

GABLES RESIDENTIAL TRUST  
Form 10-Q  
May 15, 2003

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

**FORM 10 - Q**

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

**For the quarterly period ended March 31, 2003**

( ) 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**  
(State of Incorporation)

**58-2077868**  
(I.R.S. Employer Identification No.)

**777 Yamato Road, Suite 510  
Boca Raton, Florida 33431**

(Address of principal executive offices, including zip code)

**(561) 997-9700**

(Registrant's telephone number, including area code)

**N/A**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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

Indicate by check mark whether the registrant is an accelerated filer  
(as defined in Rule 12b-2 of the Exchange Act)

(X) YES ( ) NO

**Common shares of beneficial interest, par value \$0.01 per share, 24,576,515 shares**

The number of shares outstanding of each of the registrant's classes of common stock,  
as of May 9, 2003

**GABLES RESIDENTIAL TRUST  
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**PART I. - FINANCIAL INFORMATION**  
**ITEM 1. - FINANCIAL STATEMENTS**

**GABLES RESIDENTIAL TRUST**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited and Amounts in Thousands, Except Per Share Data)

	<b>March 31,</b>	<b>December 31,</b>
	<b><u>2003</u></b>	<b><u>2002</u></b>
<b>ASSETS:</b>		
Real estate assets:		
Land	\$ 249,429	\$ 250,095
Buildings	1,275,786	1,259,232
Furniture, fixtures and equipment	132,253	130,547
Construction in progress	150,856	129,159
Investment in joint ventures	12,310	12,423
Undeveloped land	<u>13,271</u>	<u>12,951</u>
Real estate assets before accumulated depreciation	1,833,905	1,794,407
Less: accumulated depreciation	<u>(275,567)</u>	<u>(266,139)</u>
Net real estate assets	1,558,338	1,528,268
Cash and cash equivalents	9,707	6,281
Restricted cash	5,622	7,632
Deferred financing costs, net	6,176	5,555
Other assets, net	<u>36,499</u>	<u>36,198</u>
Total assets	<b>\$ <u>1,616,342</u></b>	<b>\$ <u>1,583,934</u></b>

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**LIABILITIES AND SHAREHOLDERS' EQUITY:**

Notes payable	\$ 1,014,873	\$ 958,574
Accrued interest payable	6,729	14,081
Preferred dividends payable	1,217	1,834
Real estate taxes payable	7,818	16,172
Accounts payable and accrued expenses - construction	8,947	7,275
Accounts payable and accrued expenses - operating	15,713	18,814
Security deposits	<u>4,207</u>	<u>4,133</u>
Total liabilities	1,059,504	1,020,883
Minority interest of common unitholders in Operating Partnership	88,365	89,882
Minority interest of Series B preferred unitholders in Operating Partnership	50,192	50,192
Series Z Preferred Shares at \$25.00 liquidation preference, 180 shares issued and outstanding	4,500	4,500
Commitments and contingencies		
Shareholders' equity:		
Excess shares, \$0.01 par value, 51,000 shares authorized	-	-
Preferred shares, \$0.01 par value, 20,000 shares authorized, Series C Preferred Shares at \$25.00 liquidation preference, 1,600 shares issued and outstanding	40,000	40,000
Series Z Preferred Shares and Series B Preferred Units, exchangeable into Series B Preferred Shares, reported above	-	-
Common shares, \$0.01 par value, 100,000 shares authorized, 28,878 and 28,856 shares issued at March 31, 2003 and December 31, 2002, respectively	289	289
Additional paid-in capital	480,813	485,694
Treasury shares at cost, 4,338 and 4,385 common shares at March 31, 2003 and December 31, 2002, respectively	(105,140)	(106,190)
Deferred long-term compensation	(2,181)	(1,316)
Accumulated earnings	<u>-</u>	<u>-</u>
Total shareholders' equity	<u>413,781</u>	<u>418,477</u>
Total liabilities and shareholders' equity	\$ <b><u>1,616,342</u></b>	\$ <b><u>1,583,934</u></b>

See notes to consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
<b>Revenues:</b>		
Rental revenues	\$ 53,631	\$ 52,460
Other property revenues	<u>2,836</u>	<u>2,899</u>
Total property revenues	<u>56,467</u>	<u>55,359</u>
Property management revenues	1,849	1,815
Ancillary services revenues	1,873	2,545
Interest income	73	61
Other revenues	<u>46</u>	<u>43</u>
Total other revenues	<u>3,841</u>	<u>4,464</u>
Total revenues	<u>60,308</u>	<u>59,823</u>

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<b>Expenses:</b>		
Property operating and maintenance (exclusive of items shown separately below)	19,769	18,630
Real estate asset depreciation and amortization	13,016	11,653
Property management - owned	1,660	1,957
Property management - third party	1,826	1,677
Ancillary services	1,225	1,471
Interest expense and credit enhancement fees	11,479	10,119
Amortization of deferred financing costs	424	257
General and administrative	2,333	1,922
Corporate asset depreciation and amortization	<u>342</u>	<u>453</u>
Total expenses	<u>52,074</u>	<u>48,139</u>
Income from continuing operations before equity in income of joint ventures, gain on sale and minority interest	8,234	11,684
Equity in income of joint ventures	95	1,888
Gain on sale of previously depreciated operating real estate assets	-	17,906
Gain on sale of land and development rights	-	1,339
Minority interest of common unitholders in Operating Partnership	(1,226)	(5,749)
Minority interest of preferred unitholders in Operating Partnership	<u>(1,078)</u>	<u>(1,078)</u>
Income from continuing operations	6,025	25,990
Operating income (loss) from discontinued operations, net of minority interest	(8)	443
Gain on disposition of discontinued operations, net of minority interest	<u>4,075</u>	<u>1,763</u>
Income from discontinued operations, net of minority interest	4,067	2,206
Net income	10,092	28,196
Dividends to preferred shareholders	<u>(844 )</u>	<u>(2,443 )</u>
Net income available to common shareholders	<u>\$ 9,248</u>	<u>\$25,753</u>
Weighted average number of common shares outstanding - basic	24,495	24,520
Weighted average number of common shares outstanding - diluted	30,337	30,670
<b>Per Common Share Information - Basic:</b>		
Income from continuing operations (net of preferred dividends)	\$ 0.21	\$ 0.96
Income from discontinued operations, net of minority interest	\$ 0.17	\$ 0.09
Net income available to common shareholders	\$ 0.38	\$ 1.05
<b>Per Common Share Information - Diluted:</b>		
Income from continuing operations (net of preferred dividends)	\$ 0.21	\$ 0.96
Income from discontinued operations	\$ 0.17	\$ 0.09
Net income available to common shareholders	\$ 0.38	\$ 1.04

See notes to consolidated financial statements.

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

**Three Months**  
**Ended March 31,**  
**2003      2002**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 10,092	\$ 28,196
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:		
Income from discontinued operations, net of minority interest	( 4,067)	(2,206)
Depreciation and amortization	13,782	12,363
Equity in income of joint ventures	( 95)	( 1,888)
Minority interest of unitholders in Operating Partnership	2,304	6,827
Gain on sale of real estate assets	-	( 19,245)
Long-term compensation expense	386	355
Operating distributions received from joint ventures	418	623
Change in operating assets and liabilities:		
Restricted cash	2,141	1,154
Other assets	(3,061)	2,956
Other liabilities, net	<u>(18,548)</u>	<u>(15,729)</u>
Net cash provided by operating activities of continuing operations	<u>3,352</u>	<u>13,406</u>
Net cash provided by operating activities of discontinued operations	<u>39</u>	<u>936</u>
Net cash provided by operating activities	<u>3,391</u>	<u>14,342</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition, development, construction and renovation of real estate assets	( 48,251)	( 21,608)
Recurring value retention capital expenditures	( 2,469)	( 2,834)
Non-recurring and/or value-enhancing capital expenditures	( 1,835)	( 1,648)
Restricted cash held in escrow, net	-	(24,974)
Net proceeds from sale of wholly-owned real estate assets	-	46,803
Net proceeds from disposition of discontinued operations	18,737	15,273
Investment in joint ventures	( 390)	( 159)
Net proceeds from sale of joint venture real estate assets	<u>-</u>	<u>6,093</u>
Net cash (used in) provided by investing activities	<u>(34,208)</u>	<u>16,946</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the exercise of share options	-	5,604
Unit redemptions	-	(231)
Payments of deferred financing costs	( 1,120)	(5)
Notes payable proceeds	56,901	20,000
Notes payable repayments	( 602)	( 34,535)
Principal escrow payments deposited into escrow, net	(131)	(263)
Preferred dividends paid	(1,461)	(2,387)
Preferred distributions paid	(1,078)	(1,078)
Common dividends paid (\$0.6025 per share)	(14,770)	(14,890)
Common distributions paid (\$0.6025 per share)	<u>(3,496)</u>	<u>(3,599)</u>
Net cash provided by (used in) financing activities	<u>34,243</u>	<u>(31,384)</u>
Net change in cash and cash equivalents	3,426	(96)
Cash and cash equivalents, beginning of period	<u>6,281</u>	<u>4,231</u>
Cash and cash equivalents, end of period	\$ <u>9,707</u>	\$ <u>4,135</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 20,467	\$ 16,824
Interest capitalized	<u>2,103</u>	<u>2,423</u>
Cash paid for interest, net of amounts capitalized	\$ <u>18,364</u>	\$ <u>14,401</u>

See notes to consolidated financial 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 management, development and construction, corporate rental housing and brokerage services to third parties and unconsolidated joint ventures. 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 March 31, 2003, we were an 80.9% economic owner of the common equity of the Operating Partnership. Substantially all of our third-party management businesses are conducted through a wholly-owned subsidiary, Gables Residential Services.

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 entitle 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 real estate assets to the Operating Partnership primarily in connection with the IPO and the 1998 acquisition of the real estate assets 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, with substantially identical rights as the common or preferred shares, as applicable, to us.

As of March 31, 2003, we managed a total of 154 multifamily apartment communities comprising 41,461 apartment homes for assets owned by us and our third-party clients. At March 31, 2003, we owned 74 stabilized multifamily apartment communities comprising 20,361 apartment homes, an indirect 25% interest in one stabilized apartment community comprising 345 apartment homes, an indirect 20% interest in three stabilized apartment communities comprising 941 apartment homes, and an indirect 8.3% interest in three stabilized apartment communities comprising 1,118 apartment homes. We also owned nine multifamily apartment communities under development or in lease-up at March 31, 2003 that are expected to comprise 2,410 apartment homes upon completion and an indirect 20% interest in three apartment communities under development or in lease-up at March 31, 2003 that are expected to comprise 647 apartment homes upon completion. In addition, as of March 31, 2003, we owned a parcel of land on which we intend to develop an apartment community that we currently expect will comprise 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 obtaining 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 \$347.8 million 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 May 8, 2003, we issued 3,000 shares of 7.5% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$25.00 per share). The net proceeds from this issuance of approximately \$72.4 million were used to reduce outstanding indebtedness under interim financing vehicles. The Series D Preferred Shares may be redeemed at our option at \$25.00 per share plus accrued and

unpaid dividends on or after May 8, 2008. The Series D Preferred Shares are not subject to any sinking fund or convertible into any other Gables securities.

On September 27, 2002, we issued 1,600 shares of 7.875% Series C Cumulative Redeemable Preferred Shares (liquidation preference \$25.00 per share) in a private placement to an institutional investor. The net proceeds from this issuance of \$39.8 million, together with the net proceeds of \$39.8 million from the concurrent issuance of \$40 million of senior unsecured notes, were used to retire approximately \$82.5 million of unsecured indebtedness at an interest rate of 8.3% that was scheduled to mature in December 2002. The Series C Preferred Shares may be redeemed at our option at \$25.00 per share plus accrued and unpaid dividends on or after September 30, 2006. The Series C Preferred Shares

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are not subject to any sinking fund or 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 our option 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.

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. We redeemed all outstanding Series A Preferred Shares for \$115 million on August 9, 2002 with proceeds from our \$180 million senior unsecured note issuance on July 8, 2002.

### *Issuances of Common Operating Partnership Units*

Since the IPO, the Operating Partnership has issued a total of 4,421 Units in connection with the 1998 acquisition of the real estate assets and operations of Trammell Crow Residential South Florida, the acquisition of other operating apartment communities and the acquisition of a parcel of land for future development. The 4,421 Units issued include 470 Units valued at \$10.4 million that were issued on January 1, 2000, related to a deferred portion of the South Florida acquisition purchase price.

### *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 at \$25.00 per Unit plus accrued and unpaid dividends. 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*

Our board of trustees implemented a common equity repurchase program pursuant to which we are authorized to purchase up to \$200 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 March 31, 2003, we had repurchased 4,506 common shares and 300 Units for a total of \$116 million, including \$0.2 million in related commissions.

### *Shelf Registration Statement*

We have an effective shelf registration statement on file with the Securities and Exchange Commission which initially provided \$500 million of equity capacity. We currently have \$425 million of this equity capacity remaining following our May 2003 \$75 million preferred equity offering. The debt portion of this shelf registration statement has been fully utilized after our February 2001 and July 2002 senior unsecured note offerings.

## **3. BASIS OF PRESENTATION**

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the consolidated accounts of Gables and its subsidiaries, including the Operating Partnership and Gables Residential Services. We consolidate the financial statements of all entities in which we have a controlling financial interest, as that term is defined under GAAP, through either majority voting interest or contractual agreements. Our investments in non-controlled joint ventures are accounted for using the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been adjusted for the minority interest of common unitholders in the Operating Partnership. Common Units, if presented for redemption, can be exchanged for Gables common shares on a one-for-one basis. Minority interest of common unitholders in the Operating Partnership, as reflected in the accompanying balance sheets, is calculated at the balance sheet date based upon the percentage of common Units outstanding owned by partners other than Gables to the total number of common Units outstanding. Minority interest of common unitholders in the Operating Partnership's earnings is calculated based upon the weighted average of common Units outstanding during the applicable period.

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 March 31, 2003 are not necessarily indicative of the results that may be expected for the full year. These financial



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statements should be read in conjunction with the financial statements included in our Form 10-K for the year ended December 31, 2002.

Certain amounts in the 2002 financial statements have been reclassified to conform to the 2003 presentation.

### 4. PORTFOLIO AND OTHER FINANCING ACTIVITY

#### *Community Dispositions Subject to Discontinued Operations Reporting*

In February 2003, we sold an apartment community located in Dallas comprising 300 apartment homes. The net proceeds from this sale were \$18.7 million and were used to paydown outstanding borrowings under our interim financing vehicles. The gain from the sale of this community was \$5.0 million, or \$4.1 million, net of the \$0.9 million portion of the gain attributable to the minority interest unitholders.

During 2002, we sold two apartment communities located in Houston comprising 660 apartment homes. The net proceeds from these sales were \$43.2 million and were used to paydown outstanding borrowings under our interim financing vehicles and purchase common shares and Units under our common equity repurchase program. The aggregate gain from the sale of these two communities was \$9.8 million. One of these sales occurred during the three months ended March 31, 2002, resulting in a \$2.2 million gain, or a \$1.8 million gain, net of the \$0.4 million portion of the gain attributable to the minority interest unitholders.

Historical operating results and gains are reflected as discontinued operations in the accompanying consolidated statements of operations. See Notes 5 and 6 for further discussion.

#### *Community and Land Dispositions Not Subject to Discontinued Operations Reporting*

During 2002, we sold a 13.3 acre parcel of land in Houston that was adjacent to an apartment community sold, an apartment community located in Houston comprising 246 apartment homes and an apartment community located in Atlanta comprising 311 apartment homes. The net proceeds from these sales were \$46.8 million and were used to paydown outstanding borrowings under our interim financing vehicles and purchase common shares and Units under our common equity repurchase program. The gain from the land sale was \$0.8 million and the aggregate gain from the sale of the two communities was \$17.9 million. All of these sale transactions occurred during the three months ended March 31, 2002. In addition, we recognized \$1.3 million of deferred gain during the year ended December 31, 2002 associated with prior year sale transactions, of which \$0.5 million was recognized in the three months ended March 31, 2002.

During 2002, the Gables Residential Apartment Portfolio JV (the "GRAP JV") sold two apartment communities located in South Florida comprising 610 apartment homes, an apartment community in Dallas comprising 222 apartment homes and an apartment community located in Houston comprising 382 apartment homes. Our share of the net sales proceeds after repayment of construction loan indebtedness of \$46.7 million was \$10.7 million, resulting in a gain of \$2.6 million. Two of these sales occurred during the three months ended March 31, 2002, resulting in a \$1.8 million gain to us.

Historical operating results and gains are included in continuing operations in the accompanying consolidated statements of operations. See Notes 5 and 6 for further discussion.

#### *Community Acquisitions*

On February 20, 2003, we acquired an apartment community located in Austin that is subject to a long-term ground lease and is comprised of 239 apartment homes and 7,366 square feet of retail space for approximately \$30.2 million in cash. The acquisition was financed through borrowings under our interim financing vehicles.

#### *Other Acquisition*

In May 2001, we acquired a property management company based in Washington, D.C. that managed approximately 3,600 units in 24 multifamily apartment communities located in Washington, D.C. and the surrounding area (the "D.C. Management Co."). Our total investment of approximately \$1.6 million was structured to be paid in three installments based on results of the acquired business operations. As of March 31, 2003, we had funded \$1.1 million of the \$1.6 million total investment. The final installment of \$0.5 million is expected to be paid in the second quarter of 2003.

#### *Senior Unsecured Note Issuance*

On September 27, 2002, we issued \$40 million of senior unsecured notes in two series in a private placement to an institutional investor: \$30 million at an interest rate of 5.86% maturing in September 2009 and \$10 million at an interest rate of 6.10% maturing in September 2010. The net proceeds of \$39.8 million, together with the net proceeds of \$39.8 million from the concurrent issuance of the 7.875% Series C Cumulative Redeemable Preferred Shares, were used to retire approximately \$82.5 million of senior unsecured notes at an interest rate of 8.3%

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that were scheduled to mature in December 2002. We did not incur any prepayment costs in connection with the early debt retirement.

On July 8, 2002, we issued \$180 million of senior unsecured notes which bear interest at a rate of 5.75%, were priced to yield 5.81% and mature in July 2007. The net proceeds of \$178 million were used to redeem all outstanding shares of the 8.3% Series A Cumulative Redeemable Preferred Shares totaling \$115 million on August 9, 2002 and to reduce borrowings under our interim financing vehicles.

### *Debt Refinancing*

In May 2002, we called \$48.4 million of secured tax-exempt bond indebtedness with an interest rate of 6.375% and re-issued the bonds on an unsecured basis at a rate of 4.75%. In connection with the early extinguishment of debt, we incurred a prepayment penalty of \$1,451 and wrote-off unamortized deferred financing costs totaling \$236. Such charges totaling \$1,687 were originally reflected net of minority interest of \$327 as an extraordinary loss in the statements of operations (Note 5). The previous bonds required monthly principal amortization payments that were retained in an escrow account and were not applied to reduce the outstanding principal balance of the loan. Such principal payments held in escrow totaling \$4,121 were released in May 2002. This refinancing transaction allowed us to improve our debt constant by 2.75%, unencumber six communities comprising 2,028 apartment homes and achieve a positive net present value result.

## **5. RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets," (effective for us January 1, 2002) was issued. 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 did not have goodwill or other intangible assets at March 31, 2003 or December 31, 2002. As a result, the adoption of SFAS No. 142 did not have a significant impact on our financial statements.

In August 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations," (effective for us January 1, 2003) was 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. The adoption of SFAS No. 143 did not have a significant impact on our financial statements.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (effective for us January 1, 2002) was issued. 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. The impairment provisions of SFAS No. 144 are similar to SFAS No. 121 and the adoption thereof did not have a significant impact on our financial statements. As discussed further in Note 6, SFAS No. 144 also requires that the gains and losses from the disposition of certain real estate assets and the related historical operating results be reflected as discontinued operations in the statements of operations for all periods presented. In the normal course of business, we recycle invested capital by disposing of existing assets and redeploying the proceeds in order to enhance total returns to shareholders. Although net income is not affected, we expect to continue to reclassify results previously included in continuing operations to discontinued operations for any future qualifying dispositions in accordance with SFAS No. 144.

In April 2002, SFAS No. 145, "Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections," was issued. SFAS No. 145 (effective for us January 1, 2003), among other things, eliminates the requirement that all gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item. However, a gain or loss arising from such an event or transaction would continue to be classified as an extraordinary item if the event or transaction is both unusual in nature and infrequent in occurrence per the criteria in APB No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." As part of the transition guidance, although net income would not be affected, gains and losses from debt extinguishment in prior periods that do not meet the criteria in APB No. 30 must be reclassified to continuing operations for all periods presented. We adopted SFAS No. 145 in the first quarter of 2003 and, as a result, reclassified our May 2002 extraordinary loss on early extinguishment of debt, net of minority interest, of \$1.4 million to unusual items within continuing operations.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," was issued. SFAS No. 146 requires the recording of costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. Adoption of SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a significant impact on our financial statements.

In November 2002, FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," was issued. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued (Note 10). It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. We will apply the initial recognition and initial measurement provisions of FIN 45 on a prospective basis for any guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material impact on our financial statements.

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In December 2002, SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," was issued. SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods for transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure in both interim and annual financial statements about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. We adopted this standard effective for our fiscal year ended December 31, 2002, resulting in additional disclosures related to our stock-based compensation plan (Note 9). We began expensing stock-based employee compensation under the fair value recognition provisions of SFAS No. 123 on a prospective basis beginning January 1, 2003. Due to our limited use of options as a form of compensation since 1999, the adoption of this accounting standard did not have a significant impact on our financial statements.

In January 2003, FIN 46, "Consolidation of Variable Interest Entities," was issued. In general, a variable interest entity ("VIE") is an entity that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Until now, a company generally has only consolidated another entity in its financial statements if it controlled the entity through voting interests. FIN 46 changes that by requiring a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities or is entitled to receive a majority of the entity's residual returns or both. The provisions of FIN 46 are to be applied effective immediately for VIEs created after January 31, 2003, and effective July 1, 2003 for VIEs created prior to February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a VIE when FIN 46 becomes effective, the enterprise should make certain disclosures in all financial statements initially issued after January 31, 2003, regardless of the date on which the VIE was created. We do not believe that it is reasonably possible that the adoption of FIN 46 will result in the consolidation of any previously unconsolidated entities.

### 6. DISCONTINUED OPERATIONS

We adopted SFAS No. 144 effective January 1, 2002 which requires, among other things, that the operating results of certain real estate assets which have been sold subsequent to January 1, 2002, or otherwise qualify as held for disposition (as defined by SFAS No. 144), be reflected as discontinued operations in the statements of operations for all periods presented. We sold three wholly-owned operating real estate assets during the first quarter of 2002, one wholly-owned operating real estate asset during the fourth quarter of 2002 and one wholly-owned operating real estate asset during the first quarter of 2003. We retained management of two of the assets sold during the first quarter of 2002. Due to our continuing involvement with the operations of the two assets sold that we retained management of, the operating results of these assets are included in continuing operations. The operating results for the three remaining wholly-owned assets sold during the first and fourth quarters of 2002 and first quarter of 2003 for which we did not retain management are reflected as discontinued operations in the accompanying statements of operations for all periods presented. Interest expense has been allocated to the results of the discontinued operations in accordance with EITF No. 87-24. We had no assets that qualified as held for disposition as defined by SFAS No. 144 at March 31, 2003 or December 31, 2002.

Condensed financial information of the results of operations for the real estate assets sold reflected as discontinued operations is as follows:

	<b>Three Months Ended March 31,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
Total property revenues	\$ 223	\$1,858
Property operating and maintenance expense (exclusive of items shown separately below)	148	726
Real estate asset depreciation and amortization	49	385
Interest expense	<u>36</u>	<u>196</u>
Total expenses	<u>233</u>	<u>1,307</u>
Minority interest of common unitholders in Operating Partnership	<u>2</u>	<u>(108)</u>
Operating income (loss) from discontinued operations, net of minority interest	<u>(8)</u>	<u>443</u>
Gain on disposition of discontinued operations	5,042	2,198
Minority interest of common unitholders in Operating Partnership	<u>(967)</u>	<u>(435)</u>
Gain on disposition of discontinued operations, net of minority interest	<u>4,075</u>	<u>1,763</u>
Income from discontinued operations, net of minority interest	<b><u>\$4,067</u></b>	<b><u>\$2,206</u></b>

### 7. 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 March 31,**

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<i>Basic and diluted income available to common shareholders (numerator):</i>	<b><u>2003</u></b>	<b><u>2002</u></b>
Income from continuing operations (net of preferred dividends) - basic	\$ 5,181	\$ 23,547
Minority interest of common unitholders in Operating Partnership attributable to continuing operations	<u>1,226</u>	<u>5,749</u>
Income from continuing operations (net of preferred dividends)-diluted	<b><u>\$ 6,407</u></b>	<b><u>\$ 29,296</u></b>
Income from discontinued operations, net of minority interest -basic	\$ 4,067	\$ 2,206
Minority interest of common unitholders in Operating Partnership attributable to discontinued operations	<u>965</u>	<u>543</u>
Income from discontinued operations - diluted	<b><u>\$ 5,032</u></b>	<b><u>\$ 2,749</u></b>
Net income available to common shareholders – basic	\$ 9,248	\$ 25,753
Minority interest of common unitholders in Operating Partnership	<u>2,191</u>	<u>6,292</u>
Net income available to common shareholders – diluted	<b><u>\$11,439</u></b>	<b><u>\$32,045</u></b>
<i>Common shares (denominator):</i>		
Average shares outstanding – basic	24,495	24,520
Incremental shares from assumed conversions of:		
Outstanding common Units		
Stock options	5,805	5,985
Other	28	160
Average shares outstanding – diluted	<u>9</u>	<u>5</u>
	<b><u>30,337</u></b>	<b><u>30,670</u></b>

### 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. The operating performance of each of our communities is affected by the supply and demand dynamics within the immediate submarket or neighborhood of the major market that each such community is located in. 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 94% and 93% of our total revenues for the three months ended March 31, 2003 and 2002, 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. Property operating and maintenance expenses represent direct property operating and maintenance expenses as reflected in our accompanying statements of operations and exclude certain expenses included in the determination of net income such as property management and other indirect operating expenses, interest expense and depreciation and amortization expense. These items are excluded from NOI in order to provide results that are more closely related to a property's results of operations. NOI is also used by industry analysts and investors to measure operating performance of our apartment communities. 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 wholly-owned apartment communities included in continuing operations is as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
Total property revenues	\$56,467	\$55,359
Less: Property operating and maintenance expenses	<u>19,769</u>	<u>18,630</u>
Net operating income (NOI)	<b><u>\$36,698</u></b>	<b><u>\$36,729</u></b>

Below is a reconciliation of NOI to income from continuing operations before equity in income of joint ventures, gain on sale and minority interest (this caption in the accompanying statements of operations is the most directly comparable GAAP measure to NOI).

	<b>Three Months Ended March 31,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
Net operating income (NOI)	\$36,698	\$36,729
Less other expenses:		
Real estate asset depreciation and amortization	(13,016)	(11,653)

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Property management – owned	( 1,660)	( 1,957)
Property management – third party	( 1,826)	( 1,677)
Ancillary services	( 1,225)	( 1,471)
Interest expense and credit enhancement fees	(11,479)	(10,119)
Amortization of deferred financing costs	( 424)	( 257)
General and administrative	( 2,333)	( 1,922)
Corporate asset depreciation and amortization	<u>( 342)</u>	<u>( 453)</u>
Total other expenses	<u>(32,305)</u>	<u>(29,509)</u>
Add other revenues:		
Property management revenues	1,849	1,815
Ancillary services revenues	1,873	2,545
Interest income	73	61
Other revenues	<u>46</u>	<u>43</u>
Total other revenues	<u>3,841</u>	<u>4,464</u>
Income from continuing operating before equity in income of joint ventures, gain on sale and minority interest	<b><u>\$8,234</u></b>	<b><u>\$11,684</u></b>

All other measurements for our reportable segment are disclosed in our consolidated financial statements.

We also provide management, development and construction, corporate apartment home and brokerage services to third parties and unconsolidated joint ventures. These operations, on an individual and aggregate basis, do not meet the quantitative thresholds for segment reporting set forth in SFAS No. 131.

### 9. STOCK OPTIONS

Beginning January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, for stock-based employee compensation. Under the prospective method of adoption selected by us, the recognition provisions of SFAS No. 123 apply to all new employee awards granted after December 31, 2002. Prior awards will continue to be accounted for under APB Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost has been recognized since all options have been granted with an exercise price equal to the fair value of our common shares on the date of grant. Had compensation cost on all outstanding and unvested option awards been determined consistent with SFAS No. 123, our net income and earnings per share would have been reduced to the following pro forma amounts:

	<b>Three Months Ended March 31,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
Net income available to common shareholders, as reported	\$9,248	\$25,753
Deduct: Total stock-based employee compensation expense determined under fair value based method for all option awards	<u>(13)</u>	<u>(86)</u>
Net income available to common shareholders, pro forma	<b><u>\$9,235</u></b>	<b><u>\$25,667</u></b>
Earnings Per Share:		
Basic – as reported	\$0.38	\$1.05
Basic – pro forma	\$0.38	\$1.05
Diluted – as reported	\$0.38	\$1.04
Diluted – pro forma	\$0.38	\$1.04

### COMMITMENTS AND CONTINGENCIES

#### *Development and Construction Commitments*

We currently have seven communities under development that are expected to comprise 2,015 apartment homes upon completion and an indirect 20% ownership interest in two development communities that are expected to comprise 373 apartment homes upon completion. The estimated costs to complete the development of these assets total \$127 million at March 31, 2003, including \$1 million of costs that we are obligated to fund for the co-investment development communities. These costs are expected to be initially funded by \$36 million in construction loan proceeds and \$91 million in borrowings under our credit facilities.

We have letter of credit and performance obligations of approximately \$10.7 million related to our wholly-owned development and construction activities. As the related development and construction activities are completed, such obligations will be reduced accordingly.

We are currently serving as general contractor for the construction of four apartment communities for third parties and unconsolidated joint

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ventures under "cost plus a fee" contracts with guaranteed maximum prices on the costs of construction of approximately \$65 million in aggregate. The construction of these assets was 50% complete in aggregate at March 31, 2003. Under these contracts, we are obligated to fund any construction cost overruns that are not recovered through a change order. In addition, we are entitled to a share of the savings generated under these contracts, if any, in the form of an incentive fee. Because our clients are obligated to fund the costs that are incurred on their behalf pursuant to the related contract, we net the reimbursement of these costs against the billings for such costs. Development and construction fees are recognized when earned using the percentage of completion method. During the three months ended March 31, 2003 and 2002, we recognized \$0.6 million and \$0.8 million, respectively, in development and construction fees under related contracts with gross billings of \$11.4 million and \$12.8 million, respectively. Such development and construction fees are included in ancillary services revenues in the accompanying statements of operations.

### *Ground Leases*

We are party to two long-term ground leases for two apartment communities in Austin with initial terms expiring in 2044 and 2065. We have paid the ground lease rent in full for these leases through the initial term. The prepaid lease payments, net of accumulated amortization, are included in other assets, net in the accompanying balance sheets. We are party to long-term ground leases for an apartment community in Atlanta and an apartment community in Austin with initial terms expiring in 2075 and 2069, respectively. The payments under the Atlanta lease and the Austin lease are made on a monthly and quarterly basis, respectively. Future minimum lease payments and rent expense for these ground leases are not material.

### *Joint Venture Indebtedness and Related Recourse Guarantee Obligations*

The apartment community owned and operated by the Arbors of Harbortown JV in which we have a 25% ownership interest is secured by a \$16.4 million tax-exempt bond obligation which bears interest at a low-floater rate. The credit enhancement for the bond obligation is provided by our venture partner and expires in May 2006. The maturity date of the underlying bond issue is April 2013. The bond obligation is recourse to us up to \$1.0 million. The recourse amount is fully cash-collateralized and held by the venture. We have not recorded a liability on our accompanying consolidated balance sheets in connection with this recourse obligation.

The apartment community owned by the Gables Residential Apartment Portfolio JV in which we have a 20% ownership interest is secured by a construction loan which matures in March 2004. As of March 31, 2003, there was \$24.6 million of indebtedness outstanding under this construction loan which currently bears interest at LIBOR plus 1.5%. None of this indebtedness is recourse to us.

Each of the five communities owned by the Gables Residential Apartment Portfolio JV Two is secured by a construction loan. The construction loans have initial maturity dates ranging from April 2004 to June 2005, with various extension options. As of March 31, 2003, there was an aggregate of \$59.1 million of indebtedness outstanding under these construction loans which currently bear interest at spreads over LIBOR ranging from 1.60% to 1.70%. We have a limited repayment guaranty on two of these loans with committed fundings aggregating \$21.3 million. The portion of the outstanding indebtedness under the loans that is recourse to us is \$3.9 million at March 31, 2003 and will be \$6.4 million when the construction loans are fully funded. We have not recorded a liability on our accompanying consolidated balance sheets in connection with this recourse obligation.

Each of the three communities owned by the CMS Tennessee Multifamily JV is secured by a conventional fixed-rate loan with a maturity of January 2011. As of March 31, 2003, there was an aggregate of \$52.0 million of indebtedness outstanding under these loans which bear interest at a rate of 7.22%. None of this indebtedness is recourse to us.

### *Office Leases*

We are party to operating leases for office space with various terms. Future minimum lease payments and rent expense for such leases are not material.

### *Contingencies*

The entities comprising Gables are subject to various legal proceedings and claims that arose in the ordinary course of business. We believe that these matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse effect on our financial statements.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Amounts in Thousands, Except Property and Per Share Data)**

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We are a REIT focused within the multifamily industry in demand-driven markets throughout the United States that have exhibited high job growth and resiliency to economic downturns. Our operating performance is based predominantly on net operating income (NOI) from our apartment communities. NOI, which represents total property revenues less property operating and maintenance expenses (as reflected in the consolidated statements of operations), is affected by the demand and supply dynamics within our markets. See Note 8, Segment Reporting, to the accompanying financial statements for further discussion of our use of NOI as the primary financial measure of performance for our apartment communities. 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 long-term weighted average cost of capital.

### Business Objective and Strategies

Our objective is to increase shareholder value by producing consistent high quality earnings to sustain dividends and annual total returns that exceed the NAREIT Apartment Index. 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 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 operating cash flow performance that exceeds the national average 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 in Established Premium Neighborhoods,™ or EPNs. EPNs are generally characterized as areas with the highest prices for single-family homes on a per square foot basis. We believe that communities, when located in EPNs 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 relative to overall market conditions. 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 apartment 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*® involves 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 generate a return on invested capital that exceeds our long-term weighted average cost of 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 we are well positioned to continue achieving our objectives because (1) the markets we have selected for investment are projected to continue to experience job growth that exceed national averages, (2) our EPN locations are expected to outperform local market results and (3) national demand for apartments is expected to increase during the next ten to fifteen years as the demographic group referred to as the Echo Boomer generation begins to form new households.

Rental rates have declined slightly as a result of national economic weakness, but the execution of our operating tactics have resulted in occupancy levels that have returned to historically high levels. In addition, low mortgage rates have resulted in an increase in home purchases by apartment residents. We expect portfolio-wide property operating and maintenance expenses for 2003 to increase over 2002 at a rate ahead of inflation due primarily to increases in insurance costs and property taxes. In addition, we expect total property revenues on a same-store basis in 2003 to be consistent with, or slightly lower than, 2002 results. We expect that operating fundamentals for our business will improve as job growth improves in our markets. The job growth prospects for our markets are partially related to national economic conditions. It is uncertain whether, and to what extent, the national economy and related job growth will improve in 2003.

Our ongoing evaluation of the fair market value for a specific asset may result in a determination to dispose of the asset. The net proceeds from any such sale may be used to invest in new assets expected to have better growth prospects, reduce indebtedness, repurchase outstanding common shares under our common equity repurchase program, or fund other liquidity needs. We maintain staffing levels sufficient to meet our existing development, construction, acquisition and property operating activities. When market conditions warrant, we adjust staffing levels in an attempt to mitigate a negative impact on our 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 the risk factors set forth under "Certain Factors Affecting Future Operating Results" in

this Item 2 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.

### Common and Preferred Equity Activity

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### *Secondary Common Share Offerings*

Since our initial public offering in January 1994, we have issued a total of 14,831 common shares in eight offerings, generating \$347.8 million 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 May 8, 2003, we issued 3,000 shares of 7.5% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$25.00 per share). The net proceeds from this issuance of approximately \$72.4 million were used to reduce outstanding indebtedness under interim financing vehicles. The Series D Preferred Shares may be redeemed at our option at \$25.00 per share plus accrued and unpaid dividends on or after May 8, 2008. The Series D Preferred Shares are not subject to any sinking fund or convertible into any other Gables securities.

On September 27, 2002, we issued 1,600 shares of 7.875% Series C Cumulative Redeemable Preferred Shares (liquidation preference \$25.00 per share) in a private placement to an institutional investor. The net proceeds from this issuance of \$39.8 million, together with the net proceeds of \$39.8 million from the concurrent issuance of \$40 million of senior unsecured notes, were used to retire approximately \$82.5 million of unsecured indebtedness at an interest rate of 8.3% that was scheduled to mature in December 2002. The Series C Preferred Shares may be redeemed at our option at \$25.00 per share plus accrued and unpaid dividends on or after September 30, 2006. The Series C Preferred Shares are not subject to any sinking fund or 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.

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 million were used to reduce outstanding indebtedness under interim financing vehicles. We redeemed all outstanding Series A Preferred Shares for \$115 million on August 9, 2002 with the proceeds from our \$180 million senior unsecured note issuance on July 8, 2002.

### *Issuances of Common Operating Partnership Units*

Since the IPO, the Operating Partnership has issued a total of 4,421 Units in connection with the 1998 acquisition of the real estate assets and operations of Trammell Crow Residential South Florida, 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 at \$25.00 per Unit plus accrued and unpaid dividends. 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*

Our board of trustees implemented a common equity repurchase program pursuant to which we are authorized to purchase up to \$200 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 March 31, 2003, we had repurchased 4,506 common shares and 300 Units for a total of \$116.0 million, including \$0.2 million in related commissions.

### *Shelf Registration Statement*

We have an effective shelf registration statement on file with the Securities and Exchange Commission which initially provided \$500 million of equity capacity. We currently have \$425 million of this equity capacity remaining following our May 2003 \$75 million preferred equity offering. The debt portion of this shelf registration statement has been fully utilized as a result of our February 2001 and July 2002 senior



unsecured note offerings.

### **Portfolio and Other Financing Activity**

#### *Community Dispositions Subject to Discontinued Operations Reporting*

In February 2003, we sold an apartment community located in Dallas comprising 300 apartment homes. The net proceeds from this sale were \$18.7 million and were used to paydown outstanding borrowings under our interim financing vehicles. The gain from the sale of this community was \$5.0 million, or \$4.1 million, net of the \$0.9 million portion of the gain attributable to the minority interest unitholders.

During 2002, we sold two apartment communities located in Houston comprising 660 apartment homes. The net proceeds from these sales were \$43.2 million and were used to paydown outstanding borrowings under our interim financing vehicles and purchase common shares and Units under our common equity repurchase program. The aggregate gain from the sale of these two communities was \$9.8 million. One of these sales occurred during the three months ended March 31, 2002, resulting in a \$2.2 million gain, or a \$1.8 million gain, net of the \$0.4 million portion of the gain attributable to the minority interest unitholders.

Historical operating results and gains are reflected as discontinued operations in our consolidated statements of operations. See Notes 5 and 6 to the accompanying consolidated financial statements for further discussion.

#### *Community and Land Dispositions Not Subject to Discontinued Operations Reporting*

During 2002, we sold a 13.3 acre parcel of land in Houston that was adjacent to an apartment community sold, an apartment community located in Houston comprising 246 apartment homes and an apartment community located in Atlanta comprising 311 apartment homes. The net proceeds from these sales were \$46.8 million and were used to paydown outstanding borrowings under our interim financing vehicles and purchase common shares and Units under our common equity repurchase program. The gain from the land sale was \$0.8 million and the aggregate gain from the sale of the two communities was \$17.9 million. All of these sale transactions occurred during the three months ended March 31, 2002. In addition, we recognized \$1.3 million of deferred gain during the year ended December 31, 2002 associated with prior year sale transactions, of which \$0.5 million was recognized during the three months ended March 31, 2002.

During 2002, the Gables Residential Apartment Portfolio JV (the "GRAP JV") sold two apartment communities located in South Florida comprising 610 apartment homes, an apartment community in Dallas comprising 222 apartment homes and an apartment community located in Houston comprising 382 apartment homes. Our share of the net sales proceeds after repayment of construction loan indebtedness of \$46.7 million was \$10.7 million, resulting in a gain of \$2.6 million. Two of these sales occurred during the three months ended March 31, 2002, resulting in a \$1.8 million gain to us.

Historical operating results and gains are included in continuing operations in our consolidated statements of operations. See Notes 5 and 6 to the accompanying consolidated financial statements for further discussion.

#### *Community Acquisitions*

On February 20, 2003, we acquired an apartment community located in Austin that is subject to a long-term ground lease and is comprised of 239 apartment homes and 7,366 square feet of retail space for approximately \$30.2 million in cash. The acquisition was financed through borrowings under our interim financing vehicles.

#### *Other Acquisition*

In May 2001, we acquired a property management company based in Washington, D.C. that managed approximately 3,600 units in 24 multifamily apartment communities located in Washington, D.C. and the surrounding area (the "D.C. Management Co."). Our total investment of approximately \$1.6 million was structured to be paid in three installments based on results of the acquired business operations. As of March 31, 2003, we had funded \$1.1 million of the \$1.6 million total investment. The final installment of \$0.5 million is expected to be paid in the second quarter of 2003.

#### *Senior Unsecured Note Issuance*

On September 27, 2002, we issued \$40 million of senior unsecured notes in two series in a private placement to an institutional investor: \$30 million at an interest rate of 5.86% maturing in September 2009 and \$10 million at an interest rate of 6.10% maturing in September 2010. The net proceeds of \$39.8 million, together with the net proceeds of \$39.8 million from the concurrent issuance of the 7.875% Series C Cumulative Redeemable Preferred Shares, were used to retire approximately \$82.5 million of senior unsecured notes at an interest rate of 8.3% that were scheduled to mature in December 2002. We did not incur any prepayment costs in connection with the early debt retirement.

On July 8, 2002, we issued \$180 million of senior unsecured notes which bear interest at a rate of 5.75%, were priced to yield 5.81% and

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mature in July 2007. The net proceeds of \$178 million were used to redeem all outstanding shares of the 8.3% Series A Cumulative Redeemable Preferred Shares totaling \$115 million on August 9, 2002 and to reduce borrowings under our interim financing vehicles.

On February 22, 2001, we issued \$150 million of senior unsecured notes which bear interest at a rate of 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.

### *Debt Refinancing*

In May 2002, we called \$48.4 million of secured tax-exempt bond indebtedness with an interest rate of 6.375% and reissued the bonds on an unsecured basis at a fixed interest rate of 4.75%. In connection with the early extinguishment of the debt, we incurred a prepayment penalty of \$1,451 and wrote-off unamortized deferred financing costs of \$236. Such charges totaling \$1,687 were originally reflected net of minority interest of \$327 as an extraordinary loss in our consolidated statements of operations (See Note 5 to the accompanying consolidated financial statements). The called bonds required monthly principal amortization payments that were retained in an escrow account and were not applied to reduce the outstanding principal balance of the loan. Such principal payments held in escrow totaling \$4,121 were released in May 2002. This refinancing transaction allowed us to improve our debt constant by 2.75%, unencumber six communities comprising 2,028 apartment homes and achieve a positive net present value result.

### **Critical Accounting Policies and Recent Accounting Pronouncements**

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and a summary of our significant accounting policies is included in Notes 4 and 6 to the consolidated financial statements included in our Form 10-K for the year ended December 31, 2002. Notes 5 and 6 to the accompanying consolidated financial statements include a summary of recent accounting pronouncements and their actual or expected impact on our consolidated financial statements. Our preparation of the financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. Our actual results may differ from these estimates. As an owner, operator and developer of apartment communities, our critical accounting policies relate to revenue recognition, cost capitalization and asset impairment evaluation.

### *Revenue Recognition*

*Rental:* We lease our residential properties under operating leases with terms generally equal to one year or less. Rental income is recognized when earned, which materially approximates revenue recognition on a straight-line basis.

*Property management:* We provide property management services to third parties and unconsolidated joint ventures. Property management fees are recognized when earned.

*Ancillary services:* We provide development and construction, corporate rental housing and brokerage services to third parties and unconsolidated joint ventures. Development and construction services are typically provided under "cost plus a fee" contracts. Because our clients are obligated to fund the costs that are incurred on their behalf pursuant to the related contract, we net the reimbursement of these costs against the billings for such costs. Development and construction fees are recognized when earned using the percentage of completion method. During the three months ended March 31, 2003 and 2002, we recognized \$0.6 million and \$0.8 million, respectively, in development and construction fees under related contracts with gross billings of \$11.4 million and \$12.8 million, respectively. Corporate rental housing revenues and brokerage commissions are recognized when earned.

*Gains on sales of real estate assets:* Gains on sales of real estate assets are recognized pursuant to the provisions of SFAS No. 66, "Accounting for Sales of Real Estate." The specific timing of the recognition of the sale and the related gain is measured against the various criteria in SFAS No. 66 related to the terms of the transactions and any continuing involvement associated with the assets sold. To the extent the sales criteria are not met, we defer gain recognition until the sales criteria are met.

### *Cost Capitalization*

As a vertically integrated real estate company, we have in-house investment professionals involved in the development, construction and acquisition of apartment communities. Direct internal costs associated with development and construction activities for wholly-owned assets are included in the capitalized development cost of such assets. Direct internal costs associated with development and construction activities for third parties and unconsolidated joint ventures are reflected in ancillary services expense as the related services are being rendered. As required by GAAP, we expense all internal costs associated with the acquisition of operating apartment communities to general and administrative expense in the period such costs are incurred. We maintain staffing levels sufficient to meet our existing development, construction and acquisition activities. When market conditions warrant, we adjust staffing levels in an attempt to mitigate a negative impact on our results of operations.

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Our real estate development pursuits are subject to obtaining permits and other governmental approvals, as well as our ongoing business review of the underlying real estate fundamentals and the impact on our capital structure. We do not always move forward with development of our real estate pursuits, and therefore, we evaluate the viability of real estate pursuits and the recoverability of capitalized pursuit costs regularly. Based on this periodic review, we expense any costs that are deemed unrealizable at that time to general and administrative expense.

During the development and construction of a new apartment community, we capitalize related interest costs, as well as other carrying costs such as property taxes and insurance. We begin to expense these items as the construction of the community becomes substantially complete and the residential apartment homes become available for initial occupancy. Accordingly, we gradually reduce the amounts we capitalize as construction is being completed. During the lease-up period, as a community transitions from initial occupancy to stabilized occupancy, revenues are generally insufficient to cover interest, carrying costs and operating expenses. The size and duration of this lease-up deficit depends on how quickly construction is completed, how quickly the apartments available for occupancy are leased, and what rent levels are achieved at the community.

### *Asset Impairment Evaluation*

Under GAAP, real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. As noted above, the cost of buildings and improvements includes interest, property taxes, insurance and direct internal development and construction costs incurred during the construction period. Expenditures in excess of \$1 for purchases of a new asset with a useful life in excess of one year and for replacements and repairs that extend the useful life of the asset are capitalized and depreciated over their useful lives. Recurring value retention capital expenditures are typically incurred every year during the life of a community and include such expenditures as carpet, flooring and appliances. Non-recurring capital expenditures are costs that are generally incurred in connection with a major project impacting an entire community, such as roof replacement, parking lot resurfacing, exterior painting and siding replacement. Value-enhancing capital expenditures are costs for which an incremental value is expected to be achieved from increasing the NOI potential for a community or recharacterizing the quality of the income stream with an anticipated reduction in potential sales cap rate for items such as replacement of wood siding with a masonry based hardi-board product, amenity upgrades and additions, installation of security gates and additions of covered parking. Recurring value retention and non-recurring and/or value-enhancing capital expenditures do not include costs incurred in connection with a major renovation of an apartment community. Repairs and maintenance, such as landscaping maintenance, interior painting and cleaning and supplies used in such activities, are expensed as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of 20 to 40 years for buildings and improvements and 5 years for furniture, fixtures and equipment. As required by GAAP, we periodically evaluate our real estate assets to determine if there has been any impairment in their carrying value and record impairment losses if there are indicators of impairment and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amounts. No such impairment losses have been recognized to date.

### *Discontinued Operations*

We adopted SFAS No. 144 effective January 1, 2002 which requires, among other things, that the operating results of certain real estate assets which have been sold subsequent to January 1, 2002, or otherwise qualify as held for disposition (as defined by SFAS No. 144), be reflected as discontinued operations in our consolidated statements of operations for all periods presented. We sold three wholly-owned operating real estate assets during the first quarter of 2002, one wholly-owned operating real estate asset during the fourth quarter of 2002 and one wholly-owned operating real estate asset during the first quarter of 2003. We retained management of two of the assets sold during the first quarter of 2002. Due to our continuing involvement with the operations of the two assets sold that we retained management of, the operating results of these assets are included in continuing operations. The operating results for the three remaining wholly-owned assets sold during the first and fourth quarters of 2002 and the first quarter of 2003 for which we did not retain management are reflected as discontinued operations in our consolidated statements of operations for all periods presented. Interest expense has been allocated to the results of the discontinued operations in accordance with EITF No. 87-24. We had no assets that qualified as held for disposition as defined by SFAS No. 144 at March 31, 2003 or December 31, 2002.

### **Results of Operations**

*Comparison of operating results for the three months ended March 31, 2003 (the "2003 Period") to the three months ended March 31, 2002 (the "2002 Period")*

Our net income is generated primarily from the operation of our apartment communities and the disposition of assets that no longer meet our investment criteria. 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 combined operating performance for all of our wholly-owned apartment communities that are included in continuing operations for the 2003 Period and the 2002 Period is summarized as follows:

### **Three Months Ended March 31,**

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	<u>2003</u>	<u>2002</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Rental and other property revenues:</b>				
Same-store communities (a)	\$46,652	\$47,285	\$ (633)	( 1.3%)
Triple net master lease communities	1,646	1,646	-	-
Communities stabilized in the 2003 Period, but not in the 2002 Period	2,410	1,044	1,366	130.8%
Development and lease-up communities	1,639	624	1,015	162.7%
Renovation communities (b)	3,737	3,862	(125)	(3.2%)
Acquired communities (b)	383	-	383	-
Sold communities (b)	<u>-</u>	<u>898</u>	<u>(898)</u>	<u>(100.0%)</u>
Total property revenues	<u>\$56,467</u>	<u>\$55,359</u>	<u>\$ 1,108</u>	<u>2.0%</u>
<b>Property operating and maintenance expenses (c):</b>				
Same-store communities (a)	\$16,407	\$16,076	\$331	2.1%
Triple net master lease communities	-	-	-	-
Communities stabilized in the 2003 Period, but not in the 2002 Period	964	538	426	79.2%
Development and lease-up communities	762	297	465	156.6%
Renovation communities (b)	1,483	1,443	40	2.8%
Acquired communities (b)	153	-	153	-
Sold communities (b)	<u>-</u>	<u>276</u>	<u>(276)</u>	<u>(100.0%)</u>
Total property operating and maintenance expenses	<u>\$19,769</u>	<u>\$18,630</u>	<u>\$ 1,139</u>	<u>6.1%</u>
<b>Property net operating income (NOI) (d):</b>				
Same-store communities (a)	\$30,245	\$31,209	\$(964)	(3.1%)
Triple net master lease communities	1,646	1,646	-	-
Communities stabilized in the 2003 Period, but not in the 2002 Period	1,446	506	940	185.8%
Development and lease-up communities	877	327	550	168.2%
Renovation communities (b)	2,254	2,419	(165)	(6.8%)
Acquired communities (b)	230	-	230	-
Sold communities (b)	<u>-</u>	<u>622</u>	<u>(622)</u>	<u>(100.0%)</u>
Total property net operating income (NOI)	<u>\$36,698</u>	<u>\$36,729</u>	<u>\$ (31)</u>	<u>(0.1%)</u>
Total property NOI as a percentage of total property revenues	<u>65.0%</u>	<u>66.3%</u>	<u>-</u>	<u>(1.3%)</u>

(a) Communities that were owned and fully stabilized throughout both the 2003 Period and the 2002 Period ("same-store").

(b) Communities that were in renovation, acquired or sold subsequent to January 1, 2002, as applicable.

(c) Represents direct property operating and maintenance expenses as reflected in the accompanying consolidated statements of operations and excludes certain expenses included in the determination of net income such as property management and other indirect operating expenses, interest expense and depreciation and amortization expense.

(d) Calculated as total property revenues less property operating and maintenance expenses (c). See Note 8, Segment Reporting, to the accompanying financial statements for further discussion of our use of NOI as the primary financial measure of our apartment communities. In addition, NOI from this reportable segment is reconciled to the most directly comparable GAAP measure in Note 8.

Total property revenues increased \$1,108, or 2.0%, from \$55,359 to \$56,467 due to an increase in the number of apartment homes resulting from the development and acquisition of additional communities, partially offset by the sale of two apartment communities in the first quarter of 2002, a decrease in same-store performance as a result of national economic weakness, and a decrease in the number of available apartment homes associated with renovation activities at five of our communities.

Property operating and maintenance expenses (as reflected in the consolidated statements of operations) increased \$1,139, or 6.1%, from \$18,630 to \$19,769 due to an increase in the number of apartment homes resulting from the development and acquisition of additional communities, as well as same-store expenses increasing 2.1%. The same-store expense increase is at a rate ahead of inflation due to a significant increase in insurance costs, along with higher marketing costs associated with the current national economic conditions. This increase was offset in part by the sale of two apartment communities in the first quarter of 2002.

Additional information for the 63 same-store apartment communities presented in the preceding table is as follows:

Number of Apartment	% of 2003	Physical Occupancy in	<u>% Change from the 2002 Period to the 2003 Period in</u>
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<u>Market</u>	<u>Homes</u>	<u>Period NOI</u>	<u>the 2003 Period</u>	<u>Occupancy</u>	<u>Revenues</u>	<u>Expenses</u>	<u>NOI</u>
So. Florida	4,377	29.7%	95.4%	0.7%	0.0%	(1.5%)	0.7%
Houston	4,934	26.9%	95.5%	0.9%	1.4%	4.1%	(0.1%)
Atlanta	3,613	18.0%	93.7%	2.0%	(5.6%)	4.0%	(10.2%)
Austin	1,677	11.2%	93.9%	2.8%	(4.4%)	2.7%	(8.1%)
Dallas	1,123	7.7%	95.8%	(0.4%)	(3.3%)	0.8%	(5.5%)
Washington, D.C.	82	1.6%	98.5%	5.2%	9.1%	11.8%	8.1%
Other	<u>1,243</u>	<u>4.9%</u>	<u>90.6%</u>	<u>0.1%</u>	<u>0.8%</u>	<u>1.2%</u>	<u>0.6%</u>
Totals	<u>17,049</u>	<u>100.0%</u>	<u>94.7%</u>	<u>1.2%</u>	<u>(1.3%)</u>	<u>2.1%</u>	<u>(3.1%)</u>

Property management revenues remained steady with a nominal increase of \$34 or 1.9%, from \$1,815 to \$1,849.

Ancillary services revenues decreased \$672 or 26.4%, from \$2,545 to \$1,873 due to a decrease in third-party brokerage services revenue of \$292, a decrease in corporate rental housing revenue of \$200 and a decrease in development and construction fee revenue of \$180. The decrease in brokerage revenues is due to fewer third-party sales in the 2003 Period. The decrease in corporate rental housing revenue is due primarily to a decrease in occupancy rates. The decrease in development and construction fee revenue is comprised of \$108 in revenue from unconsolidated joint ventures and \$72 in revenue from third parties. This decrease is due primarily to a portion of our projects reaching or nearing completion, coupled with fewer new project starts.

Interest income increased \$12, or 19.7%, from \$61 to \$73 due to an increase in interest-bearing deposits, partially offset by a decrease in interest rates.

Real estate asset depreciation and amortization increased \$1,363, or 11.7%, from \$11,653 to \$13,016 due primarily to the impact of the development and acquisition of additional communities and capital improvements made to existing operating communities, offset in part by the impact of the sale of two apartment communities in the first quarter of 2002.

Property management expense for owned communities and third-party properties on a combined basis decreased \$148, or 4.1%, from \$3,634 to \$3,486 due to certain software licensing fees incurred in the 2002 Period, but not the 2003 Period, partially offset by increased support costs and inflationary increases in expenses. We allocate property management expenses to both owned communities and third-party properties based on the proportionate share of total apartment homes owned and units managed.

Ancillary services expense decreased \$246, or 16.7%, from \$1,471 to \$1,225 due primarily to a decrease in development and construction expenses of \$211. The decrease in development and construction expenses is related to a decrease in services rendered as the related projects reach or near construction completion, coupled with fewer new project starts.

Interest expense and credit enhancement fees increased \$1,360, or 13.4%, from \$10,119 to \$11,479. An increase in outstanding indebtedness associated with the redemption of our Series A Preferred Shares and an increase in operating debt associated with the development and acquisition of additional communities was offset in part by a decrease in interest rates for variable-rate borrowings and a decrease in outstanding indebtedness associated with sale activities. In addition, the 2002 refinancings of (1) \$82.5 million of indebtedness that bore interest at a rate of 8.3% with \$40 million of Series C Preferred Shares and \$40 million of senior unsecured notes that bear interest at a weighted average interest rate of 5.9% and (2) \$48.4 million of indebtedness that bore interest at a rate of 6.4% with \$48.4 million of indebtedness that bears interest at a rate of 4.75% have served to reduce interest expense.

Amortization of deferred financing costs increased \$167, or 65.0%, from \$257 to \$424 due primarily to increased financing costs associated with the issuances of \$180 million of senior unsecured notes in July 2002 and \$40 million of senior unsecured notes in September 2002 and the modification of our \$252 million unsecured revolving credit facility in February 2003.

General and administrative expense increased \$411, or 21.4%, from \$1,922 to \$2,333 due primarily to increases in payroll costs, insurance, professional fees and internal acquisition costs associated with the February 2003 acquisition of an operating apartment community.

Corporate asset depreciation and amortization decreased \$111, or 24.5%, from \$453 to \$342 due primarily to a non-recurring adjustment recorded to depreciation in the 2003 Period.

Equity in income of joint ventures decreased \$1,793, or 95.0%, from \$1,888 to \$95 due primarily to the 2002 sales of four apartment communities by the GRAP JV. Two of these sales occurred during the 2002 Period, resulting in the recognition of a \$1,754 gain by us during the 2002 Period.

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Our share of the operating results for the apartment communities owned by the unconsolidated joint ventures in which we have an interest during the 2003 Period and the 2002 Period is as follows:

	2003 Period				<b>Total 2002 Period</b>
	<u>Stabilized</u> (a)	<u>Development &amp; Lease-up</u> (b)	<u>Sales</u> (c)	<u>Total</u>	
<b>Our share of joint venture results:</b>					
Rental and other property revenues	\$ 782	\$ 364	\$ -	\$ 1,146	\$ 1,438
Property operating and maintenance expenses (exclusive of items shown separately below)	( 327)	( 141)	-	( 468)	( 616)
Property net operating income	\$ 455	\$ 223	\$ -	\$ 678	\$ 822
Interest expense and credit enhancement fees	( 151)	( 56)	-	( 207)	( 252)
Amortization of deferred costs	( 5)	( 11)	-	( 16)	( 23)
Other	( 18)	( 2)	-	( 20)	( 11)
Funds from operations	\$ 281	\$ 154	\$ -	\$ 435	\$ 536
Gain on sale of real estate assets	-	-	-	-	1,754
Real estate asset depreciation	( 214)	( 126)	-	( 340)	( 402)
Equity in income of joint ventures	<u>\$ 67</u>	<u>\$ 28</u>	<u>\$ -</u>	<u>\$ 95</u>	<u>\$ 1,888</u>
Number of operating communities	6	3	-	9	11
Number of apartment homes in operating communities	2,084 90%	891 55%	-	2,975 80%	3,618 82%
Average percent occupied during the period					

(a) Communities that were owned and fully stabilized throughout the 2003 Period.

(b) Communities in the development and/or lease-up phase that were not fully stabilized during all or any of the 2003 Period.

(c) Communities that were sold subsequent to January 1, 2003.

Gain on sale of previously depreciated operating real estate assets of \$17,906 in 2002 relates to the sale of two wholly-owned communities comprising 557 apartment homes located in Houston and Atlanta.

Gain on sale of land and development rights of \$1,339 in 2002 is comprised of (1) \$763 associated with the 2002 sale of 13.3 acres of land in Houston, (2) recognition of \$491 in deferred gain associated with the 2001 contribution of land and development rights into the GRAP JV Two and (3) recognition of \$85 of deferred gain associated with a land sale in 2000.

Income from discontinued operations, net of minority interest, increased \$1,861, or 84.4%, from \$2,206 to \$4,067 due primarily to the \$4,075 gain on disposition of discontinued operations, net of minority interest recognized in the 2003 Period, as compared to the \$1,763 gain on disposition of discontinued operations, net of minority interest recognized in the 2002 Period.

Dividends to preferred shareholders decreased \$1,599, or 65.5%, from \$2,443 to \$844 due to the \$115 million redemption of our Series A Preferred Shares in August 2002, offset in part by the \$40 million issuance of our Series C Preferred Shares in September 2002.

### Liquidity and Capital Resources

Net cash provided by operating activities from continuing operations decreased from \$13,406 for the three months ended March 31, 2002 to \$3,352 for the three months ended March 31, 2003 due to (1) a change in other assets between periods of \$6,017, (2) a change in other liabilities between periods of \$2,819 and (3) a decrease of \$2,205 in income from continuing operations (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 and long-term compensation expense and (b) after operating distributions received from joint ventures. Such decreases were offset in part by a change in restricted cash between periods of \$987. Net cash provided by operating activities from discontinued operations decreased from \$936 to \$39 due to the disposition of discontinued operations in 2002 and 2003.

We had \$16,946 of net cash provided by investing activities for the three months ended March 31, 2002 compared to \$34,208 of net cash used in investing activities for the three months ended March 31, 2003. During the three months ended March 31, 2003, we expended \$48,251 related to acquisition, development, construction and renovation expenditures, \$2,469 related to recurring value retention capital expenditures for operating apartment communities, \$1,835 related to non-recurring and/or value-enhancing capital expenditures for operating apartment communities and \$390 related to our investment in joint ventures. During the three months ended March 31, 2003, we received cash of \$18,737 in connection with the disposition of discontinued operations. During the three months ended March 31, 2002, we expended \$21,608 related to acquisition, development, construction and renovation expenditures, \$2,834 related to recurring value retention capital expenditures for operating apartment communities, \$1,648 related to non-recurring and/or value-enhancing capital expenditures for operating apartment

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communities and \$159 related to our investment in joint ventures. In addition, during the three months ended March 31, 2002, \$24,974 of sales proceeds were deposited into escrow to fund development activities. During the three months ended March 31, 2002, we received cash of (1) \$46,803 in connection with the sale of wholly-owned real estate assets, (2) \$15,273 in connection with the disposition of discontinued operations and (3) \$6,093 in connection with our share of the net proceeds from the sale of joint venture real estate assets.

We had \$31,384 of net cash used in financing activities for the three months ended March 31, 2002 compared to \$34,243 of net cash provided by financing activities for the three months ended March 31, 2003. During the three months ended March 31, 2003, we received net proceeds of \$56,299 from net borrowings and we expended (1) \$20,805 in common and preferred dividends and distributions, (2) \$1,120 in deferred financing costs and (3) \$131 of principal escrow payments deposited into escrow, net. During the three months ended March 31, 2002, we expended (1) \$21,954 for common and preferred dividends and distributions, (2) \$14,535 in net repayments of borrowings, (3) principal escrow payments deposited into escrow, net of \$263 and (4) \$231 for Unit redemptions. These payments were offset in part by proceeds from the exercise of share options of \$5,604.

We have elected to be taxed as a REIT under the Internal Revenue Code. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of the REIT's ordinary taxable income to shareholders. It is our current intention to adhere to these requirements and maintain our REIT status. As a REIT, we generally will not be subject to federal income tax on distributed taxable income. We utilize Gables Residential Services, a taxable REIT subsidiary, to provide management and other services to third parties that we, as a REIT, may be prohibited from providing. Taxable REIT subsidiaries are subject to federal, state and local income taxes.

As of March 31, 2003, we had total indebtedness of \$1,014,873, cash and cash equivalents of \$9,707 and principal escrow deposits reflected in restricted cash of \$682. Our indebtedness has an average of 3.7 years to maturity at March 31, 2003.

The aggregate maturities of our notes payable at March 31, 2003 are as follows:

	Regularly Scheduled Principal Amortization <u>Payments</u>	Balloon Principal Payment due at <u>Maturity</u>	<u>Total</u>
2003	\$ 1,389	\$ -	\$ 1,389
2004	1,667	76,759	78,426
2005	1,735	298,672	300,407
2006	1,654	203,240	204,894
2007	1,775	247,898	249,673
2008 and thereafter	<u>14,190</u>	<u>165,894</u>	<u>180,084</u>
	<b><u>\$ 22,410</u></b>	<b><u>\$992,463</u></b>	<b><u>\$1,014,873</u></b>

The indebtedness outstanding under each of our credit facilities totaling \$129,499 at March 31, 2003 is reflected in the preceding table using the May 2005 maturity date of our \$252 million credit facility. Outstanding indebtedness for each tax-exempt bond issue is reflected in the preceding table using the earlier of the related bond maturity date or the bond enhancement facility maturity date, as applicable. As noted previously, the \$72.4 million of net proceeds from the issuance of our Series D Preferred Shares on May 8, 2003 were used to paydown outstanding borrowings under our credit facilities.

Our common and preferred dividends historically have been paid from cash provided by recurring real estate activities. We anticipate that such dividends will continue to be paid from cash provided by recurring real estate activities that include both operating activities and asset disposition activities when evaluated over a twelve-month period. This twelve-month evaluation period is relevant due to the timing of the payment of certain expense items that are accrued monthly but are paid on a less frequent basis, such as real estate taxes and interest on our senior unsecured notes.

We have met and expect to continue to meet our short-term liquidity requirements through net cash provided by recurring real estate activities. Our net cash from recurring real estate activities 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. Recurring value retention capital expenditures and non-recurring and/or value-enhancing capital expenditures, in addition to monthly principal amortization payments, are also expected to be funded from recurring real estate activities that include both operating and asset disposition activities. We anticipate that acquisition, construction, development and renovation 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, development and renovation 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.

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We currently have seven communities under development that are expected to comprise 2,015 apartment homes upon completion and an indirect 20% ownership interest in two development communities that are expected to comprise 373 apartment homes upon completion. The estimated costs to complete the development of these assets total \$127 million at March 31, 2003, including \$1 million of costs that are obligated to fund for the co-investment development communities. These costs are expected to be initially funded by \$36 million in construction loan proceeds and \$91 million in borrowings under our credit facilities described below.

### *\$252 Million Credit Facility*

In February 2003, we closed a modification to our \$225 million unsecured revolving credit facility provided by a syndicate of banks which, among other things, increased the committed capacity thereunder to \$252 million from \$225 million. We have the option to further increase the capacity under the facility to \$300 million from \$252 million to the extent banks (from the syndicate or otherwise) voluntarily agree to provide the additional commitment. The facility currently has a maturity date of May 2005. Borrowings under the \$252 million facility currently bear interest at our option of LIBOR plus 0.95% or prime minus 0.25%. Such scheduled interest rates may be adjusted up or down based on changes in our senior unsecured credit ratings and our leverage ratios. We may also enter into competitive bid loans with participating banks for up to \$126 million at rates below the scheduled rates. In addition, we pay an annual facility fee currently equal to 0.20% of the \$252 million commitment. In February 2003, approximately \$46 million of letters of credit enhancing approximately \$45 million of tax-exempt variable rate notes payable were reissued under this facility. The total amounts outstanding under the facility and the resulting availability under the facility at March 31, 2003 is as follows:

Committed capacity under the facility	\$252,000
Amounts outstanding under the facility:	
Borrowings	\$80,000
Letters of Credit:	
Tax-exempt bond enhancement	45,820
Other	<u>1,844</u>
Total	<u>127,664</u>
Availability under the facility	<u>\$124,336</u>

### *\$75 Million Borrowing Facility*

We have a \$75 million unsecured borrowing facility with a bank that currently has a maturity date of May 2005. The interest rate and maturity date related to each advance under this facility is agreed to by both parties prior to each advance. We had \$47.4 million in borrowings outstanding under this facility at March 31, 2003 at an interest rate of 1.85%.

### *\$10 Million Credit Facility*

At March 31, 2003, we had \$2.1 million in borrowings outstanding under our \$10 million unsecured revolving credit facility provided by a bank. The facility currently has a maturity date of December 31, 2003 with unlimited one-year extension options. Borrowings under this facility bear interest at the same scheduled interest rates as the \$252 million credit facility.

### *Secured Variable-Rate Construction Loans*

We have committed fundings under four construction-related financing vehicles for two wholly-owned development communities totaling \$43.0 million from a bank. At March 31, 2003, we had drawn approximately \$7.4 million under these vehicles and therefore have approximately \$35.6 million of remaining capacity. Borrowings under these vehicles bear interest at a weighted average rate of 3.24% at March 31, 2003.

### *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 ability to declare and pay dividends. In general, during any fiscal year, the Operating Partnership may only distribute up to 100% of its consolidated income available for distribution (as defined in the related agreement). The applicable debt agreements contain exceptions to these limitations to allow the Operating Partnership to make distributions necessary to (1) allow us to maintain our status as a REIT or (2) distribute 100% of our taxable income at the REIT level. We do not anticipate that this provision will adversely affect the ability of the Operating Partnership to make distributions or our ability to declare dividends under our current dividend policy.

### **Inflation**

Substantially all of the leases at our apartment communities are for a term of one year or less. In the event of significant inflation, this may enable us to realize increased rents upon renewal of existing leases or the beginning of new leases. Short-term leases generally minimize our risk from the adverse effects of inflation, although these leases generally permit residents to leave at the end of the lease term without penalty and



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therefore expose us to the effect of a decline in market rents. In a deflationary rent environment, as is currently being experienced in certain of our markets, we are exposed to declining rents more quickly under these shorter term leases.

### 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," "plan," "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:

- our ability to increase shareholder value by producing consistent high quality earnings to sustain dividends and annual total returns that exceed the NAREIT Apartment Index;
- our ability to create a portfolio of high quality assets in strategically selected markets that are complementary through economic diversity and characterized by high job growth and resiliency to economic downturns;
- the ability of our portfolio to maintain high levels of occupancy and rental rates relative to overall market conditions;
- our ability to generate a return on invested capital that exceeds our long-term weighted average cost of capital while maintaining financial flexibility through a conservative, investment grade credit profile;
- our expectation that the markets we have selected for investment will continue to experience job growth that exceeds national averages, and that our EPN locations will outperform local market results;
- our ability to meet short-term liquidity requirements, including the payment of common and preferred dividends, through net cash provided by recurring real estate activities, and to meet long-term liquidity requirements 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; and
- estimated development and construction costs for our development and lease-up communities, and anticipated construction commencement, completion, lease-up and stabilization dates for these communities.

You should not rely 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, or the performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- national and local economic conditions generally, and the real estate market specifically, including changes in occupancy rates and market rents, a continued deceleration of economic conditions in our markets, and a failure of national and local economic conditions to rebound in a timely manner;
- changes in job growth, household formation and population growth in our markets;
- excess supply of and insufficient demand for apartment communities in our markets;
- competition, which could limit our ability to secure attractive investment opportunities, lease apartment homes or increase or maintain rents;
- the failure to sell apartment communities in a timely manner or on favorable terms;
- uncertainties associated with our development and construction activities, including the failure to obtain zoning and other approvals, actual development and construction costs exceeding our budgeted estimates and construction material defects;
- construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs and reduced rental revenues;
- new debt or equity financing may not be available or may not be available on favorable terms, and 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;
- changes in interest rates;
- cash flow from recurring real estate activities may be insufficient to meet our short-term liquidity requirements, including the payment of common and preferred dividends;
- legislative, regulatory and accounting changes, including changes to laws governing the taxation of REITs or changes in GAAP; and
- potential liability for uninsured losses and environmental contamination.

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.

**Development and Lease-up Communities at March 31, 2003:**

<u>Market</u>	<u>Community</u>	<u>No. of Apt. Homes</u>	<u>Total Budgeted Cost (millions)</u>	<u>Cost to Complete (millions)</u>	<u>Percent at March 31, 2003</u>			<u>Actual or Estimated Quarter of</u>			
					<u>Complete</u>	<u>Leased</u>	<u>Occupied</u>	<u>Constr- uction Start</u>	<u>Initial Occu- pancy.</u>	<u>Constr- uction End</u>	<u>Stab- ilized Occupancy (a)</u>
<b>Wholly-Owned Development/Lease-up Communities:</b>											
Atlanta, GA	Gables Rock Springs II (b)	233	\$25	\$ 15	48%	--	--	2 Q 2002	3 Q 2003	3 Q 2004	4 Q 2004
Austin, TX	Gables Grandview	458	55	36	15%	--	--	1 Q 2003	1 Q 2004	4 Q 2004	2 Q 2005
Dallas, TX	Gables Ellis Street	245	45	2	95%	58%	46%	3 Q 2001	3 Q 2002	3 Q 2003	1 Q 2004
Dallas, TX	Gables State Thomas Ravello	290	48	4	95%	22%	4%	4 Q 2001	1 Q 2003	3 Q 2003	3 Q 2004
Houston, TX	Gables Augusta	312	33	24	9%	--	--	1 Q 2003	1 Q 2004	4 Q 2004	2 Q 2005
South FL	Gables Floresta	311	38	29	5%	--	--	1 Q 2003	1 Q 2004	4 Q 2004	2 Q 2005
Tampa, FL	Gables Beach Park	<u>166</u>	<u>22</u>	<u>16</u>	4%	--	--	1 Q 2003	4 Q 2003	2 Q 2004	3 Q 2004
	<b>Wholly-Owned Totals</b>	<b><u>2,015</u></b>	<b><u>\$266</u></b>	<b><u>\$126</u></b>							
<b>Co-Investment Development/Lease-up Communities (c):</b>											
Tampa, FL	Gables West Park										
	Village II	297	\$ 27	\$ 7	78%	9%	7%	2 Q 2002	1 Q 2003	4 Q 2003	3 Q 2004
Tampa, FL	Gables West Park										
	Village III	<u>76</u>	<u>10</u>	<u>8</u>	--	--	--	3 Q 2003	2 Q 2004	4 Q 2004	1 Q 2005
	<b>Co-Investment Totals</b>	<b><u>373</u></b>	<b><u>\$37</u></b>	<b><u>\$15</u></b> (d)							
<b>Wholly-Owned Completed Communities in Lease-up:</b>											
Atlanta, GA	Gables Paces	80	\$ 23		100%	89%	79%	3 Q 2000	1 Q 2002	2 Q 2002	2 Q 2003
Orlando, FL	Gables North Village	<u>315</u>	<u>44</u>		100%	95%	91%	4 Q 1999	4 Q 2000	2 Q 2002	2 Q 2003
	<b>Wholly-Owned Totals</b>	<b><u>395</u></b>	<b><u>\$67</u></b>								
<b>Co-Investment Completed Communities in Lease-up (c):</b>											
Atlanta	Gables Metropolitan II	<u>274</u>	<u>\$ 32</u>		100%	89%	83%	1 Q 2001	2 Q 2002	4 Q 2002	2 Q 2003

(a) Stabilized occupancy is defined as the earlier to occur of (i) 93% occupancy or (ii) one year after completion of construction.

(b) This community represents the reconstruction of 100 apartment homes previously owned and operated by us into 233 apartment homes.

(c) These communities are owned by the GRAP JV Two, in which we hold an indirect 20% interest.

(d) Construction loan proceeds are expected to fund \$8 million of these costs to complete at March 31, 2003. The remaining costs will be funded by capital contributions to the venture from our 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 and estimated 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.

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Stabilized Communities at March 31, 2003

<u>Community</u>	<u>No. of Apt. Homes</u>	<u>March 31, 2003 Occupancy</u>	<u>March 31, 2003 Scheduled Rent Per</u>	
			<u>Home</u>	<u>Square Foot</u>
<b><u>Atlanta, GA</u></b>				
Briarcliff Gables	104	96%	\$1,082	\$0.87
Buckhead Gables	162	95%	750	0.99
Gables Cityscape	182	93%	877	1.06
Gables Metropolitan I (JV)	435	91%	1,105	0.99
Gables Mill	438	91%	761	0.82
Gables Montclair	183	93%	1,405	0.92
Gables Northcliff	82	95%	1,155	0.74
Gables Rock Springs I	188	95%	1,011	0.91
Gables Vinings	315	94%	950	0.89
Gables Walk	310	95%	985	0.83
Gables Wood Arbor	140	92%	654	0.72
Gables Wood Crossing	268	93%	671	0.70
Gables Wood Glen	380	92%	607	0.61
Gables Wood Knoll	312	96%	681	0.68
Lakes at Indian Creek	603	92%(a)	633	0.69
Roswell Gables I	384	95%	806	0.74
Roswell Gables II	284	95%	806	0.68
Spalding Gables	252	94%	848	0.86
Wildwood Gables	<u>546</u>	<u>92%(a)</u>	<u>857</u>	<u>0.76</u>
<b>Totals/Averages</b>	<b><u>5,568</u></b>	<b><u>93%</u></b>	<b><u>\$ 839</u></b>	<b><u>\$0.80</u></b>

**Houston, TX**

Gables Austin Colony	237	92%	\$ 922	\$0.94
Gables Bradford Place	372	95%	745	0.87
Gables Bradford Pointe	360	95%	654	0.85
Gables Cityscape	252	95%	926	1.09
Gables Citywalk/ Waterford Sq.	317	94%	922	1.14
Gables Edgewater	292	95%	841	0.95
Gables Lions Head	277	94%	769	0.91
Gables Metropolitan Uptown	318	96%	1,018	1.12
Gables Meyer Park I	345	91%	874	1.02
Gables Meyer Park II	296	92%	1,007	1.01
Gables of First Colony	324	94%	950	0.96
Gables Piney Point	246	93%	915	0.99
Gables Pin Oak Green	581	94%	960	0.94
Gables Pin Oak Park	474	92%	994	0.97
Gables Rivercrest I	140	95%	772	0.92
Gables Rivercrest II	140	96%	759	0.90
Gables White Oak (JV)	186	92%	950	1.09
Gables Windmill Landing	<u>259</u>	<u>96%</u>	<u>698</u>	<u>0.81</u>
<b>Totals/Averages</b>	<b><u>5,416</u></b>	<b><u>94%</u></b>	<b><u>\$ 881</u></b>	<b><u>\$0.97</u></b>

Stabilized Communities as of March 31, 2003 (continued)

<u>No. of Apt.</u>	<u>March 31, 2003</u>	<u>March 31, 2003 Scheduled Rent Per</u>
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Actual or Estimated Quarter of

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<u>Community</u>	<u>Homes</u>	<u>Occupancy</u>	<u>Home</u>	<u>Square Foot</u>
<b><u>South FL</u></b>				
Cotton Bay	444	97%	\$732	\$0.74
Gables Boca Place	180	85%	1,053	1.08
Gables Boynton Beach I	252	95%	906	0.76
Gables Boynton Beach II	296	96%	913	0.76
Gables Kings Colony	480	97%	849	0.95
Gables Mizner on the Green	246	90%	1,579	1.25
Gables Palma Vista	189	96%	1,562	1.08
Gables San Michele I	249	92%	1,469	1.10
Gables San Michele II	343	91%	1,437	1.04
Gables San Remo	180	97%	1,259	0.69
Gables Town Colony	172	79%(a)	969	1.13
Gables Town Place	312	96%	854	1.02
Gables Wellington	222	91%	1,021	0.76
Hampton Lakes	300	97%	790	0.75
Hampton Place	368	95%	754	0.79
Mahogany Bay	328	96%	771	0.77
Vinings at Hampton Village	<u>168</u>	<u>95%</u>	<u>828</u>	<u>0.69</u>
<b>Totals/Averages</b>	<b><u>4,729</u></b>	<b><u>94%</u></b>	<b><u>\$1,006</u></b>	<b><u>\$0.89</u></b>
<b><u>Austin, TX</u></b>				
Gables at the Terrace	308	91%	\$993	\$1.05
Gables Barton Creek	160	96%	1,275	1.10
Gables Bluffstone	256	94%	933	0.95
Gables Central Park	273	90%	1,313	1.39
Gables Great Hills	276	94%	770	0.93
Gables Park Mesa	148	93%	1,084	0.99
Gables Town Lake	256	91%	1,270	1.36
Gables West Avenue	<u>239</u>	<u>88%</u>	<u>1,300</u>	<u>1.51</u>
<b>Totals/Averages</b>	<b><u>1,916</u></b>	<b><u>92%</u></b>	<b><u>\$1,104</u></b>	<b><u>\$1.16</u></b>
<b><u>Memphis, TN</u></b>				
Arbors of Harbortown (JV)	345	91%	\$832	\$0.84
Gables Cordova	464	93%	670	0.72
Gables Stonebridge (JV)	<u>500</u>	<u>88%</u>	<u>690</u>	<u>0.78</u>
<b>Totals/Averages</b>	<b><u>1,309</u></b>	<b><u>91%</u></b>	<b><u>\$720</u></b>	<b><u>\$0.78</u></b>
<b><u>Dallas, TX</u></b>				
Gables at Pearl Street	108	94%	\$1,268	\$1.16
Gables CityPlace	232	94%	1,347	1.28
Gables Mirabella	126	90%	1,141	1.25
Gables Spring Park	188	97%	927	0.88
Gables State Thomas Townhomes	177	95%	1,739	1.16
Gables Turtle Creek	150	97%	1,167	1.16
Gables Valley Ranch	<u>319</u>	<u>94%</u>	<u>902</u>	<u>0.88</u>
<b>Totals/Averages</b>	<b><u>1,300</u></b>	<b><u>94%</u></b>	<b><u>\$1,183</u></b>	<b><u>\$1.09</u></b>

Stabilized Communities as of March 31, 2003 (continued)

<u>Community</u>	<u>No. of Apt. Homes</u>	<u>March 31, 2003 Occupancy</u>	<u>Home</u>	<u>March 31, 2003 Scheduled Rent Per Square Foot</u>
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**Nashville, TN**

Brentwood Gables (JV)	254	87%	\$899	\$0.79
Gables Hendersonville (JV)	364	88%	672	0.71
Gables Hickory Hollow I	276	90%	636	0.71
Gables Hickory Hollow II	<u>272</u>	<u>85%</u>	<u>636</u>	<u>0.67</u>
<b>Totals/Averages</b>	<b><u>1,166</u></b>	<b><u>88%</u></b>	<b><u>\$704</u></b>	<b><u>\$0.72</u></b>

**Orlando, FL**

Gables Celebration	231	83%	\$1,091	\$0.94
Gables Chatham Square	448	100%	--(b)	--(b)
The Commons at Little Lake Bryan	<u>280</u>	<u>100%</u>	<u>--(b)</u>	<u>--(b)</u>
<b>Totals/Averages</b>	<b><u>959</u></b>	<b><u>96%</u></b>	<b><u>\$1,091</u></b>	<b><u>\$0.94</u></b>

**Tampa, FL**

Gables West Park Village I (JV)				
<b>Totals/Averages</b>	<u>320</u>	<u>94%</u>	<u>\$1,093</u>	<u>\$0.87</u>
	<b><u>320</u></b>	<b><u>94%</u></b>	<b><u>\$1,093</u></b>	<b><u>\$0.87</u></b>

**Washington D.C.**

Gables Dupont Circle	<u>82</u>	<u>96%</u>	<u>\$2,590</u>	<u>\$2.66</u>
<b>Totals/Averages</b>	<b><u>82</u></b>	<b><u>96%</u></b>	<b><u>\$2,590</u></b>	<b><u>\$2.66</u></b>

<b>Grand Totals/Averages</b>	<b><u>22,765</u></b>	<b><u>93%</u></b>	<b><u>\$927</u></b>	<b><u>\$0.91</u></b>
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- (a) This property is in renovation; therefore, occupancy is based on apartment homes 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.

**Portfolio Indebtedness Summary at March 31, 2003**

<b><u>Type of Indebtedness</u></b>	<b><u>Balance</u></b>	<b><u>Interest Rate (a)</u></b>	<b><u>Total Rate (b)</u></b>	<b><u>Years to Maturity</u></b>
<b>Fixed Rate:</b>	\$ 501,073	6.59%	6.59%	3.68
Unsecured fixed-rate notes	137,047	7.72%	7.72%	5.06
Secured fixed-rate notes	48,365	4.75%	4.75%	1.25
Unsecured tax-exempt fixed-rate loans	<u>20,550</u>	<u>5.89%</u>	<u>6.68%</u>	<u>11.79</u>
Secured tax-exempt fixed-rate loans				
Total fixed-rate indebtedness	<u>\$ 707,035</u>	<u>6.66%</u>	<u>6.69%</u>	<u>4.02</u>
<b>Variable Rate:</b>				
Secured tax-exempt variable-rate loans	\$ 170,955	1.18%	2.17%	3.34
Unsecured variable-rate credit facilities (c)	129,499	1.84%	1.84%	2.12
Secured variable-rate construction loans	<u>7,384</u>	<u>3.24%</u>	<u>3.24%</u>	<u>2.50</u>
Total variable-rate indebtedness	<u>\$ 307,838</u>	<u>1.51%</u>	<u>2.06%</u>	<u>2.81</u>
<b>Total portfolio debt (d), (e)</b>	<b><u>\$1,014,873</u></b>	<b><u>5.10%</u></b>	<b><u>5.28%</u></b>	<b><u>3.65</u></b>

- (a) Interest Rate represents the weighted average interest rate incurred on our indebtedness, exclusive of deferred financing cost amortization and credit enhancement fees, as applicable.  
(b) Total Rate represents the Interest Rate (a) plus credit enhancement fees, as applicable.  
(c) Our credit facilities bear interest at various spreads over LIBOR. For purposes of the years to maturity disclosure, all such indebtedness is presented using the May 2005 maturity date of our \$252,000 unsecured credit facility.  
(d) Interest associated with construction activities is capitalized as a cost of development and does not impact current earnings. The qualifying construction expenditures at March 31, 2003 for purposes of interest capitalization were \$141,643.  
(e) Excludes (i) \$16,350 of tax-exempt bonds related to a joint venture in which we own a 25% interest, (ii) \$83,701 million of indebtedness related to joint ventures in which we own a 20% interest, and (iii) \$51,998 of conventional indebtedness related to a joint venture in which we own an 8.26% interest.

**SUPPLEMENTAL DISCUSSION - Funds From Operations**

Funds from operations ("FFO") is used by industry analysts and investors as a supplemental operating performance measure of an equity real estate investment trust ("REIT"). The Company calculates FFO in accordance with the definition that was adopted by the Board of Governors of

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the National Association of Real Estate Investment Trusts (“NAREIT”). FFO, as defined by NAREIT, represents net income (loss) determined in accordance with generally accepted accounting principles (“GAAP”), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus certain non-cash items, such as real estate asset depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance that excludes historical cost depreciation, among other items, from GAAP net income. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. We generally consider FFO to be a useful measure for reviewing our comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO can help one compare the operating performance of a company’s real estate between periods or as compared to different companies.

FFO presented herein is not necessarily comparable to the FFO of other REITs due to the fact that not all REITs use the NAREIT definition. However, our FFO is comparable to the FFO of REITs that use the NAREIT definition. FFO should not be considered an alternative to net income as an indicator of our operating performance. Additionally, FFO does not represent cash flows from operating, investing or financing activities as defined by GAAP. Refer 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 from net income available to common shareholders (the most directly comparable GAAP measure to FFO) is as follows:

	<b>Three Months Ended March 31,</b>	
	<b><u>2003</u></b>	<b><u>2002</u></b>
Net income available to common shareholders	\$ 9,248	\$25,753
Minority interest of common unitholders in Operating Partnership:		
Continuing operations	1,226	5,749
Discontinued operations	<u>965</u>	<u>543</u>
Total	2,191	6,292
Real estate asset depreciation and amortization:		
Wholly-owned real estate assets - continuing operations	13,016	11,653
Wholly-owned real estate assets - discontinued operations	49	385
Joint venture real estate assets	<u>340</u>	<u>402</u>
Total	13,405	12,440
Gain on sale of previously depreciated operating real estate assets:		
Wholly-owned real estate assets - continuing operations	-	(17,906)
Wholly-owned real estate assets - discontinued operations	(5,042)	(2,198)
Joint venture real estate assets	<u>-</u>	<u>(1,754)</u>
Total	<u>(5,042)</u>	<u>(21,858)</u>
<b>Funds from operations - basic and diluted</b>	<b><u>\$19,802</u></b>	<b><u>\$22,627</u></b>
<b>Average shares and Units outstanding - basic</b>	<b><u>30,300</u></b>	<b><u>30,505</u></b>
<b>Average shares and Units outstanding - diluted</b>	<b><u>30,337</u></b>	<b><u>30,670</u></b>

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our capital structure includes the use of fixed-rate and variable 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 did not have any derivative instruments in place at March 31, 2003 or December 31, 2002.

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We typically refinance maturing debt instruments at then-existing market interest rates and terms, which may be more or less favorable 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, 2002 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, 2002.

### ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As required by new Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within the 90 days prior to the date of this report, we carried out an evaluation under the supervision and with the participation of senior management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. In connection with the new rules, we currently are in the process of further reviewing and documenting our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in internal controls.

None

### Part II - Other Information

- Item 1: Legal Proceedings  
None
- Item 2: Changes in Securities  
During the period commencing on January 1, 2003 and ending on March 31, 2003, we issued to limited partners of the Operating Partnership 10,000 common shares (valued at approximately \$250,300 at the time of issuance) in exchange for 10,000 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
- \* 10.1 Sixth Amended and Restated Agreement of Limited Partnership of the Operating Partnership
  - \* 99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
  - \* 99.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)
- \* Filed herewith
- (b) Reports on Form 8-K  
None

**SIGNATURES**

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

GABLES RESIDENTIAL TRUST

Date: May 14, 2003 /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: May 14, 2003 /s/ Dawn H. Severt

Dawn H. Severt  
Vice President and Chief Accounting  
Officer (Principal Accounting Officer)



**CERTIFICATION PURSUANT TO SECTION 302(a)  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Chris D. Wheeler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gables Residential Trust;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Chris D. Wheeler  
Chris D. Wheeler  
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302(a)  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Marvin R. Banks, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gables Residential Trust;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Marvin R. Banks, Jr.  
Marvin R. Banks, Jr.  
Senior Vice President and Chief Financial Officer