables securities.

On June 18, 1998, we issued 180 shares of 5.0% Series Z Cumulative Redeemable Preferred Shares (liquidation preference $25.00 per share) in connection with the acquisition of a parcel of land for future development. The Series Z Preferred Shares, which are subject to mandatory redemption on June 18, 2018, may be redeemed at any time for $25.00 per share plus accrued and unpaid dividends. The Series Z Preferred Shares are not subject to any sinking fund or convertible into any other Gables securities.

Issuances of Common Operating Partnership Units

Since the IPO, the Operating Partnership has issued a total of 4,421 Units in connection with the South Florida acquisition, the acquisition of other operating apartment communities, and the acquisition of a parcel of land for future development.

Issuance of Preferred Operating Partnership Units

On November 12, 1998, the Operating Partnership issued 2,000 of its 8.625% Series B Preferred Units to an institutional investor. The net proceeds from this issuance of $48.7 million were used to reduce outstanding indebtedness under interim financing vehicles. We have the option to redeem the Series B Preferred Units after November 14, 2003. These Units are exchangeable by the holder into 8.625% Series B Cumulative Redeemable Preferred Shares of Gables on a one-for-one basis; however, this exchange right is generally not exercisable until after November 14, 2008. The Series B Preferred Units have no stated maturity, sinking fund, or mandatory redemption.

Common Equity Repurchase Program

We have a common equity repurchase program pursuant to which we are currently authorized to purchase up to $150 million of our outstanding common shares or Units. We have repurchased shares from time to time in open market and privately negotiated transactions, depending on market prices and other conditions, using proceeds from sales of

selected assets. Units have also been repurchased for cash upon their presentation for redemption by unitholders. As of September 30, 2001, we had repurchased 3,980 common shares and 287 Units for a total of $102,048.

Shelf Registration Statement

We have an effective shelf registration statement on file with the Securities and Exchange Commission ("SEC") providing $500 million of equity capacity and $300 million of debt capacity. We believe it is prudent to maintain shelf registration capacity in order to facilitate future capital raising activities. To date, the only issuance under this shelf registration statement has been the issuance of $150 million of senior unsecured notes in February 2001.

3. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the consolidated accounts of Gables and its subsidiaries, including the Operating Partnership and Gables Residential Services, Inc. We consolidate the financial statements of all entities in which we have a controlling financial interest, as that term is defined under generally accepted accounting principles ("GAAP"), through either majority voting interest or contractual agreements. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been adjusted for the minority interest of unitholders in the Operating Partnership. Because Units, if presented for redemption, can be exchanged for Gables common shares on a one-for-one basis, minority interest of unitholders in the Operating Partnership is calculated based on the weighted average of common shares and Units outstanding during the applicable period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited and Amounts in Thousands, Except Property and Per Share Data)

The accompanying interim unaudited financial statements have been prepared in accordance with GAAP for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments (consisting only of normally recurring adjustments) considered necessary for a fair presentation for these interim periods have been included. The results of operations for the interim period ended September 30, 2001 are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the financial statements included in our Form 10-K for the year ended December 31, 2000.

4. PORTFOLIO AND OTHER FINANCING ACTIVITY

Community and Land Dispositions (exclusive of joint venture transactions)

In the second quarter of 2001, we sold an apartment community located in Atlanta comprising 386 apartment homes. The net proceeds from this sale totaled $34.0 million resulting in a gain of $7.4 million. Sales proceeds totaling $9.2 million were deposited into an escrow account to fund acquisition activities. The balance of the net proceeds was used to paydown outstanding borrowings under interim financing vehicles. In the first quarter of 2001, we sold 2.5 acres of land adjacent to one of our development communities for $5.4 million and recognized a gain of $0.9 million. We recognized $0.1 million and $0.6 million of deferred gain associated with a parcel of land we sold in 2000 during the three and nine months ended September 30, 2001, respectively.

During 2000, we sold an apartment community located in Dallas comprising 126 apartment homes, an apartment community located in Houston comprising 228 apartment homes, two apartment communities located in San Antonio comprising 544 apartment homes, and a parcel of land adjacent to an existing apartment community located in Atlanta. The net proceeds from these sales totaled $81 million, $30 million of which was deposited into an escrow

account and was used to fund development and acquisition activities. The balance of the net proceeds was used to paydown outstanding borrowings under interim financing vehicles and purchase common shares and Units under our common equity repurchase program. The total gain from these sales was $20.4 million, of which $19.6 million was recognized in 2000. The remaining gain of $0.8 million that was deferred at December 31, 2000 is being recognized when earned using the percentage of completion method because we serve as the developer and general contractor for the purchaser of the land parcel and have a commitment to construct an apartment community on the parcel of land sold.

Gables Residential Apartment Portfolio Two Joint Venture (the "GRAP Two JV")

On March 30, 2001, we entered into a joint venture in which our economic ownership interest is currently 20%. The business purpose of the joint venture is to develop, own and operate three multifamily apartment communities, comprising 780 apartment homes, located in three of our markets. We serve as the managing member of the venture and have responsibility for all day-to-day operating matters. We also serve as the property manager, developer and general contractor for construction activities. On March 30, 2001, we contributed our interest in two of the development communities to the joint venture in return for (1) cash of $15.6 million and (2) an initial capital account in the joint venture of $3.9 million. On April 27, 2001, we contributed our interest in the third development community to the joint venture in return for (1) cash of $2.8 million and (2) an increase in the initial capital account in the joint venture of $0.7 million. As of the respective contribution dates, we had commenced construction of two of the development communities and owned the land for the future development of the third community. The capital budget for the development of the three communities is $82 million which is expected to be funded with equity of $36 million and debt of $46 million. The equity component is being funded 80% by the venture partner and 20% by us. Our portion of the equity will be funded through contributions of cash and property. As of September 30, 2001, we had funded $6.8 million of our budgeted $7.1 million equity commitment to the joint venture. We will record a gain on this contribution of approximately $2.8 million which will be recognized when earned using the percentage of completion method since we serve as the developer and general contractor for the joint venture. We recognized $0.4 million and $1.2 million of this gain during the three and nine months ended September 30, 2001, respectively.

Senior Unsecured Note Issuance

In February 2001, we issued $150.0 million of senior unsecured notes which bear interest at 7.25%, were priced to yield 7.29% and mature in February 2006. The net proceeds of $148.5 million were used to reduce borrowings under our unsecured credit facilities and repay our $40 million term loan which had a November 2001 maturity date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited and Amounts in Thousands, Except Property and Per Share Data)

CMS Tennessee Multifamily Joint Venture

On December 28, 2000, we sold 91% of our interests in three apartment communities comprising 1,118 apartment homes to a joint venture with CMS Companies. Two of these communities are located in Nashville and the third is located in Memphis. We currently have a 1% general partner interest and an 8% limited partner interest in this venture. In addition, we serve as the property manager. We received net proceeds of $61 million in connection with this sale and we recognized a gain of $9.9 million. The net proceeds were used to repay a fixed-rate note payable with an outstanding principal balance of $18.6 million that encumbered one of the assets and to reduce borrowings under our interim financing vehicles.

Gables Residential Apartment Portfolio Joint Venture (the "GRAP JV")

On March 26, 1999, we entered into a joint venture in which our economic ownership interest is currently 20%. The business purpose of the joint venture is to develop, own and operate eight multifamily apartment communities comprising 2,471 apartment homes, located in four of our markets. We serve as the managing member of the venture and have responsibility for all day-to-day operating matters. We also serve as the property manager, developer and general contractor for construction activities. The capital budget for the development of the eight communities is $238 million and is being funded with 50% equity and 50% debt. The equity component is being funded 80% by the venture partner and 20% by us. Our portion of the equity was funded through contributions of cash and property. As of September 30, 2001, we had funded our total equity commitment of $23.8 million to the joint venture. At September 30, 2001, construction was complete with respect to seven of the eight communities and six of the seven completed communities had reached a stabilized occupancy level.

On March 30, 2001, we acquired the membership interests of our venture partner in two of the stabilized communities comprising 532 apartment homes.

In April 2001, development and lease-up activities at Gables State Thomas Ravello comprising 290 apartment homes were suspended due to water infiltration issues, and all residents were subsequently relocated. On September 28, 2001, we acquired the membership interests of our joint venture partner in this community.

Community Acquisitions

On September 28, 2001, we acquired the 80% membership interest of our venture partner in the Gables State Thomas Ravello apartment community located in Dallas comprising 290 apartment homes. In consideration for such community, we paid $12 million in cash and assumed a $16 million secured variable-rate note. This consideration was based on a valuation of the asset of $31 million and is net of our $3 million share of the venture distribution. We recorded a $5 million charge associated with the write-off of building components that will be replaced in connection with a remediation program to address water infiltration issues noted above.

On August 28, 2001, we acquired an apartment community located in Washington, D.C. comprising 82 apartment homes for approximately $24 million.

On August 1, 2001, we acquired the 75% interest of our venture partner in an apartment community located in Houston comprising 318 apartment homes. The asset was valued at approximately $27 million.

On March 30, 2001, we acquired the 80% membership interests of our venture partner in two communities located in South Florida comprising 532 apartment homes for $66 million. This cash consideration was based on a valuation of the assets of $75 million and is net of our $9 million share of the venture distribution.

During the third quarter of 2000, we acquired an apartment community located in Austin comprising 160 apartment homes. In consideration for such community, we paid $6 million in cash and assumed a $14 million secured fixed-rate note.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited and Amounts in Thousands, Except Property and Per Share Data)

Other Acquisition

In May 2001, we acquired a property management company based in Washington, D.C. that manages approximately 3,600 units in 24 multifamily apartment communities located in the Washington, D.C. and surrounding area (the "D.C. Management Co."). The total investment is approximately $1.6 million and is structured to be paid in three installments based on results of the acquired business operations.

5. EARNINGS PER SHARE

Basic earnings per share are computed based on net income available to common shareholders and the weighted average number of common shares outstanding. Diluted earnings per share reflect the assumed issuance of common shares under our share option and incentive plan and upon conversion of Units. The numerator and denominator used for both basic and diluted earnings per share computations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Basic and diluted income available to common shareholders (numerator):				
Net income - basic	$3,794	$ 23,199	$27,597	$41,117
Minority interest of common unitholders in Operating Partnership	961	6,674	7,363	11,617
Net income - diluted	**$4,755**	**$29,873**	**$34,960**	**$52,734**
Common shares (denominator):				
Average shares outstanding - basic	24,189	23,197	23,746	23,872
Incremental shares from assumed conversions of:				
Outstanding common Units	6,097	6,667	6,321	6,673
Stock options	187	127	163	67
Other	6	4	6	3
Average shares outstanding - diluted	**30,479**	**29,995**	**30,236**	**30,615**

6. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued, establishing accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133, as amended by SFAS Nos. 137 and 138, was effective for us beginning January 1, 2001. The impact of SFAS No. 133 on our financial statements will depend on the extent, type and effectiveness of our hedging activities. SFAS No. 133 could increase volatility in net income and other comprehensive income. We had no derivative instruments in place at December 31, 2000 or during the nine months ended September 30, 2001.

In June 2001, SFAS No. 141, "Business Combinations" (effective for us July 1, 2001) and SFAS 142, "Goodwill and Other Intangible Assets" (effective for us January 1, 2002) were issued. SFAS No. 141 prohibits pooling-of-interests accounting for acquisitions. SFAS No. 142 specifies that goodwill and some intangible assets will no longer be amortized but instead will be subject to periodic impairment testing. We believe that the adoption of SFAS No. 141 and SFAS No. 142 will not have a significant impact on our financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited and Amounts in Thousands, Except Property and Per Share Data)

In August 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" (effective for us January 1, 2003) and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (effective for us January 1, 2002) were issued. SFAS No. 143 requires that entities recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and among other factors, establishes criteria beyond that previously specified in SFAS No. 121 to determine when a long-lived asset is to be considered as held for sale. We believe that the adoption of SFAS No. 143 will not have a significant impact on our financial statements and we are currently evaluating the impact of SFAS No. 144.

7. INTEREST RATE PROTECTION AGREEMENTS

In the ordinary course of business, we are exposed to interest rate risks. We periodically seek input from third party consultants regarding market interest rate and credit risk in order to evaluate our interest rate exposure. In certain situations, we may utilize derivative financial instruments in the form of rate caps, rate swaps or rate locks to hedge interest rate exposure by modifying the interest rate characteristics of related balance sheet instruments and prospective financing transactions. We do not utilize such instruments for trading or speculative purposes. Derivatives used as hedges must be effective at reducing the risk associated with the exposure being hedged, correlate in nominal amount, rate, and term with the balance sheet instrument being hedged, and must be designated as a hedge at the inception of the derivative contract.

8. SEGMENT REPORTING

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Our chief operating decision-maker is our senior management group.

We own, operate and develop multifamily apartment communities in major markets located in Texas, Georgia, Florida, Washington, D.C. and Tennessee. Such apartment communities generate rental revenue and other income through the leasing of apartment homes to a diverse base of residents. We evaluate the performance of each of our apartment communities on an individual basis. However, because each of our apartment communities has similar economic characteristics, residents, and products and services, our apartment communities have been aggregated into one reportable segment. This segment comprises 96% and 95% of our total revenues for the three months ended September 30, 2001 and 2000, respectively, and 96% and 95% of our total revenues for the nine months ended September 30, 2001 and 2000, respectively.

The primary financial measure for our reportable business segment is net operating income ("NOI"), which represents total property revenues less property operating and maintenance expenses (as reflected in the accompanying statements of operations). Accordingly, NOI excludes certain expenses included in the determination of net income. Current year NOI is compared to prior year NOI and current year budgeted NOI as a measure of financial performance. The NOI yield or return on total capitalized costs is an additional measure of financial performance. NOI from our apartment communities totaled $39,622 and $37,965 for the three months ended September 30, 2001 and 2000, respectively, and $117,393 and $115,580 for the nine months ended September 30, 2001 and 2000, respectively. All other segment measurements are disclosed in our consolidated financial statements.

We also provide management, brokerage, corporate rental housing and development and construction services to third parties. These operations, on an individual and aggregate basis, do not meet the quantitative thresholds for segment reporting under current accounting literature.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We are a REIT focused within the multifamily industry in demand-driven markets throughout the United States that have high job growth and are resilient to economic downturns. Our operating performance relies predominantly on net operating income from our apartment communities. Net operating income is determined by rental revenues and operating expenses, which are affected by the demand and supply dynamics within our markets. Our performance is also affected by the general availability and cost of capital and our ability to develop and acquire additional apartment communities with returns in excess of our blended cost of capital.

Business Objectives and Strategy

Our objective is to increase shareholder value by producing consistent high quality earnings to sustain dividend growth and annual total returns that exceed the multifamily sector average. To achieve that objective, we employ a number of business strategies. First, our long-term investment strategy is research-driven with the objective of creating a portfolio of high quality assets in approximately six to eight strategically selected markets that are complementary through economic diversity and characterized by high job growth and resiliency to national economic downturns. We believe such a portfolio will provide predictable growth in operating cash flow on a sustainable basis. Second, we adhere to a strategy of owning and operating high quality, class AA/A apartment communities under the Gables brand. We believe that such communities, when located in highly desirable areas to live and supplemented with high quality service and amenities, attract the affluent renter-by-choice who is willing to pay a premium for location preference, superior service and high quality communities. The resulting portfolio should maintain high levels of occupancy and rental rates. This, coupled with more predictable operating expenses and reduced capital expenditure requirements associated with high quality construction materials, should lead to operating margins that exceed national averages for the multifamily sector and sustainable growth in operating cash flow. Third, our aim is to be recognized as the employer of choice within the industry. Our mission of *Taking Care of the Way People Live* is a cornerstone of our strategy, involving innovative human resource practices that we believe will attract and retain the highest caliber associates. Because of our long-established presence as a fully integrated apartment management, development, construction, acquisition and disposition company within our markets, we have the ability to offer multi-faceted career opportunities among the various disciplines within the industry. Finally, our capital strategy is to maximize return on invested capital while maintaining financial flexibility through a conservative, investment grade credit profile. We judiciously manage our capital and are able to recycle existing capital through asset dispositions. We believe the successful execution of these strategies will result in operating cash flow and dividend growth, producing annual total returns that exceed the multifamily REIT sector average.

We believe we are well positioned to continue achieving our objectives because of our long-established presence as a fully integrated real estate company in our markets. This local market presence creates a competitive advantage in generating increased cash flow from (1) property operations during different economic cycles and (2) new investment opportunities that involve site selection, market information and requests for entitlements and zoning petitions.

Portfolio-wide occupancy levels have remained high, but portfolio-wide rental rate growth has slowed in 2001 as a result of national economic weakness. We expect portfolio-wide rental expenses to increase at a rate ahead of both inflation and property revenues for the balance of the year. We continue to expect growth for property net operating income (property revenues less property operating expenses as reflected in the accompanying statements of operations), but the rate of such growth will be less than the rate of growth in property revenues. Our ongoing evaluation of the growth prospects for a specific asset may result in a determination to dispose of the asset. In that event, we would intend to sell the asset and utilize the net proceeds from any such sale to invest in new assets expected to have better growth prospects, reduce indebtedness or, in certain circumstances with appropriate approval from our board of trustees, repurchase outstanding common shares. We maintain staffing levels sufficient to meet existing construction, acquisition, and leasing activities. If market conditions warrant, we would anticipate adjusting staffing levels to mitigate a negative impact on results of operations.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results or developments could differ materially from those projected in such statements as a result of certain factors set forth in the section entitled "Certain Factors Affecting Future Operating Results" and elsewhere in this report. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our accompanying consolidated financial statements and notes thereto.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Common and Preferred Equity Activity

Secondary Common Share Offerings

Since the IPO, we have issued a total of 14,831 common shares in eight offerings, generating $347,771 in net proceeds which were generally used (1) to reduce outstanding indebtedness under interim financing vehicles utilized to fund our development and acquisition activities and (2) for general working capital purposes, including funding of future development and acquisition activities.

Preferred Share Offerings

On July 24, 1997, we issued 4,600 shares of 8.30% Series A Cumulative Redeemable Preferred Shares (liquidation preference $25.00 per share). The net proceeds from this offering of $111.0 million were used to reduce outstanding indebtedness under interim financing vehicles. The Series A Preferred Shares may be redeemed at $25.00 per share plus accrued and unpaid dividends on or after July 24, 2002. The Series A Preferred Shares have no stated maturity, sinking fund or mandatory redemption and are not convertible into any other Gables securities.

On June 18, 1998, we issued 180 shares of 5.0% Series Z Cumulative Redeemable Preferred Shares (liquidation preference $25.00 per share) in connection with the acquisition of a parcel of land for future development. The Series Z Preferred Shares, which are subject to mandatory redemption on June 18, 2018, may be redeemed at any time for $25.00 per share plus accrued and unpaid dividends. The Series Z Preferred Shares are not subject to any sinking fund or convertible into any other Gables securities.

Issuances of Common Operating Partnership Units

Since the IPO, the Operating Partnership has issued a total of 4,421 Units in connection with the South Florida acquisition, the acquisition of other operating apartment communities, and the acquisition of a parcel of land for future development.

Issuance of Preferred Operating Partnership Units

On November 12, 1998, the Operating Partnership issued 2,000 of its 8.625% Series B Preferred Units to an institutional investor. The net proceeds from this issuance of $48.7 million were used to reduce outstanding indebtedness under interim financing vehicles. We have the option to redeem the Series B Preferred Units after November 14, 2003. These Units are exchangeable by the holder into 8.625% Series B Cumulative Redeemable Preferred Shares of Gables on a one-for-one basis; however, this exchange right is generally not exercisable until after November 14, 2008. The Series B Preferred Units have no stated maturity, sinking fund, or mandatory redemption.

Common Equity Repurchase Program

We have a common equity repurchase program pursuant to which we are currently authorized to purchase up to $150 million of our outstanding common shares or Units. We have repurchased shares from time to time in open market and privately negotiated transactions, depending on market prices and other conditions, using proceeds from sales of selected assets. Units have also been repurchased for cash upon their presentation for redemption by unitholders. As of September 30, 2001, we had repurchased 3,980 common shares and 287 Units for a total of $102,048.

Shelf Registration Statement

We have an effective shelf registration statement on file with the Securities and Exchange Commission providing $500 million of equity capacity and $300 million of debt capacity. We believe it is prudent to maintain shelf

registration capacity in order to facilitate future capital raising activities. To date, the only issuance under this shelf registration statement has been the issuance of $150 million of senior unsecured notes in February 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Portfolio and Other Financing Activity

Community and Land Dispositions (exclusive of joint venture transactions)

In the second quarter of 2001, we sold an apartment community located in Atlanta comprising 386 apartment homes. The net proceeds from this sale totaled $34.0 million resulting in a gain of $7.4 million. Sales proceeds totaling $9.2 million were deposited into an escrow account to fund acquisition activities. The balance of the net proceeds was used to paydown borrowings under interim financing vehicles. In the first quarter of 2001, we sold 2.5 acres of land adjacent to one of our development communities for $5.4 million and recognized a gain of $0.9 million. We recognized $0.1 million and $0.6 million of deferred gain associated with a parcel of land we sold in 2000 during the three and nine months ended September 30, 2001, respectively.

During 2000, we sold an apartment community located in Dallas comprising 126 apartment homes, an apartment community located in Houston comprising 228 apartment homes, two apartment communities located in San Antonio comprising 544 apartment homes, and a parcel of land adjacent to an existing apartment community located in Atlanta. The net proceeds from these sales totaled $81 million, $30 million of which was deposited into an escrow account and was used to fund development and acquisition activities. The balance of the net proceeds was used to paydown outstanding borrowings under interim financing vehicles and purchase common shares and Units under our common equity repurchase program. The total gain from these sales was $20.4 million, of which $19.6 million was recognized in 2000. The remaining gain of $0.8 million that was deferred at December 31, 2000 is being recognized when earned using the percentage of completion method because we serve as the developer and general contractor for the purchaser of the land parcel and have a commitment to construct an apartment community on the parcel of land sold.

Gables Residential Apartment Portfolio Two Joint Venture (the "GRAP Two JV")

On March 30, 2001, we entered into a joint venture in which our economic ownership interest is currently 20%. The business purpose of the joint venture is to develop, own and operate three multifamily apartment communities, comprising 780 apartment homes, located in three of our markets. We serve as the managing member of the venture and have responsibility for all day-to-day operating matters. We also serve as the property manager, developer and general contractor for construction activities. On March 30, 2001, we contributed our interest in two of the development communities to the joint venture in return for (1) cash of $15.6 million and (2) an initial capital account in the joint venture of $3.9 million. On April 27, 2001, we contributed our interest in the third development community to the joint venture in return for (1) cash of $2.8 million and (2) an increase in the initial capital account in the joint venture of $0.7 million. As of the respective contribution dates, we had commenced construction of two of the development communities and owned the land for the future development of the third community. The capital budget for the development of the three communities is $82 million which is expected to be funded with equity of $36 million and debt of $46 million. The equity component is being funded 80% by the venture partner and 20% by us. Our portion of the equity will be funded through contributions of cash and property. As of September 30, 2001, we had funded $6.8 million of our budgeted $7.1 million equity commitment to the joint venture. We will record a gain on this contribution of approximately $2.8 million which will be recognized when earned using the percentage of completion method since we serve as the developer and general contractor for the joint venture. We recognized $0.4

million and $1.2 million of this gain during the three and nine months ended September 30, 2001, respectively.

Senior Unsecured Note Issuance

In February 2001, we issued $150.0 million of senior unsecured notes which bear interest at 7.25%, were priced to yield 7.29% and mature in February 2006. The net proceeds of $148.5 million were used to reduce borrowings under our unsecured credit facilities and repay our $40 million term loan which had a November 2001 maturity date.

CMS Tennessee Multifamily Joint Venture

On December 28, 2000, we sold 91% of our interests in three apartment communities comprising 1,118 apartment homes to a joint venture with CMS Companies. Two of these communities are located in Nashville and the third is located in Memphis. We currently have a 1% general partner interest and an 8% limited partner interest in this venture. In addition, we serve as the property manager. We received net proceeds of $61 million in connection with this sale and we recognized a gain of $9.9 million. The net proceeds were used to repay a fixed-rate note payable with an outstanding principal balance of $18.6 million that encumbered one of the assets and to reduce borrowings under our interim financing vehicles.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Gables Residential Apartment Portfolio Joint Venture (the "GRAP JV")

On March 26, 1999, we entered into a joint venture in which our economic ownership interest is currently 20%. The business purpose of the joint venture is to develop, own and operate eight multifamily apartment communities comprising 2,471 apartment homes, located in four of our markets. We serve as the managing member of the venture and have responsibility for all day-to-day operating matters. We also serve as the property manager, developer and general contractor for construction activities. The capital budget for the development of the eight communities is $238 million and is being funded with 50% equity and 50% debt. The equity component is being funded 80% by the venture partner and 20% by us. Our portion of the equity was funded through contributions of cash and property. As of September 30, 2001, we had funded our total equity commitment of $23.8 million to the joint venture. At September 30, 2001, construction was complete with respect to seven of the eight communities and six of the seven completed communities had reached a stabilized occupancy level.

On March 30, 2001, we acquired the membership interests of our venture partner in two of the stabilized communities comprising 532 apartment homes.

In April 2001, development and lease-up activities at Gables State Thomas Ravello comprising 290 apartment homes were suspended due to water infiltration issues, and all residents were subsequently relocated. On September 28, 2001, we acquired the membership interests of our venture partner in this community.

Community Acquisitions

On September 28, 2001, we acquired the 80% membership interest of our venture partner in the Gables State Thomas Ravello apartment community located in Dallas comprising 290 apartment homes. In consideration for such community, we paid $12 million in cash and assumed a $16 million secured variable-rate note. This consideration

was based on a valuation of the asset of $31 million and is net of our $3 million share of the venture distribution. We recorded a $5 million charge associated with the write-off of building components that will be replaced in connection with a remediation program to address water infiltration issues noted above.

On August 28, 2001, we acquired an apartment community located in Washington, D.C. comprising 82 apartment homes for approximately $24 million.

On August 1, 2001, we acquired the 75% interest of our venture partner in an apartment community located in Houston comprising 318 apartment homes. The asset was valued at approximately $27 million.

On March 30, 2001, we acquired the 80% membership interests of our venture partner in two communities located in South Florida comprising 532 apartment homes for $66 million. This cash consideration was based on a valuation of the assets of $75 million and is net of our $9 million share of the venture distribution.

During the third quarter of 2000, we acquired an apartment community located in Austin comprising 160 apartment homes. In consideration for such community, we paid $6 million in cash and assumed a $14 million secured fixed-rate note.

Other Acquisition

In May 2001, we acquired a property management company based in Washington, D.C. that manages approximately 3,600 units in 24 multifamily apartment communities located in the Washington, D.C. and surrounding area (the "D.C. Management Co."). The total investment is approximately $1.6 million and is structured to be paid in three installments based on results of the acquired business operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Results of Operations

Comparison of operating results for the three months ended September 30, 2001 (the "2001 Period") to the three months ended September 30, 2000 (the "2000 Period").

Our net income is generated primarily from the operation of our apartment communities. For purposes of evaluating comparative operating performance, we categorize our operating communities based on the period each community reaches stabilized occupancy. A community is considered to have achieved stabilized occupancy on the earlier to occur of (1) attainment of 93% physical occupancy or (2) one year after completion of construction. The operating performance for all of our wholly-owned apartment communities combined for the three months ended September 30, 2001 and 2000 is summarized as follows:

	Three Months Ended September 30,	
	2001	**2000**

$
Change

%
Change

Rental and other property revenues:
Same store communities (1)
Communities stabilized during the 2001 Period,
but not the 2000 Period (2)
Development and lease-up communities (3)
Renovation communities (4)
Acquired communities (5)
Sold communities (6)
Total property revenues
$51,607

1,071
1,185
2,626
3,885
-
$60,374
$49,808

247
8
2,680
225
4,253
$57,221
$ 1,799

824
1,177
-54
3,660
-4,253
$ 3,153
3.6%

333.6%
14712.5%
-2.0%
1626.7%
-100.0%
5.5%

Property operating and maintenance expenses
(exclusive of depreciation and amortization):

Same store communities (1)
Communities stabilized during the 2001 Period,
but not the 2000 Period (2)
Development and lease-up communities (3)
Renovation communities (4)
Acquired communities (5)
Sold communities (6)
Total specified expenses

	$18,151
	-
	445
	957
	1,199
	-
	$20,752
	$16,923
	-
	-
	802
	82
	1,449
	$19,256
	$ 1,228
	-
	445
	155
	1,117
	-1,449
	$ 1,496
	7.3%
	-%
	-%
	19.3%
	1362.2%
	-100.0%
	7.8%
Revenues in excess of specified expenses	
	$39,622
	$37,965
	$ 1,657
	4.4%
Revenues in excess of specified expenses as a percentage of total property revenues	
	65.6%
	66.3%

-

-**0.7%**

(1) Communities which were owned and fully stabilized throughout both the 2001 Period and 2000 Period ("same store").
(2) Communities which were stabilized during all of the 2001 Period, but not the 2000 Period.
(3) Communities in the development and/or lease-up phase which were not fully stabilized during all or any of the 2001 Period.
(4) Communities which were in renovation subsequent to July 1, 2000.
(5) Communities which were acquired subsequent to July 1, 2000.
(6) Communities which were sold subsequent to July 1, 2000.

Total property revenues increased $3,153, or 5.5%, from $57,221 to $60,374 due primarily to an increase in the number of apartment homes resulting from the development and acquisition of additional communities and an increase in rental rates on communities stabilized throughout both periods ("same store"). This increase is offset by the sale of one apartment community during the second quarter of 2001 and the sale of seven apartment communities in the second half of 2000. Following is additional data regarding the increases in total property revenues for four of the six community categories presented in the preceding table:

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Same store communities:

Market								
Houston	19	6,298	28.7%	95.8%	0.7%	$ 839		5.8%
Atlanta	16	4,527	23.6%	94.2%	-2.0%	10		0.1%
So.	14	4,017	22.2%	94.8%	0.4%	545		5.1%
Florida	8	1,959	10.6%	96.2%	0.7%	328		6.4%
Dallas	6	1,517	10.1%	93.1%	-4.5%	6		0.1%
Austin	4	1,243	4.8%	92.3%	0.3%	-64		-2.4%
Other	**67**	**19,561**	**100.0%**	**94.8%**	**-0.5%**	**$1,664**	(a)	**3.4%**

Communities stabilized during the 2001 Period, but not during the 2000 Period:

Orlando (a)

1

448

100.0%

100.0%

$824

(a) This community is leased to a single user group pursuant to a triple net master lease.

Development and lease-up communities:

Orlando
Houston

Dallas

315
296
177
788

40.0%
37.5%
22.5%
100.0%

38.7%
0.3%
80.5%
51.3%

$ 447
2
728
$1,177

Renovation communities:

Market
836
180
1,016

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Property management revenues increased $300, or 23.1%, from $1,298 to $1,598 due primarily to the May 2001 acquisition of the D.C. Management Co. in addition to increased joint venture activity for which we serve as the property manager.

Development revenues, net decreased $544, or 79.1%, from $688 to $144 due primarily to a portion of our third-party projects nearing completion, coupled with fewer new project starts in the 2001 Period.

Equity in income of joint ventures decreased $180, or 90.9%, from $198 to $18 due primarily to the March 2001 acquisition of the membership interests of our joint venture partner in two stabilized communities in the GRAP JV and the August 2001 acquisition of our venture partner's 75% interest in a stabilized community. This decrease is also impacted by increased property taxes at one of the stabilized communities in which we own a 25% interest.

Our share of the operating results for the apartment communities in which we have a joint venture interest for the 2001 Period and 2000 Period is as follows:

	Stabilized (1)	Development & Lease-up (2)	Sales (3)	Total 2001	Total 2000
Gables' share of joint venture results:					

Rental and other revenue	$1,010	$ 305	$74	$1,389	$1,576
Property operating and					
maintenance expense	-478	-151	-53 $21	-682	-576
(exclusive of depreciation and	$ 532	$ 154	-9	$ 707	$1,000
amortization)	-272	-75	-	-356	-487
Revenues in excess of	-6	-6	-2	-12	-20
specified expenses	4	2	12 $22	4	18
Interest expense and credit	-257	-80		-325	-313
enhancement fees	**$ 1**	**$ -5**	2	**$ 18**	**$ 198**
Amortization of deferred			608		
financing costs	7	3	48%	12	10
Other	2,502	930		4,040	3,134
Real estate asset depreciation	92%	58%		78%	72%
Equity in income of joint ventures					
Number of operating communities					
Number of units in operating communities					
Average percent occupied during the period					

(1) Communities which were owned and fully stabilized throughout the 2001 Period.
(2) Communities in the development and/or lease-up phase which were not fully stabilized during all or any of the 2001 Period.
(3) Communities which were sold subsequent to July 1, 2001.

Interest income decreased $107, or 36.9%, from $290 to $183 due primarily to a decrease in interest rates.

Other revenues increased $300, or 53.4%, from $562 to $862 due to an increase in income from certain ancillary services.

Property operating and maintenance expense (exclusive of depreciation and amortization) increased $1,496, or 7.8%, from $19,256 to $20,752 due primarily to the increase in the number of apartment homes resulting from the development and acquisition of additional communities, as well as increased payroll, property taxes, insurance, marketing and maintenance costs at our same store communities. In addition, expense growth is also impacted by property tax increases between periods for communities in our Atlanta and Austin markets that are not reflective of the annual property tax increase. This increase is offset in part by the sale of one apartment community during the second quarter of 2001 and the sale of seven apartment communities in the second half of 2000.

Real estate depreciation and amortization expense increased $1,027, or 9.4%, from $10,894 to $11,921 due primarily to the impact of the development and acquisition of additional communities and capital improvements made to existing operating communities, offset by the sale of one apartment community during the second quarter of 2001and the sale of seven apartment communities in the second half of 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Property management expense for owned communities and third party properties on a combined basis increased $203, or 7.8%, from $2,596 to $2,799 due primarily to the May 2001 acquisition of the D.C. Management Co. We allocate property management expenses to both owned communities and third party properties based on the proportionate share of total apartment homes and units managed.

Interest expense and credit enhancement fees increased $162, or 1.4%, from $11,214 to $11,376 due primarily to an increase in operating debt associated with the development and acquisition of additional communities. This increase is offset in part by lower interest rates and the sale of one apartment community in the second quarter of 2001and seven apartment communities in 2000, the proceeds of which were partially used to reduce outstanding indebtedness.

Amortization of deferred financing costs increased $39, or 17.1%, from $228 to $267 due primarily to increased financing costs associated with the issuance of $150 million of senior unsecured notes in February 2001.

General and administrative expense increased $15, or 0.8%, from $1,814 to $1,829 due primarily to an increase in internal acquisition costs as a result of two community acquisitions in the 2001 Period. This increase is offset in part by a decrease in state taxes.

Unusual items of $6,247 in the 2001 Period is comprised of (1) a $5,006 charge associated with the write-off of building components at Gables State Thomas Ravello that will be replaced in connection with a remediation program, (2) $520 in reserves associated with certain technology investments, and (3) $721 of abandoned real estate pursuit costs as a result of recent events which have negatively impacted the U.S. economy.

Corporate asset depreciation and amortization increased $56, or 32.8%, from $171 to $227 due primarily to an increase in amortization resulting from the management contracts acquired in connection with the May 2001 acquisition of the D.C. Management Co.

Gain on sale of real estate assets of $515 in the 2001 period is comprised of (1) recognition of $396 of deferred gain associated with the contribution of land into the GRAP Two JV in March 2001 and (2) recognition of $119 of deferred gain associated with a land sale in 2000.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Comparison of operating results for the nine months ended September 30, 2001 (the "2001 Period") to the nine months ended September 30, 2000 (the "2000 Period").

Our net income is generated primarily from the operation of our apartment communities. For purposes of evaluating comparative operating performance, we categorize our operating communities based on the period each community reaches stabilized occupancy. A community is considered to have achieved stabilized occupancy on the earlier to occur of (1) attainment of 93% physical occupancy or (2) one year after completion of construction. The operating performance for all of our wholly-owned apartment communities combined for the nine months ended September 30, 2001 and 2000 is summarized as follows:

	Nine Months Ended September 30,			
	2001	2000	$ Change	% Change

Rental and other property revenues:		
Same store communities (1)	$153,038	$ 4,820
Communities stabilized during the 2001 Period, but not the 2000 Period (2)	-	-
Development and lease-up communities (3)	5,328	5,029
Renovation communities (4)	7,909	204
Acquired communities (5)	7,522	7,299
Sold communities (6)	1,427	-14,302
Total property revenues	$175,224	$ 3,050

Property operating and maintenance expenses (exclusive of depreciation and amortization):				
Same store communities (1)	$51,583	$48,857	$ 2,726	5.6%
Communities stabilized during the 2001 Period, but not the 2000 Period (2)	-	-	-	-%
Development and lease-up communities (3)	949	-	949	-%
Renovation communities (4)	2,599	2,454	145	5.9%
Acquired communities (5)	2,313	82	2,231	2720.7%
Sold communities (6)	387	5,201	-4,814	-92.6%
Total specified expenses	$57,831	$56,594	$ 1,237	2.2%

(1) Communities which were owned and fully stabilized throughout both the 2001 Period and 2000 Period ("same store").
(2) Communities which were stabilized during all of the 2001 Period, but not the 2000 Period.
(3) Communities in the development and/or lease-up phase which were not fully stabilized during all or any of the 2001 Period.
(4) Communities which were in renovation subsequent to January 1, 2000.
(5) Communities which were acquired subsequent to January 1, 2000.
(6) Communities which were sold subsequent to January 1, 2000.

Total property revenues increased $3,050, or 1.8%, from $172,174 to $175,224 due primarily to an increase in the number of apartment homes resulting from the development and acquisition of additional communities and an increase in rental rates on communities stabilized throughout both periods ("same store"). This increase is offset by the sale of one apartment community during the second quarter of 2001 and seven apartment communities in the second half of 2000. Following is additional data regarding the increases in total property revenues for three of the six community categories presented in the preceding table:

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Same store communities:

Market							
Houston	19	28.0%	94.8%	-0.6%	$1,150		2.7%
Atlanta	16	23.8%	94.1%	-1.2%	667		2.0%
So. Florida	14	22.3%	94.8%	0.0%	1,542		4.9%
Dallas	8	10.5%	96.4%	1.3%	891		5.8%
Austin	6	10.5%	93.8%	-3.1%	463		3.1%
Other	4	4.9%	93.0%	-0.4%	- 166		-2.1%
	67	**100.0%**	**94.7%**	**-0.6%**	**$4,547**	(a)	**3.1%**

Development and lease-up communities:

Market

Orlando (a)	2
Houston	1
Dallas	1
	3

763
296
177
1,236

61.7%
24.0%
14.3%
100.0%

57.3%
0.3%
55.1%
54.8%

$3,463
2
1,564
$5,029

(a) One of these communities is leased to a single user group pursuant to a triple net master lease.

Renovation communities:

Market	Number of Communities	Number of Apartment Homes	% of Total Apartment Homes	Occupancy During the 2001 Period	$ Change in Revenues

836
180
1,016

$149
55
$204

Property management revenues increased $727, or 19.2%, from $3,797 to $4,524 due primarily to the May 2001 acquisition of the D.C. Management Co. in addition to increased joint venture activity for which we serve as the property manager.

Development revenues, net decreased $1,660, or 74.9%, from $2,215 to $555 due primarily to a portion of our third party projects nearing completion, coupled with fewer new project starts in the 2001 Period. In addition, a $425 reduction in the estimated net profit on a project was recorded in the first quarter of 2001.

Equity in income of joint ventures decreased $289, or 71.5%, from $404 to $115 due primarily to the March 2001 acquisition of the membership interests of our venture partner in two stabilized communities in the GRAP JV and the August 2001 acquisition of our venture partner's 75% interest in a stabilized community. This decrease is also impacted by increased property taxes at one of the stabilized communities in which we own a 25% interest and the suspension of lease-up activities at Gables State Thomas Ravello.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Our share of the operating results for the apartment communities in which we have a joint venture interest for the

2001 Period and 2000 Period is as follows:

Stabilized

(1)

Development
& Lease-up (2)

Sales(3)

Total
2001

Total
2000

Gables' share of joint venture results:

Rental and other revenue
Property operating and maintenance expense
(exclusive of depreciation and amortization)
Revenues in excess of specified expenses
Interest expense and credit enhancement fees
Amortization of deferred financing costs
Other
Real estate asset depreciation
Equity in income of joint ventures

Number of operating communities
Number of units in operating communities
Average percent occupied during the period

$3,074

-1,232
$1,842
-843
-29
14
-776
$ 208

7
2,502

94%
$ 750
-334
$ 416
-191
-13
2
-218
$ -4
3
930
47%
$1,106
-504
$ 602
-386
-12
4
-297
$ -89
4
1,140
74%
$4,930
-2,070
$2,860
-1,420
-54
20
-1,291
$ 115
14
4,572
79%
$3,989
-1,542
$2,447
-1,220
-50
41
-814
$ 404
10
3,134
62%

(1) Communities which were owned and fully stabilized throughout the 2001 Period.
(2) Communities in the development and/or lease-up phase which were not fully stabilized during all or any of the 2001 Period.

(3) Communities which were sold subsequent to January 1, 2001.

Interest income decreased $119 or 15.7%, from $756 to $637 due primarily to a decrease in interest rates.

Other revenues decreased $213, or 10.3%, from $2,070 to $1,857 due primarily to a gain on sale of cable equipment to a cable service provider in the 2000 Period which is offset in part due to an increase in income from certain ancillary services as well as income earned during the 2001 Period related to certain non-routine items.

Property operating and maintenance expense (exclusive of depreciation and amortization) increased $1,237, or 2.2%, from $56,594 to $57,831 due primarily to the increase in the number of apartment homes resulting from the development and acquisition of additional communities, as well as increased payroll, property taxes, insurance, utilities, and maintenance costs at our same store communities. This increase is offset in part by the sale of one apartment community during the 2001 Period and the sale of seven apartment communities in the second half of 2000.

Real estate depreciation and amortization expense increased $1,730, or 5.3%, from $32,686 to $34,416 due primarily to the impact of the development and acquisition of additional communities and capital improvements made to existing operating communities, offset by the sale of one apartment community during the second quarter of 2001 and the sale of seven apartment communities in the second half of 2000.

Property management expense for owned communities and third party properties on a combined basis increased $453, or 6.0%, from $7,512 to $7,965 due primarily to the May 2001 acquisition of the D.C. Management Co. We allocate property management expenses to both owned communities and third party properties based on the proportionate share of total apartment homes and units managed.

Interest expense and credit enhancement fees increased $139, or 0.4%, from $33,767 to $33,906 due primarily to an increase in operating debt associated with the development and acquisition of additional communities. This increase is offset in part due to a decrease in interest rates and a decrease in outstanding indebtedness associated with the sale of one apartment community in the second quarter of 2001 and seven apartment communities in the second half of 2000.

Amortization of deferred financing costs increased $111, or 16.3%, from $680 to $791 due primarily to increased financing costs associated with the issuance of $150 million of senior unsecured notes in February 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

General and administrative expense decreased $317, or 5.6%, from $5,703 to $5,386 due primarily to a decrease in abandoned real estate pursuit costs and state taxes. This decrease is offset in part by an increase in internal acquisition costs as a result of two community acquisitions and the acquisition of the D.C. Management Co. in the 2001 Period.

Unusual items of $6,647 in the 2001 Period is comprised of (1) a $5,006 charge associated with the write-off of building components at Gables State Thomas Ravello that will be replaced in connection with a remediation program, (2) $920 in reserves associated with certain technology investments, and (3) $721 of abandoned real estate pursuit costs as a result of recent events which have impacted the U.S. economy.

Corporate asset depreciation and amortization increased $79, or 16.2%, from $488 to $567 due primarily to an

increase in amortization resulting from the management contracts acquired in connection with the May 2001 acquisition of the D.C. Management Co.

Gain on sale of real estate assets of $10,119 in the 2001 period is comprised of (1) $7,386 related to the sale of an apartment community in Atlanta comprising 386 apartment homes in the 2001 Period, (2) $944 associated with the sale of 2.5 acres of land in Atlanta in the 2001 Period, (3) $1,143 associated with the contribution of land into the GRAP Two JV in the 2001 period and (4) recognition of $646 of deferred gain associated with a land sale in 2000.

Liquidity and Capital Resources

We had $82.3 million of net cash provided by operating activities for the nine months ended September 30, 2001 compared to $86.3 million for the nine months ended September 30, 2000. The related decrease of $4.0 million was due to (1) a change in other liabilities between periods of $2.4 million, (2) a change in other assets between periods of $1.2 million and (3) a change in restricted cash between periods of $1.0 million. Such decreases were offset in part by an increase of $0.6 million in income (a) before certain non-cash or non-operating items, including depreciation, amortization, equity in income of joint ventures, minority interest of unitholders in Operating Partnership, gain on sale of real estate assets, long-term compensation expense, and unusual items and (b) after operating distributions received from joint ventures.

We had $150.5 million of net cash used in investing activities for the nine months ended September 30, 2001 compared to $18.6 million for the nine months ended September 30, 2000. During the nine months ended September 30, 2001, we expended $190.9 million related to acquisition and development activities, $9.2 million related to recurring, non-revenue enhancing capital expenditures for operating apartment communities, $8.8 million related to non-recurring, renovation/revenue enhancing capital expenditures, $3.2 million related to our investment in joint ventures, and $4.0 million related to other investments. During the nine months ended September 30, 2001, we received cash of (1) $18.4 million in connection with our contribution of interests in certain development communities to the GRAP Two JV and (2) $39.4 million in connection with the sale of one apartment community as well as the sale of a parcel of land adjacent to one of our development communities. In addition, during the nine months ended September 30, 2001, $7.9 million of the $8.5 million in sales proceeds held in escrow at December 31, 2000 was released to fund development activities. During the nine months ended September 30, 2000, we expended $60.5 million related to acquisition and development activities, $8.0 million related to recurring, non-revenue enhancing capital expenditures for operating apartment communities, $6.5 million related to non-recurring, renovation/revenue enhancing capital expenditures, and $2.1 million related to our investment in joint ventures. During the nine months ended September 30, 2000, we received cash of $80.0 million in connection with the sale of four apartment communities. We deposited $29.9 million of the cash received in connection with the sale of these apartment communities into an escrow account to fund development and acquisition activities facilitated through a like-kind exchange transaction of which $21.4 million remained in escrow at September 30, 2000.

We had $64.8 million of net cash provided by financing activities for the nine months ended September 30, 2001 compared to $70.5 million of net cash used in financing activities for the nine months ended September 30, 2000. During the nine months ended September 30, 2001, we had net borrowings of $116.0 million and proceeds from the exercise of share options of $14.0 million. These net borrowings and share option proceeds were offset by payments for dividends and distributions totaling $62.8 million and deferred financing costs of $1.9 million. During the nine months ended September 30, 2000, we had payments for dividends and distributions totaling $60.0 million and payments for treasury share purchases and Unit redemptions in connection with our common equity repurchase program totaling $42.7 million. These payments were offset by net borrowings of $29.0 million and proceeds from the exercise of share options of $4.2 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

We have elected to be taxed as a REIT under the Code. Effective for tax years beginning after December 31, 2000, the distribution requirement has been reduced from 95% to 90% of a REIT's ordinary taxable income. Provided we maintain our qualification as a REIT, we generally will not be subject to federal income tax on distributed net income.

The recently effective tax legislation also alters the requirements for qualification as a REIT. In particular, the new legislation generally liberalizes, from the perspective of our historic operations, the asset diversification requirements applicable to REITs. Effective for tax years beginning after December 31, 2000, a REIT may own the securities of a "taxable REIT subsidiary" without limitation on the REIT's voting control over the subsidiary, provided that not more than 20% of the value of the REIT's total assets is represented by securities of one or more taxable REIT subsidiaries. A taxable REIT subsidiary would include a corporation in which we directly or indirectly own stock and which has elected to be treated as a taxable REIT subsidiary. Effective January 1, 2001, we have met the requirements to treat all eligible investments as taxable REIT subsidiaries.

As of September 30, 2001, we had total indebtedness of $898,338, cash and cash equivalents of $936, and principal escrow deposits reflected in restricted cash of $3,905. Our indebtedness has an average of 4.3 years to maturity at September 30, 2001. The aggregate maturities of notes payable at September 30, 2001 are as follows:

2001	$ 15,925
2002	102,460
2003	47,891
2004	201,253
2005	113,074
2006 and thereafter	417,735
	$898,338

The maturities in 2001 include $15.0 million of unsecured senior notes which were repaid in October 2001 through borrowings under our credit facilities. The maturities in 2002 include $83.3 million of unsecured notes which mature in December 2002 and a $16.4 million secured variable-rate note which has an initial maturity date in March 2002 with two one-year extension options. The indebtedness outstanding under each of our credit facilities is reflected in the preceding table using the May 2004 maturity date of our $225 million credit facility. We have an option to extend the maturity date of our $225 million credit facility to May 2005 which is exercisable in May 2002.

Dividends through the third quarter of 2001 have been paid from cash provided by operating activities. We anticipate that dividends will continue to be paid on a quarterly basis from cash provided by operating activities.

We have met and expect to continue to meet our short-term liquidity requirements generally through net cash provided by operations. Our net cash provided by operations has been adequate and we believe that it will continue to be adequate to meet both operating requirements and payment of dividends in accordance with REIT requirements. The budgeted expenditures for improvements and renovations to our communities, in addition to monthly principal amortization payments, are also expected to be funded from net cash provided by operations. We anticipate that construction and development activities as well as land purchases will be initially funded primarily through borrowings under our credit facilities described below.

We expect to meet certain of our long-term liquidity requirements, such as scheduled debt maturities, repayment of short-term financing of construction and development activities and possible property acquisitions, through long-term secured and unsecured borrowings, the issuance of debt securities or equity securities, private equity investments in the form of joint ventures, or through the disposition of assets which, in our evaluation, may no longer meet our investment requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

$225 Million Credit Facility

We have a $225 million unsecured revolving credit facility provided by a consortium of banks. The facility currently has a maturity date of May 2004 with a one-year extension option. Borrowings under the facility currently bear interest at our option of LIBOR plus 0.85% or prime minus 0.25%. Such scheduled interest rates may be adjusted up or down based on changes in our senior unsecured credit ratings. We may also enter into competitive bid loans with participating banks for up to $112.5 million at rates below the scheduled rates. In addition, we pay an annual facility fee currently equal to 0.20% of the $225 million commitment. Availability under the facility, which is based on the value of our unencumbered real estate assets as compared to the amount of our unsecured indebtedness, was $225 million at September 30, 2001. As of September 30, 2001, we had $105 million in borrowings outstanding under the facility and, therefore, had $120 million of remaining capacity on the $225 million available.

$75 Million Borrowing Facility

We have a $75 million unsecured borrowing facility with a bank that matures in April 2002. The interest rate and maturity date related to each draw on this facility is agreed to by both parties prior to each draw. At September 30, 2001, we had no outstanding borrowings under this facility.

$25 Million Credit Facility

We have a $25 million unsecured revolving credit facility with a bank that currently bears interest at LIBOR plus 0.85%. The facility currently has a maturity date of October 2002 with unlimited one-year extension options. We had $16.7 million in borrowings outstanding under this facility at September 30, 2001.

Restrictive Covenants

Certain of our debt agreements contain customary representations, covenants and events of default, including covenants which restrict the ability of the Operating Partnership to make distributions in excess of stated amounts, which in turn restricts our discretion to declare and pay dividends. In general, during any fiscal year the Operating Partnership may only distribute up to 95% of its consolidated income available for distribution (as defined in the related agreement) exclusive of distributions of capital gains for such year. The applicable debt agreements contain exceptions to these limitations to allow the Operating Partnership to make any distributions necessary to allow us to maintain our status as a REIT. We do not anticipate that this provision will adversely effect the ability of the Operating Partnership to make distributions or our ability to declare dividends, as currently anticipated.

Inflation

Substantially all leases at our communities are for a term of one year or less, which may enable us to seek increased rents upon renewal of existing leases or commencement of new leases in times of rising prices. The short-term nature of these leases generally serves to lessen the impact of cost increases arising from inflation.

Certain Factors Affecting Future Operating Results

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "expect," "anticipate," "intend," "estimate," "assume" and other similar expressions which are predictions of or indicate future events and trends and which do not relate solely to historical matters identify forward-looking statements. These

statements include, among other things, statements regarding our intent, belief or expectations with respect to the following: (1) the declaration or payment of distributions, (2) potential developments or acquisitions or dispositions of properties, assets or other entities, (3) our policies regarding investments, indebtedness, acquisitions, dispositions, financings, conflicts of interest and other matters, (4) our qualification as a REIT under the Code, (5) the real estate markets in which we operate, (6) in general, the availability of debt and equity financing, interest rates and general economic conditions, and (7) trends affecting our financial condition or results of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, but are not limited to, the following: (1) we may abandon or fail to secure development opportunities, (2) construction costs of a community may exceed original estimates, (3) construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs and reduced rental revenues, (4) occupancy rates and market rents may be adversely affected by local economic and market conditions which are beyond our control, (5) financing may not be available or may not be available on favorable terms, (6) our cash flow may be insufficient to meet required payments of principal and interest, and (7) existing indebtedness may mature in an unfavorable credit environment, preventing such indebtedness from being refinanced or, if financed, causing such refinancing to occur on terms that are not as favorable as the terms of existing indebtedness. While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Recent Accounting Pronouncements

See Note 6 to Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Completed Communities in Lease-up and Development Communities at September 30, 2001

Percent at

September 30, 2001

Actual or Estimated Quarter of

Community

No. of
Apt.
Homes

Total
Budgeted

Cost

Cost to Complete

Complete

LeasedOccupied

Constr.
Start

Initial
Occup.

Constr.
End

Stab.
Occup.

(millions)

(millions)

(1)

Wholly-Owned Development/Lease-up Communities:

Atlanta, GA

183

$ 24$ 966%--

--

3 Q 20004 Q 20011 Q 20024 Q 2002Gables Paces80225

73%

--

--

3 Q 20001 Q 20021 Q 20023 Q 2002**Dallas, TX** Gables Ellis Street 245 45 271%----3 Q 20014 Q 20022 Q 20032 Q 2004Gables State Thomas Ravello 290 44 1665%----4 Q 20014 Q 20022 Q 20032 Q 2004 Gables State Thomas Townhomes 177 36 1100%85%84%4 Q 19993 Q 20002 Q 20012 Q 2002 **Houston, TX** Gables Meyer Park II296278

64%

4%

2%

4 Q 20003 Q 20012 Q 20024 Q 2002**Orlando, FL** Gables North Village 315 42

2

97%

48%

45%

4 Q 1999

4 Q 2000

4 Q 20013 Q 2002 **Subtotals1,586$240$ 68**

Co-Investment Development/Lease-up Communities (2)

: **Atlanta, GA** Gables Metropolitan II

274

$ 32

$ 18

28%

--

--

1 Q 2001

2 Q 20023 Q 20022 Q 2003**Boca Raton, FL** Gables Crestwood29025-- 100%81%79%4 Q 19993 Q 20002 Q 20011 Q 2002 **Houston, TX** Gables White Oak18615928%----2 Q 20014 Q 20012 Q 20023 Q 2002**Tampa, FL** Gables West Park Village (3)

320

35

1074%13%5%

4 Q 2000

3 Q 20012 Q 20024 Q 2002 **Subtotals**

Grand totals

1,070

2,656

$1

07

$347 $ 37

$105

(

4)

(1) Stabilized occupancy is defined as the earlier to occur of (i) 93% occupancy or (ii) one year after completion of construction.
(2) These communities were contributed into the GRAP JV or the GRAP Two JV, as applicable.

(3) This development community includes 40,000 square feet of commercial space which was 56% leased at September 30, 2001.

(4) Construction loan proceeds are expected to fund $36 million of these costs. The remaining costs will be funded by capital contributions to the venture from the venture partner and us in a funding ratio of 80% and 20%, respectively.

The following is a "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended. The projections and estimates contained in the table above are forward-looking statements. These forward-looking statements involve risks and uncertainties and actual results may differ materially from those projected in such statements. Risks associated with our development, construction, and lease-up activities, which could impact the forward-looking statements made, include: development opportunities may be abandoned; construction costs of a community may exceed original estimates, possibly making the community uneconomical; and construction and lease-up may not be completed on schedule, resulting in increased debt service and construction costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Stabilized Apartment Communities at September 30, 2001

Community	Number of Homes	September 30, 2001 Occupancy	September 30, 2001 Scheduled Rent Per Unit	Sq. Ft.

0.78
0.96
0.81
0.80
0.94
1.00
1.36
1.11
0.72
1.05
1.07
0.78
0.78
0.82
0.82
1.14
1.08
0.73
0.93

MANAGEMENT'S DISCUSSION AND ANALYSIS

Stabilized Apartment Communities at September 30, 2001 (continued)

Community	Number of of Homes	September 30, 2001 Occupancy	September 30, 2001 Scheduled Rent Per Unit	Sq. Ft.

(a) This property is in renovation; therefore, occupancy is based on units available for lease.

(b) This property is leased to a single user group pursuant to a triple net master lease. Accordingly, scheduled rent data is not reflected as it is not comparable to the rest of our portfolio.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Portfolio Indebtedness Summary at September 30, 2001:

Type of Indebtedness	Balance	Percentage of Total	Interest Rate (1)	Total Rate (2)	Years to Maturity

Fixed Rate:		
Unsecured fixed-rate notes	$380,339	42.3%
Secured fixed-rate notes	139,649	15.6%
Tax-exempt fixed-rate loans	69,310	7.7%
Total fixed-rate indebtedness	$589,298	65.6%
Variable Rate:		
Tax-exempt variable-rate loans	$170,955	19.0%
Secured variable-rate loan	16,388	1.8%
Unsecured variable-rate credit facilities	121,697	13.6%
Total variable-rate indebtedness	$309,040	34.4%
Total portfolio debt (3), (4)	**$898,338**	**100.0%**

7.43%
7.71%
6.24%

7.36%

2.29%
4.54%
3.18%

2.76%

5.78%

7.43%
7.71%
6.47%

7.38%

3.28%
4.54%
3.18%

3.31%

5.98%

3.51
6.56
6.05

4.53

4.84
0.49
2.62

3.98

4.26

(1) Interest Rate represents the weighted average interest rate incurred on our indebtedness, exclusive of deferred financing cost
amortization and credit enhancement fees, as applicable.

(2) Total Rate represents the Interest Rate (1) plus credit enhancement fees, as applicable.

(3) Interest associated with construction activities is capitalized as a cost of development and does not impact current earnings.
The qualifying construction expenditures at September 30, 2001 for purposes of interest capitalization were $137,176.

(4) Excludes (a) $16.4 million of tax-exempt bonds related to a joint venture in which we own a 25% interest, (b) $78.8 million
of construction loan indebtedness related to joint ventures in which we own a 20% interest, and (c) $52.1 million of outstanding
conventional indebtedness related to a joint venture in which we own a 9% interest.

SUPPLEMENTAL DISCUSSION - Funds From Operations and Adjusted Funds From Operations

We consider funds from operations ("FFO") to be a useful performance measure of the operating performance of an equity REIT because, together with net income and cash flows, FFO provides investors with an additional basis to evaluate the ability of a REIT to incur and service debt and to fund distributions and capital expenditures. We believe that in order to facilitate a clear understanding of our operating results, FFO should be examined in conjunction with net income as presented in the financial statements and data included elsewhere in this report. We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ("NAREIT"). Effective January 1, 2000, NAREIT amended its definition of FFO to include in FFO all non-recurring items, except those defined as extraordinary items under GAAP and gains and losses from sales of depreciable operating property. We are using the amended definition of FFO in reporting our results for all periods on or after January 1, 2000. FFO as defined by NAREIT represents net income (loss) determined in accordance with GAAP, excluding extraordinary items as defined under GAAP and gains or losses from sales of depreciable operating property, plus certain non-cash items such as real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO presented herein is not necessarily comparable to FFO presented by other real estate companies due to the fact that not all real estate companies use the same definition. However, our FFO is comparable to the FFO of real estate companies that use the amended NAREIT definition. Adjusted funds from operations ("AFFO") is defined as FFO less recurring, non-revenue enhancing capital expenditures. FFO and AFFO should not be considered alternatives to net income as indicators of our operating performance or as alternatives to cash flows as measures of liquidity. FFO does not measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital expenditures, and distributions to shareholders and unitholders. Additionally, FFO does not represent cash flows from operating, investing or financing activities as defined by GAAP. Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion of our cash needs and cash flows. A reconciliation of FFO and AFFO follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Amounts in Thousands, Except Property and Per Share Data)

Three Months

	Ended September 30,			
	2001	2000	2001	2000

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our capital structure includes the use of a variable rate and fixed rate indebtedness. As such, we are exposed to the impact of changes in interest rates. We periodically seek input from third party consultants regarding market interest rate and credit risk in order to evaluate our interest rate exposure. In certain situations, we may utilize derivative financial instruments in the form of rate caps, rate swaps or rate locks to hedge interest rate exposure by modifying the interest rate characteristics of related balance sheet instruments and prospective financing transactions. We do not utilize such instruments for trading or speculative purposes.

We typically refinance maturing debt instruments at then-existing market interest rates and at terms which may be more or less than the interest rates and terms on the maturing debt.

Refer to our Annual Report on Form 10-K for the year ended December 31, 2000 for detailed disclosure about quantitative and qualitative disclosures about market risk. Quantitative and qualitative disclosures about market risk have not materially changed since December 31, 2000.

Part II - Other Information

Item 1: Legal Proceedings

None

Item 2: Changes in Securities

During the nine months ended September 30, 2001, we issued to limited partners of the Operating Partnership 566,596 common shares (valued at approximately $16,151,270 at the time of issuance) in exchange for 566,596 Units. Such shares were issued in reliance on an exemption from registration under Section 4 (2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

Item 3: Defaults Upon Senior Securities

None

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

None

Item 5: Other Information

None

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURE

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.

GABLES RESIDENTIAL TRUST

Date:	November 12, 2001	/s/ Marvin R. Banks, Jr. Marvin R. Banks, Jr. Senior Vice President and Chief Financial Officer (Authorized Officer of the Registrant and Principal Financial Officer)
Date:	November 12, 2001	/s/ Dawn H. Severt Dawn H. Severt Vice President and Chief Accounting Officer (Principal Accounting Officer)