SUMMIT PROPERTIES INC
Form 10-K
March 17, 2003

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002 Commission file number 1-12792

# SUMMIT PROPERTIES INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Maryland**<br>(State or other jurisdiction of incorporation or organization) | **56-1857807**<br>(I.R.S. Employer Identification No.) |
| **309 East Morehead Street**<br>**Suite 200**<br>**Charlotte, North Carolina**<br>(Address of principal executive offices) | **28202**<br>(Zip Code) |

**(704) 334-3000**

(Registrant s telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

| | |
|---|---|
| **Common Stock, par value $.01 per share** | **New York Stock Exchange** |
| **Preferred Stock Purchase Rights** | **New York Stock Exchange** |
| (Title of each class) | (Name of each exchange on which registered) |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes x No o

The aggregate market value of the Registrant s Common Stock, par value $.01 per share, held by nonaffiliates of the Registrant, as of June 28, 2002 was $604,836,848.

The number of shares of the Registrant s Common Stock, par value $.01 per share, outstanding as of March 3, 2003 was 27,028,912.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Registrant s 2003 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K, are incorporated by reference herein as portions of Part III of this Form 10-K.

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# PART I

*This Form 10-K 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. Our actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such a difference are discussed in this report on Form 10-K, including the section entitled Forward-Looking Statements on page 17. Unless the context otherwise requires, all references to we, our or us in this report refer collectively to Summit Properties Inc., a Maryland corporation ( Summit ), and its subsidiaries, including Summit Properties Partnership, L.P., a Delaware limited partnership (the Operating Partnership ), considered as a single enterprise. Summit is the sole general partner of the Operating Partnership.*

## Item 1. *Business*

### Our Company

Summit is a real estate investment trust that focuses on the development, construction, acquisition, and operation of luxury apartment communities. As of December 31, 2002, we owned 51 completed communities comprised of 15,428 apartment homes with an additional 1,206 apartment homes under construction in four new communities. We also own a 25% interest in a joint venture comprised of four completed communities with 1,203 apartment homes. We are a fully integrated organization with multifamily development, construction, acquisition and operation expertise. As of December 31, 2002, we had approximately 500 employees.

We operate throughout the Southeast and Mid-Atlantic states and have chosen to focus our current efforts in five core markets consisting of Atlanta, Charlotte, Raleigh, Southeast Florida and Washington, D.C. While we currently operate in Texas as well, we intend to exit our Texas markets and use the sales proceeds from those communities to increase our presence in the Washington, D.C. and Southeast Florida markets. We have established city operating offices in all of our core markets. These city offices have direct responsibility for development, construction, and management of the communities in their geographic markets. We believe that this decentralized structure provides us with superior local knowledge and experience in each market.

We conduct our business principally through the Operating Partnership of which Summit is the sole general partner and an 88.6% economic owner as of December 31, 2002. Our property management, certain construction, and other businesses are conducted through our subsidiaries, Summit Management Company, a Maryland corporation, and Summit Apartment Builders, Inc., a Florida corporation. Throughout this report, we refer to Summit Management Company as the Management Company and to Summit Apartment Builders, Inc. as the Construction Company.

### Operating Philosophy

We view customer service as one of our key values and seek to provide our residents with experienced, well-trained and attentive management staffs. Utilizing a hiring process known as Success By Selection, we select potential candidates who believe in superior customer service. Once hired, our associates enter into a comprehensive training program called Ask for Action. This training program ensures that our associates have a clear understanding of their job responsibilities, the high standards of performance expected of them, and the importance of excellent customer service. We have also developed several classes focusing on excellence in property management to provide on-going training for our associates and to further enhance associate productivity. We believe that this training regimen, along with the Success by Selection hiring process, has provided a higher quality management staff, evidenced by high resident satisfaction at our communities. We are an unprecedented four-time recipient of the CEL & Associates, Inc. Customer Service Award for Excellence, (from 1998 to 2001). This award is based on survey results of apartment residents throughout the country.

We have long stressed the importance of developing strong customer relationships with our residents. Our commitment to resident satisfaction is evidenced by our Peak Services . Among the many Peak Services are:

a Happiness Guarantee where residents can move from one of our communities without early lease termination charges if they are not satisfied with their home during the first 30 days; Same Day Maintenance Service and Emergency Maintenance available 24 hours a day; Business Services; Package Acceptance and Delivery; Loaner Living Accessories where we provide convenience tools for our residents use; No Nonsense Transfer Policy where residents can easily move from one Summit community to another without incurring many of the additional fees normally associated with such a move; and a free current run Video Library.

**Business and Growth Strategies**

In addition to superior customer service, we have identified four other strategies to create long term value for our stockholders: Disciplined Capital Management; Strategic Market Selection; Decentralized, Fully Integrated Operating Teams; and Sound Risk Management.

*Disciplined Capital Management.* We have determined that currently our most efficient source of capital continues to be contained within our existing portfolio of communities. By disposing of older communities in less desirable locations, and redeploying that capital in new communities in our core markets, we are able to create value in two ways. First, we have historically realized higher returns, on average, from the newer communities where this Recycled Capital has been utilized as compared to the older communities that have provided this capital. Second, this Capital Recycling Program has reduced the average age of the communities in our portfolio to approximately six years. This reduction in average age has resulted in lower maintenance and capital expenditure costs and has allowed us to better adapt our product to constantly changing market demands. Although we anticipate continuing this strategy of reinvesting capital obtained from dispositions into the development of new communities, there can be no assurance that we will be able to complete our disposition strategy, that assets identified for sale can be sold, or sold on satisfactory terms, or that we will be able to locate favorable opportunities for investment in our core markets.

*Strategic Market Selection.* Our goal is to be a market-leading operator of luxury apartment homes in a carefully selected group of core markets. We believe this strategy will improve our financial performance by improving economies of scale, concentrating market knowledge, and increasing brand awareness. We believe employment growth is a critical economic factor which affects apartment occupancy and rental rates. Based on a historical comparison of employment growth in our five core markets versus the U.S. average (excluding our core markets), these markets have typically generated higher job growth over an extended period of time and recovered from economic downturns more quickly.

*Decentralized, Fully Integrated Operating Teams.* We have integrated property management, development, and construction on a local level through our City Team™ concept. Each of the City Teams includes a developer employed by Summit adept at visualizing market opportunities, construction personnel at the Construction Company who specialize in building luxury apartment communities, and management personnel at the Management Company experienced in the marketing, leasing and maintenance of luxury apartment communities. Working within well-understood corporate guidelines under the direction of senior management at our headquarters, these teams operate as autonomous units. We believe this integrated approach will create premium quality communities and increased customer satisfaction.

*Sound Risk Management.* We endeavor to practice sound risk management with respect to our portfolio of communities. Potential developments proposed by the City Teams are vigorously reviewed by a panel of senior management at our headquarters prior to the commitment of significant investment dollars. We believe that this combination of locally generated development opportunities, together with centralized review and assessment, produces a premium quality community with manageable risk.

**Development Program**

Through our City Teams we maintain an active development program which is appropriate for each market. Focusing on development allows us to build premium quality communities and provide returns which generally exceed those achieved on acquired communities.

Although we have historically focused on suburban apartment communities, we have developed, or are currently developing, several communities in downtown areas in our Atlanta, Charlotte, Southeast Florida and Washington, D.C. core markets. These urban-oriented communities will augment our portfolio of primarily suburban communities.

During 2002, we curtailed, and may continue to curtail, our development spending in an effort to increase our financial flexibility in the current economic environment. In 2002, we completed development of four communities, adding 866 apartment homes to our portfolio. These four communities represent a total investment of approximately $129.6 million. The communities completed in 2002 are Summit Shiloh II, Summit Valleybrook, Summit Brookwood and Summit Grand Parc.

We utilize the Construction Company, in addition to third-party general contractors, to build our new communities. Of the 1,206 apartment homes under development as of December 31, 2002, 65% are being built by the Construction Company.

The following provides summary information regarding the four communities under construction as of December 31, 2002 (dollars in thousands):

| Community | Apartment Homes | Total Estimated Costs | Cost To Date | Estimated Cost To Complete | Anticipated Construction Completion |
|---|---|---|---|---|---|
| Summit Roosevelt Washington, D.C. | 198 | $ 49,600 | $ 42,036 | $ 7,564 | Q2 2003 |
| Summit Stockbridge Atlanta, GA | 304 | 23,600 | 18,608 | 4,992 | Q3 2003 |
| Summit Silo Creek Washington, D.C. | 284 | 41,700 | 17,430 | 24,270 | Q2 2004 |
| Summit Las Olas Ft. Lauderdale, FL | 420 | 73,700 | 34,648 | 39,052 | Q3 2005 |
| Other development and construction costs(1) | | | 26,541 | | |
| | 1,206 | $188,600 | $139,263 | $75,878 | |

(1) Consists primarily of land held for development and other predevelopment costs.

As with any development project, there are uncertainties and risks associated with the development of the communities described above. While we have prepared development budgets and have estimated completion and stabilization target dates based on what we believe are reasonable assumptions in light of current conditions, there can be no assurance that actual costs will not exceed current budgets or that we will not experience construction delays due to the unavailability of materials, weather conditions or other events. Similarly, market conditions at the time these communities become available for leasing will affect rental rates and the period of time necessary to achieve stabilization, and could result in achieving stabilization later than currently anticipated. See Management s Discussions and Analysis of Financial Condition and Results of Operations Development Activity beginning on page 17 for a discussion of uncertainties and risks associated with our development program.

**Acquisition and Disposition Program**

While we have emphasized development of new apartment communities, we also have the expertise to capitalize on acquisition opportunities that meet our investment criteria. We believe our City Teams give us an advantage in identifying and underwriting attractive acquisition opportunities. We have acquired more than 9,200 apartment homes since our initial public offering in 1994.

In 2002, elevated purchase prices for acquisitions in the open market would have generally resulted in economic performance for those assets that was unattractive when compared to the potential economic performance of our development program. As a result, we acquired only one community during 2002, representing a total investment of $17.1 million. However, this pricing dynamic also created an opportunity for us to increase our disposition activity, thereby enhancing our Capital Recycling Program, which is dependent on the execution of attractively priced dispositions.

During 2002, we disposed of eight communities for an aggregate sales price of $211.8 million. For the most part, these communities were located outside our core markets and, as such, did not fit into our strategic market selection strategy. The proceeds from certain of these dispositions provided the basis for our Capital Recycling Program.

**Company History**

We were formed in 1993 to continue and expand the multifamily development, construction, acquisition, operation, management and leasing businesses of the predecessor entities through which we historically conducted operations prior to our initial public offering.

The predecessor entities were founded by one of our Co-Chairmen of the Board, William B. McGuire, Jr., in 1972. In 1981, William F. Paulsen joined the predecessor entity as Chief Executive Officer and shepherded the growth of its multifamily development and management activities. We have elected to be treated as a real estate investment trust ( REIT ) for federal income tax purposes. We completed our initial public offering of common stock on February 15, 1994.

We are a Maryland corporation and a self-administered and self-managed REIT. Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol SMT. Our executive offices are located at 309 East Morehead Street, Suite 200, Charlotte, North Carolina 28202. Our telephone number is (704) 334-3000 and our facsimile number is (704) 333-8340. We also maintain offices in Atlanta, Georgia; Austin, Texas; Bethesda, Maryland; Ft. Lauderdale, Florida; and Raleigh, North Carolina.

**2002 Significant Events**

We have a common stock repurchase program, approved by our Board of Directors, pursuant to which we are authorized to purchase up to an aggregate of $56.0 million of currently issued and outstanding shares of our common stock. All repurchases have been, and will be, made on the open market at prevailing prices or in privately negotiated transactions. This authority may be exercised from time to time and in such amounts as market conditions warrant. We repurchased 151,300 shares of our common stock for an aggregate purchase price, including commissions, of $2.7 million, or an average price of $17.62 per share during the year ended December 31, 2002. We repurchased 8,800 shares of our common stock for an aggregate purchase price, including commissions, of $197,000, or an average price of $22.38 per share during the year ended December 31, 2001. We repurchased 279,400 shares of our common stock for an aggregate purchase price, including commissions, of $5.5 million, or an average price of $19.80 per share during the year ended December 31, 2000. Subsequent to December 31, 2002, we have repurchased 422,200 shares of our common stock for an aggregate purchase price, including commissions, of $7.5 million, or an average price of $17.70 per share. As of March 5, 2003, we had $40.1 million remaining available for repurchases under the plan.

We have a non-qualified employee stock purchase plan ( ESPP ) as well as a dividend reinvestment and direct stock purchase plan ( DRIP ). Transactions under the ESPP were suspended effective July 2, 2002. Direct stock purchases under the DRIP were suspended effective October 31, 2002 and dividend reinvestment under the DRIP was suspended effective November 15, 2002. The employee stock purchase plan allowed our employees to purchase up to $25,000 per year of our common stock at a discount of 15%. The dividend reinvestment and direct stock purchase plan provided both new investors and existing holders of our stock with a method to purchase shares of our common stock and the ability for those stockholders to designate all, a portion or none of the cash dividends on shares of our common stock for reinvestment in more shares of our common stock.

In December 2002, we announced our intention to take advantage of the strong sales market that we have been experiencing by exiting our Texas markets, where, relative to our other markets, we lack the size and penetration to operate at maximum efficiency. We currently intend to use sales proceeds from our Texas communities to increase our presence in the Washington, D.C. and Southeast Florida markets.

In December 2002, our Board of Directors approved a reduction of our annual dividend from $1.90 to $1.35 per share. This decision was made in order to bring the dividend in line with the expected cash flow generated by our communities. We intend to continue to make regular quarterly dividends to holders of shares of our common stock. Future dividends will be declared at the discretion of our Board of Directors and will depend on actual cash flow, our financial condition, our capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, and such other factors as our Board of Directors may deem relevant. Our Board of Directors may modify our dividend policy from time to time.

**The Operating Partnership**

The Operating Partnership was formed on January 14, 1994, and is the entity through which principally all of our business is conducted. We control the Operating Partnership as the sole general partner and as the holder of 88.6% of the common units of limited partnership interest in the Operating Partnership as of December 31, 2002. As of December 31, 2002, the Operating Partnership also had outstanding 3.4 million Series B and 2.2 million Series C Cumulative Perpetual Preferred Units. As the sole general partner of the Operating Partnership, we have the exclusive power to manage and conduct the business of the Operating Partnership, subject to certain voting rights of holders of units of limited partnership interest. Subject to the rights and preferences of the outstanding preferred units, our general and limited partnership interests in the Operating Partnership as of December 31, 2002, entitled us to share in 88.6% of the cash distributions from, and in the profits and losses of, the Operating Partnership.

Each common unit may be redeemed by the holder for cash equal to the fair market value of a share of our common stock or, at the election of the Operating Partnership, one share of our common stock, subject to adjustment. The Operating Partnership presently determines on a case-by-case basis whether to cause us to issue shares of common stock in connection with a redemption of common units rather than paying cash. With each redemption of common units for common stock, our percentage ownership interest in the Operating Partnership will increase. Similarly, when we acquire a share of common stock under our common stock repurchase program or otherwise, we simultaneously dispose of one common unit of the Operating Partnership. In addition, whenever we issue shares of common stock for cash, we will contribute any resulting net proceeds to the Operating Partnership and the Operating Partnership will issue an equivalent number of common units to us.

The Operating Partnership cannot be terminated, except in connection with a sale of all or substantially all of our assets, for a period of 99 years from the date of formation without a vote of the limited partners of the Operating Partnership.

**Competition**

Within each market, our communities compete directly with other rental apartments, condominiums and single-family homes that are available for rent or sale. These housing alternatives could adversely affect our ability to lease apartment homes, and increase or maintain our rents. In addition, various entities, including insurance companies, pension and investment funds, partnerships, investment companies and other multifamily REITs, compete with us for the acquisition of existing communities and the development of new communities, some of which may have greater resources than us. We compete against these firms and other housing alternatives by stressing customer service, market presence, product quality and experience.

**Environmental Matters**

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required, in many instances regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at that property. The owner or operator of real estate may be held liable to a governmental entity or to third parties for property damage and for investigation and remediation costs incurred by those parties in connection with the contamination, which may be substantial. The presence of these substances, or the failure to properly remediate the contamination, may adversely affect the owner s ability to borrow against, sell or rent that property. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. In connection with the ownership, operation, management and development of our communities and other real properties, we may be potentially liable for these damages and costs.

Certain federal, state and local laws, ordinances and regulations govern the removal, encapsulation and disturbance of asbestos-containing materials ( ACMs ), when these materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. These laws, ordinances and regulations may impose liability for release of ACMs and may provide for third parties to seek recovery from owners or operators of real properties for personal injury associated with ACMs. In connection with the ownership, operation, management and development of our communities and other real properties, we may be potentially liable for these costs.

Finally, when excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed. Concern about indoor exposure to mold has been increasing as exposure to mold may cause a variety of health effects and symptoms, including severe allergic or other reactions. As a result, the presence of mold at one of our communities could require us to undertake a costly remediation program to contain or remove the mold from the affected community. Such a remediation program could necessitate the temporary relocation of some or all of the community s residents or the complete rehabilitation of the community. In addition, the presence of significant mold could expose us to liability from residents and others if property damage or health concerns arise

Assessments of our communities have not revealed any environmental liability that we believe would have a material adverse effect on our business, assets, financial condition or results of operations, nor are we aware of any other environmental conditions which would have a material adverse effect. It is possible, however, that our assessments do not reveal all environmental liabilities or that there are material environmental liabilities of which we are unaware. Moreover, there can be no assurance that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our communities will not be affected by residents, the condition of land or operations in the vicinity of the communities, such as the presence of underground storage tanks, or third parties unrelated to us. In addition, environmental liabilities could develop at communities sold pursuant to our disposition strategy for which we may have liability.

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We maintain a website on the World Wide Web at www.summitproperties.com. We make available, free of charge, on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. Information contained on our website does not constitute part of this report. Our reports filed with, or furnished to, the SEC are also available on the SEC s website at www.sec.gov.

## Item 2. *Properties*

### Our Communities

As of December 31, 2002, we owned, and operated through the Operating Partnership, 51 completed communities with 15,428 apartment homes. Forty two of the communities were completed after January 1, 1990 and, as of December 31, 2002, the average age of our completed communities was approximately six years. All of our communities target middle to upper income apartment renters as customers and have amenities, apartment home sizes and mixes consistent with the desires of this resident population. We have an additional 1,206 apartment homes under construction, which have not yet begun lease-up. As of December 31, 2002, we also held an ownership interest in four completed communities with 1,203 apartment homes through a joint venture. The following is a summary of the 51 completed communities by market (the table below does not include joint venture communities):

| | Number of Communities | Number of Apartment Homes | % of Total Revenues |
|---|---|---|---|
| Washington, D.C. | 8 | 2,406 | 20% |
| Atlanta, Georgia | 11 | 3,275 | 19% |
| Southeast Florida | 5 | 1,715 | 15% |
| Raleigh, North Carolina | 8 | 2,582 | 14% |
| Charlotte, North Carolina | 9 | 1,901 | 12% |
| Dallas, Texas | 4 | 1,581 | 9% |
| Austin, Texas | 2 | 856 | 5% |
| Orlando, Florida | 2 | 510 | 3% |
| San Antonio, Texas | 1 | 250 | 2% |
| Philadelphia, Pennsylvania | 1 | 352 | 1% |
| | 51 | 15,428 | 100% |

The following table highlights information regarding these 51 completed communities:

| Market Area/Community | Location | Number of Apartments | Year Completed | Average Apartment Size (sq. ft.) | Average Physical Occupancy 2002(1) | Average Physical Occupancy 2001(1) | Average Monthly Rental Revenue 2002(2) | Average Monthly Rental Revenue 2001(2) | Mortgage Notes Payable at December 31, 2002 (in thousands) |
|---|---|---|---|---|---|---|---|---|---|
| FULLY STABILIZED COMMUNITIES(3) | | | | | | | | | |
| ATLANTA | | | | | | | | | |
| Summit Club at Dunwoody | Atlanta, GA | 324 | 1997 | 1,007 | 91.7 | 93.2 | $ 895 | $ 955 | (4) |
| Summit Deer Creek | Atlanta, GA | 292 | 2000 | 1,187 | 90.1 | 89.7 | 915 | 955 | |
| Summit Glen | Atlanta, GA | 242 | 1992 | 983 | 93.6 | 94.9 | 905 | 981 | (4) |
| Summit on the River | Atlanta, GA | 352 | 1997 | 1,103 | 94.3 | 88.5 | 841 | 890 | (4) |
| Summit Shiloh | Atlanta, GA | 182 | 2000 | 1,151 | 95.9 | 93.8 | 868 | 923 | |
| Summit St. Clair | Atlanta, GA | 336 | 1997 | 969 | 93.1 | 92.8 | 994 | 1,045 | (4) |
| Summit Sweetwater | Atlanta, GA | 308 | 2000 | 1,151 | 93.6 | 92.2 | 790 | 867 | |
| ATLANTA WEIGHTED AVERAGE | | 2,036 | | 1,075 | 93.0 | 91.9 | 888 | 946 | |
| CHARLOTTE | | | | | | | | | |
| Summit Ballantyne | Charlotte, NC | 400 | 1998 | 1,053 | 90.9 | 90.4 | 799 | 869 | (4) |
| Summit Crossing | Charlotte, NC | 128 | 1985 | 978 | 92.6 | 92.7 | 639 | 703 | |
| Summit Fairview | Charlotte, NC | 135 | 1983 | 1,036 | 93.3 | 93.5 | 717 | 810 | |
| Summit Foxcroft(5) | Charlotte, NC | 156 | 1979 | 940 | 93.6 | 92.5 | 643 | 695 | $ 6,900 |
| Summit Norcroft | Charlotte, NC | 216 | 1997 | 1,126 | 94.8 | 94.6 | 745 | 781 | |
| Summit Sedgebrook | Charlotte, NC | 368 | 1999 | 1,017 | 94.0 | 92.2 | 693 | 740 | |
| Summit Simsbury | Charlotte, NC | 100 | 1985 | 874 | 94.6 | 92.9 | 717 | 769 | (6) |
| Summit Touchstone | Charlotte, NC | 132 | 1986 | 899 | 95.5 | 96.5 | 678 | 702 | (6) |
| CHARLOTTE WEIGHTED AVERAGE | | 1,635 | | 1,013 | 93.3 | 92.6 | 719 | 774 | |
| ORLANDO | | | | | | | | | |
| Summit Fairways | Orlando, FL | 240 | 1996 | 1,302 | 94.4 | 91.7 | 845 | 864 | |
| Summit Hunter s Creek | Orlando, FL | 270 | 2000 | 1,082 | 94.7 | 94.2 | 812 | 838 | |
| ORLANDO WEIGHTED AVERAGE | | 510 | | 1,186 | 94.6 | 93.1 | 827 | 850 | |
| RALEIGH | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Reunion Park by Summit | Raleigh, NC | 248 | 2000 | 941 | 95.1 | 96.7 | 653 | 705 | |
| Summit Governor s Village | Raleigh, NC | 242 | 1999 | 1,134 | 94.3 | 93.4 | 839 | 860 | |
| Summit Highland | Raleigh, NC | 172 | 1987 | 986 | 95.5 | 95.2 | 656 | 706 | |
| Summit Lake | Raleigh, NC | 446 | 1999 | 1,075 | 93.5 | 95.7 | 773 | 847 | |
| Summit Square | Raleigh, NC | 362 | 1990 | 925 | 91.8 | 94.6 | 709 | 782 | |
| Summit Westwood | Raleigh, NC | 354 | 1999 | 1,112 | 89.6 | 92.7 | 756 | 825 | (4) |
| RALEIGH WEIGHTED AVERAGE | | 1,824 | | 1,034 | 92.9 | 94.7 | 739 | 799 | |
| SOUTHEAST FLORIDA | | | | | | | | | |
| Summit Aventura | Aventura, FL | 379 | 1995 | 1,106 | 94.4 | 94.2 | 1,164 | 1,180 | |
| Summit Del Ray | Delray Beach, FL | 252 | 1993 | 968 | 92.7 | 93.5 | 887 | 937 | (4) |
| Summit Doral | Miami, FL | 260 | 1999 | 1,172 | 96.5 | 97.6 | 1,264 | 1,230 | |
| Summit Plantation | Plantation, FL | 502 | 1997 | 1,152 | 94.4 | 91.7 | 1,072 | 1,128 | (4) |
| Summit Portofino | Broward County, FL | 322 | 1995 | 1,307 | 94.7 | 93.5 | 1,096 | 1,094 | |
| SOUTHEAST FLORIDA WEIGHTED AVERAGE | | 1,715 | | 1,147 | 94.6 | 93.8 | 1,099 | 1,121 | |

| Market Area/Community | Location | Number of Apartments | Year Completed | Average Apartment Size (sq. ft.) | Average Physical Occupancy 2002(1) | Average Physical Occupancy 2001(1) | Average Monthly Rental Revenue 2002(2) | Average Monthly Rental Revenue 2001(2) | Mortgage Notes Payable at December 31, 2002 (in thousands) |
|---|---|---|---|---|---|---|---|---|---|
| WASHINGTON, D.C. | | | | | | | | | |
| Summit Ashburn Farm | Loudon County, VA | 162 | 2000 | 1,061 | 96.0 | 96.6 | 1147 | 1,234 | |
| Summit Belmont | Fredericksburg, VA | 300 | 1987 | 881 | 97.8 | 97.7 | 825 | 790 | (7) |
| Summit Fair Lakes | Fairfax, VA | 530 | 1999 | 996 | 93.5 | 94.7 | 1,300 | 1,381 | 48,340 |
| Summit Fair Oaks | Fairfax, VA | 246 | 1990 | 938 | 93.9 | 94.5 | 1,115 | 1,198 | |
| Summit Largo | Largo, MD | 219 | 2000 | 1,042 | 95.6 | 96.0 | 1,257 | 1,195 | (4) |
| Summit Reston | Reston, VA | 418 | 1987 | 854 | 93.6 | 91.2 | 1,087 | 1,237 | |
| WASHINGTON, D.C. WEIGHTED AVERAGE | | 1,875 | | 949 | 94.7 | 94.7 | 1,135 | 1,196 | |
| DALLAS | | | | | | | | | |
| Summit Belcourt | Dallas, TX | 180 | 1994 | 875 | 96.1 | 91.3 | 1,025 | 1,088 | 9,018 |
| Summit Buena Vista | Dallas, TX | 467 | 1996 | 925 | 93.4 | 91.9 | 847 | 877 | 24,067 |
| Summit Camino Real | Dallas, TX | 712 | 1998 | 860 | 91.6 | 90.9 | 756 | 786 | 15,886 |
| DALLAS WEIGHTED AVERAGE | | 1,359 | | 884 | 92.8 | 91.3 | 823 | 857 | |
| SAN ANTONIO | | | | | | | | | |
| Summit Turtle Rock | San Antonio, TX | 250 | 1995 | 857 | 94.9 | 91.8 | 769 | 798 | 10,214 |
| AUSTIN | | | | | | | | | |
| Summit Arboretum | Austin, TX | 408 | 1996 | 847 | 91.9 | 90.4 | 825 | 918 | 18,796 |
| Summit Las Palmas | Austin, TX | 448 | 1998 | 890 | 89.0 | 87.6 | 830 | 936 | (4) |
| | | 856 | | 870 | 90.4 | 89.0 | 828 | 927 | |
| TOTAL WEIGHTED AVERAGE OF COMMUNITIES STABILIZED IN 2002 AND 2001 | | 12,060 | | 977 | 93.4 | 92.9 | 895 | 946 | |
| STABILIZED DEVELOPMENT COMMUNITIES(8) | | | | | | | | | |
| Summit at Lenox | Atlanta, GA | 431 | 1965 | 963 | 94.7 | 85.9 | 993 | 1,020 | |
| Summit Russett | Laurel, MD | 426 | 2000 | 1,025 | 92.3 | 90.7 | 1,131 | 1,096 | |
| | | 857 | | 994 | 93.5 | 88.3 | 1,062 | 1,078 | |
| ACQUISITION COMMUNITY(9) | | | | | | | | | |
| Summit San Raphael | Dallas, TX | 222 | 1999 | 898 | 93.2 | N/A | 890 | N/A | |
| TOTAL WEIGHTED AVERAGE OF STABILIZED COMMUNITIES | | 13,139 | | 1,014 | 93.4 | 92.6 | 898 | 955 | |
| COMMUNITIES IN LEASE-UP(10) | | | | | | | | | |
| Summit Brookwood(11) | Atlanta, GA | 359 | 2002 | 906 | | | | | |
| Summit Crest | Raleigh, NC | 438 | 2001 | 1,129 | | | | | |
| Summit Grandview(12) | Charlotte, NC | 266 | 2000 | 1,082 | | | | | |
| Summit Grand Parc(13) | Washington, D.C. | 105 | 2002 | 904 | | | | | |
| Summit Overlook | Raleigh, NC | 320 | 2001 | 1,056 | | | | | |
| Summit Peachtree City | Atlanta, GA | 399 | 2001 | 1,026 | | | | | |
| Summit Shiloh II | Atlanta, GA | 50 | 2002 | 1,151 | | | | | |
| Summit Valleybrook | Philadelphia, PA | 352 | 2002 | 992 | | | | | |
| | | 2,289 | | 1,030 | | | | | |
| TOTAL COMMUNITIES | | 15,428 | | 1,017 | | | | | |

(1) Average physical occupancy is defined as the number of apartment homes occupied divided by the total number of apartment homes contained in the communities, expressed as a percentage. Average physical occupancy has been calculated using the average occupancy that existed on Sunday during each week of the period.

(2) Represents the average monthly net rental revenue per occupied apartment home. Average rental revenue is not shown for the periods during which a community was not stabilized.

(3) Communities that reached stabilization (93% physical occupancy) at least one year prior to the beginning of the current year.

(4) Collateral for fixed rate mortgage of $133.9 million.

(5) Summit Foxcroft is held by a partnership in which we are a 75% managing general partner.

(6) Collateral for a fixed rate mortgage of $8.0 million.

(7) Collateral for letters of credit in an aggregate amount of $10.8 million which serve as collateral for $10.6 million in tax exempt bonds.

(8) Communities that were stabilized in 2002 but did not stabilize at least one year prior to the beginning of the current year.

(9) A community which we have acquired is not considered fully stabilized until owned for one year or more as of the beginning of the current year.

(10) Communities that were in lease-up during 2002. As with any community in lease-up, there are uncertainties and risks. While we have estimated stabilization target dates and rental rates based on what we believe are reasonable assumptions in light of current conditions, there can be no assurance that actual rental rates will not be less than current budgets or that we will not experience delays in reaching stabilization of these communities. These communities are each in various stages of lease-up. For lease-up communities, average physical occupancy and average monthly rental revenue information is not meaningful and, therefore, is not presented.

(11) Lessee as of December 31, 2002 under a land lease related to the land on which Summit Brookwood was constructed. We have exercised our purchase option under the land lease to purchase the related land for $10.6 million.

(12) The apartment homes at Summit Grandview stabilized during the fourth quarter of 2001. The information in the table represents data for the apartment homes only. The 75,203 square feet of commercial space at Summit Grandview was 74.7% occupied and leased as of December 31, 2002.

(13) Summit Grand Parc was completed during the fourth quarter of 2002. The information in the table represents data for the apartment homes only. The 13,790 square feet of commercial space at Summit Grand Parc was 71.0% occupied and leased as of December 31, 2002.

Information with respect to total debt secured by 20 of our communities having an aggregate net book value of $398.4 million as of December 31, 2002, is as follows (dollars in thousands):

| | Fixed Rate | Variable Rate |
|---|---|---|
| Total principal | $268,271 | $17,465 |
| Interest rates range from | 6.75% to 8.00% | 2.47% to 3.08%(1) |
| Weighted average interest rate | 6.98% | 3.05%(1) |
| Annual debt service(2) | $ 24,047 | $ 642 |

The aggregate maturities for secured debt as of December 31, 2002 are (in thousands):

| | |
|---|---|
| 2003 | $ 5,722 |
| 2004 | 6,105 |
| 2005 | 47,921 |
| 2006 | 28,422 |
| 2007 | 36,291 |
| Thereafter | 161,275 |
| Total | $285,736 |

(1) Interest rates as of December 31, 2002.

(2) Annual debt service includes interest and principal payments, and for variable rate loans represents 2002 costs including letter of credit fees and other bond related costs.

**Community Management**

Our property management staff operates each of our communities. The management team for each community includes on-site management and maintenance personnel as well as supervision by a regional vice-president and regional property manager, and an off-site support staff. On-site community management teams perform leasing and rent collection functions, maintenance tasks and coordinate resident services. All personnel are extensively trained and are encouraged to continue their education through both internal and outside courses.

**Item 3.** ***Legal Proceedings***

We are not, nor are any of our communities, presently subject to any material litigation nor, to our knowledge, is any litigation threatened against us or any of our communities, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on our business, financial condition or results of operations.

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

No matters were submitted to a vote of our security holders during the fourth quarter of 2002.

# PART II

**Item 5.** ***Market for Registrant s Common Equity and Related Stockholder Matters***
**Market Information and Stockholders**

Our common stock began trading on the NYSE on February 8, 1994 under the symbol SMT. The following table sets forth the quarterly high and low sales prices per share reported on the NYSE during 2002 and 2001:

| | **2002** | | **2001** | |
|---|---|---|---|---|
| **Quarter** | **High** | **Low** | **High** | **Low** |
| January 1 through March 31 | $25.23 | $21.65 | $25.88 | $22.88 |
| April 1 through June 30 | 25.85 | 22.23 | 26.83 | 23.42 |
| July 1 through September 30 | 23.13 | 19.08 | 27.19 | 24.95 |
| October 1 through December 31 | 19.38 | 16.72 | 26.27 | 22.42 |

On March 3, 2003, the last reported sale price of our common stock on the NYSE was $17.69 and there were 1,224 holders of record of 27,028,912 shares of our common stock.

**Dividends**

We declared a dividend of $0.4750 per share of common stock for each of the first through third quarters in 2002, which were paid on May 15, 2002 for the first quarter, August 15, 2002 for the second quarter and November 15, 2002 for the third quarter. We declared a dividend of $0.3375 per share of common stock for the fourth quarter of 2002, which was paid on February 14, 2003.

We declared a dividend of $0.4625 per share of common stock for each of the four quarters in 2001, which were paid on May 15, 2001 for the first quarter, August 15, 2001 for the second quarter, November 15, 2001 for the third quarter and February 15, 2002 for the fourth quarter.

We intend to continue to make regular quarterly dividends to holders of shares of our common stock. Future dividends will be declared at the discretion of our Board of Directors and will depend on actual cash flow, our financial condition, our capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, and such other factors as our Board of Directors may deem relevant. Our Board of Directors may modify our dividend policy from time to time.

**Securities Authorized for Issuance under Equity Compensation Plans**

The following table sets forth information regarding securities authorized for issuance under Summit s equity compensation plans as of December 31, 2002:

**Equity Compensation Plan Information**

| **Plan category** | **Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)** | **Weighted-average exercise price of outstanding options, warrants and rights** | **Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))** |
|---|---|---|---|
| | **(a)** | **(b)** | **(c)** |
| Equity compensation plans approved by security holders(2) | 2,340,197(3) | $20.45(4) | 42,613(5) |
| Equity compensation plans not approved by security holders | | | |

| | | | |
|---|---|---|---|
| Total | 2,340,197 | $20.45 | 42,613 |

(1) Does not include any restricted stock as such shares are already reflected in our outstanding shares of common stock.

(2) Consists of our 1994 Stock Option and Incentive Plan. We also have a non-qualified employee stock purchase plan, but transactions under such plan were suspended effective July 2, 2002.

(3) Includes:

2,018,932 shares subject to stock options outstanding as of December 31, 2002.

227,450 shares that may be issued pursuant to stock award agreements dated February 6, 2002. Under the stock award agreements, certain employees were awarded the opportunity to earn shares of our common stock. The number of shares of common stock to be received by each respective employee is based on the following schedule of dates and percentages: 15% on March 1, 2003; an additional 20% on each of March 1, 2004, 2005 and 2006; and the final 25% on March 1, 2007. The respective employee will receive the applicable number of shares on each date if he or she continues to be employed by us on such date. If an employee is terminated for any reason other than death or disability, his or her right to receive the remaining unacquired shares will terminate. Upon the death or disability of the employee, or upon a change of control, such employee or his or her estate, as the case may be, will be entitled to immediately receive the remaining unacquired shares regardless of the schedule set forth above. The number of shares represents 100% of the shares of common stock that could be potentially issued under the stock award agreements.

93,815 shares that may be issued pursuant to performance stock award agreements dated February 23, 2001. Under the performance stock award agreements, certain employees have the opportunity to earn up to 150% of a target number of performance shares based upon the average annual total return (share appreciation and distributions) of our common stock from January 1, 2001 to December 31, 2003 as compared to the average annual total returns of our peers included in the NAREIT All REIT Index for Apartments during the same period. The number of shares represents 100% of the shares of common stock that could be potentially issued under the performance stock award agreements.

(4) Represents the weighted average exercise price of the outstanding stock options. Does not include information about shares which may be issued under the stock award agreements and performance stock award agreements because such shares do not have an exercise price.

(5) Does not include 74,270 shares of common stock available for future issuance under our non-qualified employee stock purchase plan, as transactions under such plan were suspended effective July 2, 2002.

**Item 6.** ***Selected Financial Data***

The following table sets forth selected consolidated financial and other information on a consolidated historical basis as of and for each of the years in the five-year period ended December 31, 2002. This table should be read in conjunction with our consolidated financial statements and related notes which accompany this report, as well as the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this report (amounts in thousands except per share and property information).

**SELECTED FINANCIAL DATA**

**SUMMIT PROPERTIES INC.**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2002** | **2001** | **2000** | **1999** | **1998** |
| **Operating Information:** | | | | | |
| Revenue | | | | | |
| Rental | $143,791 | $154,167 | $149,855 | $142,002 | $119,060 |
| Interest and other | 13,130 | 14,366 | 15,300 | 12,588 | 7,958 |
| Total | 156,921 | 168,533 | 165,155 | 154,590 | 127,018 |
| Property operating and maintenance expense (before depreciation and amortization) | 55,660 | 55,078 | 51,580 | 50,262 | 44,911 |
| Interest expense | 33,315 | 38,301 | 36,880 | 35,594 | 30,771 |
| Depreciation and amortization | 37,130 | 35,347 | 32,767 | 31,000 | 26,147 |
| General and administrative expense | 6,032 | 6,599 | 4,752 | 3,876 | 3,861 |
| Loss (income) from equity investments | 357 | (277) | 1,178 | 615 | 328 |
| Total | 132,494 | 135,048 | 127,157 | 121,347 | 106,018 |
| Income from continuing operations before gain on sale of real estate assets, impairment loss, extraordinary items, minority interest of unitholders in Operating Partnership and dividends to preferred unitholders in Operating Partnership | 24,427 | 33,485 | 37,998 | 33,243 | 21,000 |
| Gain on sale of real estate assets | 13,831 | 34,435 | 38,510 | 17,427 | 37,148 |
| Gain on sale of real estate assets joint ventures | 4,955 | 271 | | | |
| Impairment loss on technology investments | | (1,217) | | | |
| Income from continuing operations before extraordinary items, minority interest of unitholders in Operating Partnership and dividends to preferred unitholders in Operating Partnership | $ 43,213 | $ 66,974 | $ 76,508 | $ 50,670 | $ 58,148 |
| Net Income | $ 91,688 | $ 56,537 | $ 63,874 | $ 45,745 | $ 56,375 |
| Income from continuing operations per share basic | $ 0.99 | $ 1.77 | $ 2.09 | $ 1.37 | $ 1.97 |

| | | | | | |
|---|---|---|---|---|---|
| Income from continuing operations per share diluted | $ 0.99 | $ 1.75 | $ 2.07 | $ 1.37 | $ 1.97 |
| Income from discontinued operations per share basic | $ 2.36 | $ 0.34 | $ 0.34 | $ 0.28 | $ 0.26 |
| Income from discontinued operations per share diluted | $ 2.34 | $ 0.33 | $ 0.33 | $ 0.28 | $ 0.26 |

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| Net income per share basic | $ 3.35 | $ 2.11 | $ 2.42 | $ 1.65 | $ 2.26 |
| Net income per share diluted | $ 3.33 | $ 2.09 | $ 2.41 | $ 1.65 | $ 2.26 |
| Dividends per share | $ 1.76 | $ 1.85 | $ 1.75 | $ 1.67 | $ 1.63 |
| Weighted average shares outstanding basic | 27,385 | 26,789 | 26,341 | 27,698 | 24,935 |
| Weighted average shares outstanding diluted | 27,556 | 27,099 | 26,542 | 27,769 | 24,944 |
| Weighted average shares and units outstanding basic | 30,937 | 30,796 | 30,697 | 32,135 | 29,141 |
| Weighted average shares and units outstanding diluted | 31,107 | 31,106 | 30,897 | 32,206 | 29,150 |
| **Balance Sheet Information:** | | | | | |
| Real estate, before accumulated depreciation | $ 1,405,189 | $ 1,410,339 | $ 1,428,059 | $ 1,284,818 | $ 1,206,536 |
| Total assets | 1,337,016 | 1,297,442 | 1,340,636 | 1,217,858 | 1,198,664 |
| Total long-term debt | 702,456 | 719,345 | 764,384 | 650,077 | 726,103 |
| Stockholders equity | 396,878 | 349,600 | 338,677 | 327,335 | 358,925 |
| **Other Information:** | | | | | |
| Cash flow provided by (used in): | | | | | |
| Operating activities | $ 58,301 | $ 66,546 | $ 70,968 | $ 59,021 | $ 63,808 |
| Investing activities | (5,590) | 6,177 | (118,197) | (39,751) | (219,170) |
| Financing activities | (52,172) | (74,057) | 46,247 | (17,977) | 154,636 |
| Funds from Operations(1) | $ 60,526 | $ 70,167 | $ 73,342 | $ 70,707 | $ 58,242 |
| Total completed communities (at end of period)(2) | 51 | 54 | 59 | 65 | 66 |
| Total apartment homes developed(3) | 866 | 1,157 | 1,696 | 1,650 | 973 |
| Total apartment homes acquired | 222 | | 490 | | 3,557 |
| Total apartment homes (at end of period)(2) | 15,428 | 16,739 | 17,273 | 16,765 | 16,631 |
| Ratio of earnings to fixed charges(4) | 2.58 | 1.83 | 1.99 | 1.85 | 2.52 |

(1) We consider funds from operations ( FFO ) to be an appropriate measure of performance of an equity REIT. We compute FFO in accordance with standards established by the National Association of Real Estate Investment Trusts ( NAREIT ). FFO, as defined by NAREIT, represents net income (loss) excluding extraordinary items and gains or losses from sales of property, plus depreciation of real estate assets, and after adjustments for unconsolidated partnerships and joint ventures, all determined on a consistent basis in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Our methodology for calculating FFO may differ from the methodology for calculating FFO utilized by other real estate companies, and accordingly, may not be comparable to other real estate companies.

We believe that FFO is helpful to investors as a measure of the performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an understanding of our ability to incur and service debt and to make capital expenditures. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our

cash needs, including our ability to make dividend or distribution payments. FFO is calculated as follows (dollars in thousands):

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| Income before gain on sale of real estate assets, minority interest of common unitholders in Operating Partnership and extraordinary items | $20,126 | $30,190 | $35,676 | $35,635 | $29,327 |
| Real estate depreciation | 40,400 | 39,977 | 37,666 | 35,072 | 28,915 |
| Funds from operations | $60,526 | $70,167 | $73,342 | $70,707 | $58,242 |

(2) Represents the total number of completed communities and apartment homes in those completed communities owned at the end of the period (excludes joint venture communities).

(3) Represents the total number of apartment homes in communities completed during the period and owned at the end of the period (excludes joint venture communities).

(4) The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose, earnings consist of pre-tax income from continuing operations (including gains on sale of real estate) plus fixed charges (excluding capitalized interest). Fixed charges consist of interest expense (whether expensed or capitalized), dividends to preferred unitholders in the Operating Partnership, the estimated interest component of rent expense and the amortization of debt issuance costs. To date, we have not issued any preferred stock; therefore, the ratios of earnings to combined fixed charges and preferred stock dividend requirements are the same as the ratios of earnings to fixed charges presented.

**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

*Unless the context otherwise requires, all references to we, our or us in this report refer collectively to Summit Properties Inc., a Maryland corporation ( Summit ), and its subsidiaries, including Summit Properties Partnership, L.P., a Delaware limited partnership (the Operating Partnership ), considered as a single enterprise. Summit is the sole general partner of the Operating Partnership.*

**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. You can identify forward-looking statements by the use of the words believe, expect, anticipate, intend, estimate, assume and other similar expressions which predict or indicate future events and trends and which do not relate to historical matters. In addition, information concerning the following are forward-looking statements:

the future operating performance of stabilized communities;

expected national and regional economic and real estate market conditions, including the market for sales of real estate assets;

the proposed development, acquisition or disposition of communities, including our strategy to exit our Texas markets and to increase our presence in Washington, D.C. and Southeast Florida;

anticipated construction commencement, completion, lease-up and stabilization dates; and

estimated development costs.

You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

economic conditions generally, and the real estate market specifically, including changes in occupancy rates, market rents and rental rate concessions, the continuing deceleration of economic conditions in our markets, and the 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;

uncertainties associated with our development activities, including the failure to obtain zoning and other approvals, actual development costs exceeding our budgets, and construction material defects;

the failure of acquisition and development communities to yield expected results;

the failure to sell communities marketed for sale, including our Texas communities, or to sell these communities in a timely manner or on favorable terms;

the failure to locate favorable opportunities for investment in our core markets;

construction delays due to the unavailability of materials, weather conditions or other delays;

potential environmental liabilities and related property damages, costs of investigation and remediation and liability to third parties;

competition, which could limit our ability to secure attractive investment opportunities, lease apartment homes or increase or maintain rents;

supply of and demand for apartment communities in our current market areas, especially our core markets;

availability and cost of financing and access to cost-effective capital;

the inability to refinance existing indebtedness or to refinance existing indebtedness on favorable terms;

changes in interest rates;

legislative and regulatory changes, including changes to laws governing the taxation of real estate investment trusts ( REITs );

changes in accounting principles generally accepted in the United States of America ( GAAP ), or policies and guidelines applicable to REITs; and

those factors discussed below and in the sections entitled Results of Operations for the Years Ended December 31, 2002, 2001 and 2000 beginning on page 20 of this report, Operating Performance of our Fully Stabilized Communities beginning on page 23 of this report, Operating Performance of our Communities in Lease Up beginning on page 25 of this report, Factors Affecting the Performance of Our Development Communities beginning on page 38 of this report, and Commitments and Contingencies beginning on page 39 of this report.
Our common unitholders could suffer adverse tax consequences upon the sale of certain of our communities. We may sometimes make strategic decisions that are advantageous transactions for Summit, but may not be in the best interests of our common unitholders, including certain directors.

You should consider these risks and uncertainties in evaluating forward-looking statements and you should not place undue reliance on forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the date of this report. We do not undertake to update these forward-looking statements. You should read the following discussion in conjunction with our consolidated financial statements and related notes which accompany this report.

Summit is a real estate operating company that has elected REIT status and focuses on the operation, development and acquisition of Class A luxury apartment communities located throughout the Southeast and Mid-Atlantic United States, as well as in Texas. We focus our efforts in five core markets, with particular emphasis on Washington, D.C., Southeast Florida and Atlanta, Georgia. Our other core markets are Raleigh-Durham and Charlotte, North Carolina. While we currently operate in Texas as well, we intend to exit our Texas markets and use the sales proceeds from those communities to increase our presence in the Washington, D.C. and Southeast Florida markets. Because we focus on certain core markets, changes in local economic and market conditions in these markets may significantly affect our current operations and future prospects.

**Critical Accounting Policies**

We prepare our financial statements in accordance with GAAP. A summary of our significant accounting policies is disclosed in Note 3 to our consolidated financial statements, which are included in this annual report. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As an owner, operator, developer and acquirer of apartment communities, our critical accounting policies are related to rental revenue recognition, cost capitalization and asset impairment evaluation.

We lease our residential properties under operating leases with terms of generally one year or less. Rental revenue is recognized on the accrual method of accounting as earned, which is not materially different from revenue recognition on a straight-line basis. We lease our office and retail space under operating leases with terms ranging from two to ten years. Rental revenue for office and retail space is recognized on a straight-line basis over the lives of the respective leases. It is our policy to reduce rental revenue by the amount of rent receivable from those residents whose payments are more than 30 days past due following move-out. We have recorded an allowance for uncollectible rent in the accompanying balance sheets for such items.

Expenditures directly related to the acquisition, development and improvement of real estate assets are capitalized at cost as land, buildings and improvements or furniture, fixtures and equipment in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects. Improvements are categorized as either non-recurring or recurring capitalized expenditures. Non-recurring capitalized expenditures primarily consist of the cost of improvements such as new garages, water submeters, gated security access and improvements made in conjunction with renovations of apartment homes. Excluding rehabilitations, recurring capitalized expenditures consist primarily of floor coverings, furniture, appliances and equipment, and exterior paint and carpentry. Repairs and maintenance, such as landscaping maintenance, interior painting and cleaning and supplies used in such activities, are expensed as incurred and we do not accrue for such costs in advance.

We capitalize interest, the cost of our development efforts directly related to apartment construction, and certain operational costs for communities under construction and in lease-up. Interest costs are capitalized in accordance with SFAS No. 34, Capitalization of Interest Cost, based on the ratio of those units available for rental to the total number of units in the community and depreciated over the lives of the constructed assets. We capitalize the cost of our development department efforts to projects currently under construction, currently at a rate of 3.0% of such construction assets. Such costs are then depreciated over the lives of the constructed assets upon their completion. We treat each unit in an apartment community separately for capitalization and expense recognition purposes, resulting in a proration of interest and operational costs in a development community between costs that are capitalized or expensed. As units become available for their intended use, we cease capitalization of interest and operational costs on those units based on the ratio of those units available for rental to the total number of units in the community.

We record our real estate assets at cost less accumulated depreciation and, if there are indications that impairment exists, adjust the carrying value of those assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Assets to be disposed of are recorded at the lower of carrying amount or fair value less cost to sell.

In accordance with SFAS No. 144, we present operating results of communities we consider held for sale, as well as those sold, in discontinued operations in our consolidated statements of earnings prospectively from the date of adoption, which was January 1, 2002. Although the adoption of SFAS No. 144 did not have a material impact on our financial position or results of operations for the year ended December 31, 2002, it did have a significant effect on the comparability of amounts presented from year to year on the consolidated statements of earnings.

**Historical Results of Operations**

Our income from continuing operations is generated primarily from operations of our apartment communities. The changes in operating results from period to period reflect changes in existing community performance and changes in the number of apartment homes due to development, acquisition or disposition of communities. Where appropriate, comparisons are made on a fully stabilized communities, acquisition communities, stabilized development communities, communities in lease-up and disposition communities basis in order to adjust for changes in the number of apartment homes.

A community that we have acquired is deemed fully stabilized when we have owned it for one year or more as of the beginning of the current year. A community that we have developed is deemed fully stabilized when stabilized for at least one year as of the beginning of the current year. A community is deemed to be a stabilized development community when stabilized as of the beginning of the current year but not the entire prior year. We consider a community to be stabilized when it has attained a physical occupancy level of at least 93%. A community in lease-up is defined as one that has commenced rental operations but was not stabilized as of the beginning of the current year. A community s average physical occupancy is defined as the number of apartment homes occupied divided by the total number of apartment homes contained in the community, expressed as a percentage. Average physical occupancy has been calculated using the average of the occupancy that existed on Sunday during each week of the period. Average monthly rental revenue presented represents the average monthly net rental revenue per occupied apartment home. Our methodology for calculating average physical occupancy and average monthly rental revenue may differ from the methodology used by other apartment companies and, accordingly, may not be comparable to other apartment companies.

*Results of Operations for the Years Ended December 31, 2002, 2001 and 2000*

We have experienced weakening apartment fundamentals due to the downturn in the national economy as well as declining economic conditions in our core markets. Local demand for apartment homes has declined due to lower job growth and/or job losses, primary drivers of apartment demand, which has led to lower rental rates and higher concessions in order to achieve increased occupancy rates. Additionally, the favorable interest rate environment has produced record homes sales which, when combined with the slowing economy, has depleted the number of prospective residents. The favorable interest rate environment has also provided the opportunity for developers to continue to add to the supply of apartments in our core markets. Although the current economic environment is unpredictable, we expect these trends to continue in 2003.

Income from continuing operations before gain on sale of real estate assets, impairment loss on investments in technology companies, minority interest of common unitholders in the Operating Partnership, dividends to preferred unitholders in the Operating Partnership and extraordinary items decreased to $24.4 million in 2002 from $33.5 million in 2001. The primary factors causing this decrease are a $12.3 million decrease in property operating income from continuing operations and an increase in depreciation expense of $1.9 million due to the initiation and increase of depreciation on recently developed communities, as well as depreciation on the community acquired during the second half of 2002, offset by the absence of a full year of depreciation on communities sold during 2002 and 2001, all offset by a decrease in interest expense of $5.0 million as a result of decreased average indebtedness outstanding and a decreased average effective interest rate. This same measure decreased to $33.5 million in 2001 from $38.0 million in 2000 primarily due to a $2.2 million increase in depreciation expense, a $2.2 million increase in general and administrative costs primarily as a result of $1.8 million of non-recurring charges related to an increase in costs for abandoned pursuit projects and severance costs associated with senior staff reductions and a $1.4 million increase in interest expense as a result of increased average indebtedness outstanding, all offset by increased property operating income of $1.3 million.

**Operating Performance of our Portfolio of Communities**

We evaluate community performance based on growth of property operating income, which is defined as rental and other property revenues less property operating and maintenance expense. We believe that property operating income is a meaningful measure for an investor s analysis of community performance as it represents the most consistent, comparable operating performance among our communities. Depreciation is a fixed cost not controllable by our property management staff and not all communities are encumbered by financing instruments. Therefore, all property operating and maintenance expense amounts in this Management s Discussion and Analysis section are presented before depreciation, interest and amortization. Property operating income does not include any allocation of corporate overhead. You should not consider property operating income as an alternative to net income (determined in accordance with GAAP) as an indication of our financial performance or as an alternative to cash flows from operating activities (determined in accordance with GAAP), as a measure of our liquidity. Our calculation of property operating income may differ from the methodology and definition used by other apartment companies, and accordingly, may not be comparable to similarly entitled measures used by other apartment companies.

A summary of our apartment homes (excluding joint ventures) for the years ended December 31, 2002, 2001 and 2000 is as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Apartment homes at the beginning of the year | 16,739 | 18,928 | 17,673 |
| Acquisitions | 222 | | 490 |
| Developments which were completed during the year | 866 | | 2,441 |
| Sale of apartment homes | (2,399) | (2,189) | (1,676) |
| Apartment homes at the end of the year | 15,428 | 16,739 | 18,928 |

The operating performance of our communities (excluding joint venture communities) is summarized below (dollars in thousands):

| | Year Ended December 31, | | | Year Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | % Change | 2001 | 2000 | % Change |
| Property revenue: | | | | | | |
| Fully stabilized communities | $127,201 | $133,824 | -4.9% | $104,697 | $103,424 | 1.2% |
| Acquisition communities | 1,111 | | 100.0% | 5,112 | 2,194 | 133.0% |
| Stabilized development communities | 10,672 | 10,349 | 3.1% | 53,905 | 48,581 | 11.0% |
| Communities in lease-up | 16,679 | 8,271 | 101.7% | 14,562 | 4,797 | 203.6% |
| Disposition communities | 18,511 | 38,726 | -52.2% | 12,894 | 26,438 | -51.2% |
| Total property revenue | 174,174 | 191,170 | -8.9% | 191,170 | 185,434 | 3.1% |
| Property operating and maintenance expense: | | | | | | |
| Fully stabilized communities | 45,623 | 44,423 | 2.7% | 35,254 | 33,710 | 4.6% |
| Acquisition communities | 521 | | 100.0% | 1,773 | 687 | 158.1% |
| Stabilized development communities | 3,638 | 3,273 | 11.2% | 16,748 | 14,018 | 19.5% |
| Communities in lease-up | 6,530 | 2,882 | 126.6% | 5,138 | 1,612 | 218.7% |
| Disposition communities | 6,350 | 12,875 | -50.7% | 4,540 | 9,060 | -49.9% |
| Total property operating and maintenance expense | 62,662 | 63,453 | -1.2% | 63,453 | 59,087 | 7.4% |
| Property operating income: | | | | | | |
| Fully stabilized communities | 81,578 | 89,401 | -8.8% | 69,443 | 69,714 | -0.4% |
| Acquisition communities | 590 | | 100.0% | 3,339 | 1,507 | 121.6% |
| Stabilized development communities | 7,034 | 7,076 | -0.6% | 37,157 | 34,563 | 7.5% |
| Communities in lease-up | 10,149 | 5,389 | 88.3% | 9,424 | 3,185 | 195.9% |
| Disposition communities | 12,161 | 25,851 | -53.0% | 8,354 | 17,378 | -51.9% |
| Property operating income | $111,512 | $127,717 | -12.7% | $127,717 | $126,347 | 1.1% |
| Interest and other income | 3,049 | 3,156 | -3.4% | 3,156 | 4,210 | -25.0% |
| Depreciation expense | (39,740) | (39,080) | 1.7% | (39,080) | (36,602) | 6.8% |
| Interest and amortization expense | (35,785) | (41,285) | -13.3% | (41,285) | (39,722) | 3.9% |
| General and administrative expense | (6,133) | (6,958) | -11.9% | (6,958) | (4,752) | 46.4% |
| (Loss) income on equity investments | (357) | 277 | -228.9% | 277 | (1,178) | 123.5% |
| Gain on sale of real estate assets | 83,693 | 34,706 | 141.1% | 34,706 | 38,510 | -9.9% |
| Impairment loss on technology investments | | (1,217) | -100.0% | (1,217) | | 100.0% |
| Minority interest of common unitholders in Operating Partnership | (11,856) | (8,359) | 41.8% | (8,359) | (10,519) | -20.5% |
| Dividends to preferred unitholders in Operating Partnership | (12,420) | (12,420) | 0.0% | (12,420) | (12,420) | 0.0% |
| Extraordinary items, net of minority interest | (275) | | 100.0% | | | 0.0% |
| Net income | $ 91,688 | $ 56,537 | 62.2% | $ 56,537 | $ 63,874 | -11.5% |

**Operating Performance of our Fully Stabilized Communities**

The operating performance of our fully stabilized communities is summarized below (dollars in thousands, except average monthly rental revenue):

| | Year Ended December 31, | | | Year Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | % Change | 2001 | 2000 | % Change |
| Property revenue: | | | | | | |
| Rental | $118,546 | $124,670 | -4.9% | $ 97,607 | $ 96,583 | 1.1% |
| Other | 8,655 | 9,154 | -5.5% | 7,090 | 6,841 | 3.6% |
| Total property revenue | 127,201 | 133,824 | -4.9% | 104,697 | 103,424 | 1.2% |
| Property operating and maintenance expense: | | | | | | |
| Personnel | 9,679 | 9,024 | 7.3% | 6,786 | 6,193 | 9.6% |
| Advertising and promotion | 1,815 | 1,474 | 23.1% | 1,141 | 1,376 | -17.1% |
| Utilities | 5,860 | 6,145 | -4.6% | 4,740 | 4,481 | 5.8% |
| Building repairs and maintenance | 6,190 | 6,259 | -1.1% | 5,014 | 4,855 | 3.3% |
| Real estate taxes and insurance | 16,543 | 15,600 | 6.0% | 12,820 | 12,192 | 5.2% |
| Property supervision | 3,575 | 3,767 | -5.1% | 2,940 | 2,895 | 1.6% |
| Other operating expense | 1,961 | 2,154 | -9.0% | 1,813 | 1,718 | 5.5% |
| Total property operating and maintenance expense | 45,623 | 44,423 | 2.7% | 35,254 | 33,710 | 4.6% |
| Property operating income | $ 81,578 | $ 89,401 | -8.8% | $ 69,443 | $ 69,714 | -0.4% |
| Average physical occupancy | 93.4% | 92.9% | 0.5% | 92.9% | 94.5% | -1.7% |
| Average monthly rental revenue | $ 895 | $ 946 | -5.4% | $ 931 | $ 909 | 2.4% |
| Number of apartment homes | 12,060 | 12,060 | | 9,615 | 9,615 | |
| Number of apartment communities | 40 | 40 | | 37 | 37 | |

Rental and other revenue decreased from 2001 to 2002 due to weakening fundamentals in our markets primarily driven by a decline in job growth and/or an increase in job losses, residents leaving our communities to purchase homes in the low interest rate environment, and the new supply of apartment homes added to our core markets by builders taking advantage of low interest rates. Concessions at our fully stabilized communities increased by $9.4 million, or 81.7%, in 2002 when compared to 2001. The current level of concessions offered to residents in our markets ranges from one to three months of free rent and we expect significant concessions to continue in our core markets in 2003 as we try to maintain elevated occupancy levels.

Property operating and maintenance expense increased by 2.7% from 2001 to 2002 primarily due to an increase in advertising costs, personnel costs and real estate taxes and insurance costs. The increase in advertising costs is primarily due to a 158% increase in fees paid to locator companies for assistance in referring residents to our communities. Personnel costs increased from 2001 to 2002 primarily due to an 11.7% increase in group insurance costs. Real estate taxes and insurance costs increased primarily due to an increase in property liability insurance costs of 64.8%. As a percentage of total property revenue, total property operating and maintenance expenses for our fully stabilized communities increased to 35.9% in 2002 from 33.2% in 2001. We expect that property operating income for our fully stabilized communities will continue to decline in 2003 based on what we believe to be reasonable assumptions as to future economic conditions and the quantity of competitive supply expected in our markets. However, there can be no assurance that actual results will not differ from this assumption, especially due to the unpredictable nature of the current economy.

Rental and other revenue increased by 1.2% from 2000 to 2001 primarily due to higher average rental rates and increased revenue from sources other than rental income, such as water sub-meter income, trash fees and redecorating fees.

Property operating and maintenance expense increased by 4.6% from 2000 to 2001 primarily due to increased personnel costs, utility costs and real estate taxes and insurance, all offset by a decrease in advertising costs. Personnel costs increased from 2000 to 2001 primarily due to a one-time policy change which decreased discounts offered to employees who rent apartment homes at our communities resulting in commensurate increases in those employees salaries. Utility costs increased from 2000 to 2001 primarily as a result of rising gas prices, as well as an increase in vacant utility costs driven by lower occupancy. Real estate tax costs increased as a result of higher assessments for our communities in 2001 over 2000, primarily in Texas. The decrease in advertising costs from 2000 to 2001 is primarily the result of a reduction in media advertising and locator fees. As a percentage of total property revenues, property operating and maintenance expense increased to 33.7% in 2001 from 32.6% in 2000.

**Operating Performance of our Acquisition Communities**

On July 1, 2002, we acquired a stabilized, luxury apartment community in the Galleria sub-market of Dallas, Texas for cash in the amount of $17.7 million. The community, now known as Summit San Raphael, has 222 apartment homes and was constructed in 1999. Acquisition communities for the December 31, 2001 to 2000 comparison consist of Summit Sweetwater and Summit Shiloh (representing a total of 490 apartment homes), both located in Atlanta, Georgia, in each of which we acquired our joint venture partner s 51% interest on August 1, 2000. There were no community acquisitions during 2001. The operating performance of our acquisition communities is summarized below (dollars in thousands except average monthly rental revenue):

| | Year Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2002** | **2001** | **2001** | **2000** |
| Property revenue: | | | | |
| Rental | $1,062 | $ | $4,726 | $2,016 |
| Other | 49 | | 386 | 178 |
| Total property revenue | 1,111 | | 5,112 | 2,194 |
| Property operating and maintenance expense | 521 | | 1,773 | 687 |
| Property operating income | $ 590 | $ | $3,339 | $1,507 |
| Average physical occupancy | 93.2% | | 92.8% | 92.8% |
| Average monthly rental revenue | $ 890 | $ | $ 888 | $ 914 |
| Number of apartment homes | 222 | | 490 | 490 |

**Operating Performance of our Stabilized Development Communities**

The comparison of the years ended December 31, 2002 and 2001 represents two communities with a total of 857 apartment homes (Summit Russett and Summit Lenox) which were stabilized during the entire year ended December 31, 2002, but were stabilized subsequent to January 1, 2001. Summit Lenox is an existing community with 431 apartment homes that underwent major renovations during 2000 and 2001. Its operating results are included in results of stabilized development communities as it reached stabilization after renovation subsequent to January 1, 2001.

The comparison of the years ended December 31, 2001 and 2000 represents 15 communities with a total of 4,668 apartment homes (Summit Ballantyne, Summit Largo, Summit Sedgebrook, Summit Governor s Village, Summit Lake, Summit Westwood, Summit New Albany, Summit Fair Lakes, Summit Hunter s

Creek, Summit Russett I, Summit Doral, Summit Ashburn Farm, Summit Deer Creek, Summit Reunion Park I and Summit Fairview).

The operating performance of our stabilized development communities is summarized below (dollars in thousands except average monthly rental revenue):

| | Year Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2001 | 2000 |
| Property revenue: | | | | |
| Rental | $ 9,950 | $ 9,487 | $50,130 | $45,079 |
| Other | 722 | 862 | 3,775 | 3,502 |
| Total property revenue | 10,672 | 10,349 | 53,905 | 48,581 |
| Property operating and maintenance expense | 3,638 | 3,273 | 16,748 | 14,018 |
| Property operating income | $ 7,034 | $ 7,076 | $37,157 | $34,563 |
| Average physical occupancy | 93.5% | 88.3% | 93.9% | 88.1% |
| Average monthly rental revenue | $ 1,062 | $ 1,078 | $ 966 | $ 897 |
| Number of apartment homes | 857 | 857 | 4,668 | 4,668 |

**Operating Performance of our Communities in Lease-Up**

We had eight communities in lease-up during the year ended December 31, 2002. The following is a summary of the communities in lease-up during 2002 (dollars in thousands):

| Community | Number of Apartment Homes | Total Actual Cost | Actual Construction Completion | Actual/ Anticipated Stabilization | Average Physical Occupancy 2002 | % Leased as of December 31, 2002 |
|---|---|---|---|---|---|---|
| Summit Brookwood Atlanta, GA | 359 | $ 44,524 | Q4 2002 | Q3 2003 | 22.9% | 61.0% |
| Summit Crest Raleigh, NC | 438 | 32,609 | Q3 2001 | Q3 2002 | 84.3% | 94.5% |
| Summit Grand Parc Washington, D.C.(1) | 105 | 43,508 | Q4 2002 | Q3 2003 | 0.0% | 1.9% |
| Summit Grandview Charlotte, NC(2) | 266 | 51,261 | Q4 2000 | Q4 2001 | 90.6% | 91.7% |
| Summit Overlook Raleigh, NC | 320 | 28,697 | Q4 2001 | Q3 2002 | 84.2% | 99.4% |
| Summit Peachtree City Atlanta, GA | 399 | 33,231 | Q3 2001 | Q4 2002 | 70.1% | 77.7% |
| Summit Shiloh II Atlanta, GA | 50 | 4,015 | Q1 2002 | Q2 2002 | 76.3% | 100.0% |
| Summit Valleybrook Philadelphia, PA | 352 | 37,574 | Q4 2002 | Q3 2003 | 31.1% | 58.8% |
| | 2,289 | $275,419 | | | | |

(1) Summit Grand Parc was completed during the fourth quarter of 2002. Stabilization, occupancy and percent leased information in the table above represents data for the apartment homes only. The 13,790 square feet of commercial space at Summit Grand Parc was 71.0% occupied and leased as of December 31, 2002.

(2) The apartment homes at Summit Grandview stabilized during the fourth quarter of 2001. Stabilization, occupancy and percent leased information in the table above represents data for the apartment homes only. The 75,203 square feet of commercial space at Summit Grandview was 74.7% occupied and leased as of December 31, 2002.

The actual stabilization dates for our communities in lease-up may be later than anticipated. The rental rates that we charge also may be less than expected, and we may need to offer rent concessions to the residents.

We had six communities with 1,966 apartment homes in lease-up during the year ended December 31, 2001 (Summit Crest, Summit Grandview, Summit Lenox, Summit Overlook, Summit Peachtree City and Summit Russett II).

The operating performance of our lease-up communities is summarized below (dollars in thousands):

| | Year Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2001 | 2000 |
| Property revenue: | | | | |
| Rental | $15,765 | $7,752 | $13,469 | $4,459 |
| Other | 914 | 519 | 1,093 | 338 |
| Total property revenue | 16,679 | 8,271 | 14,562 | 4,797 |
| Property operating and maintenance expense | 6,530 | 2,882 | 5,138 | 1,612 |
| Property operating income | $10,149 | $5,389 | $ 9,424 | $3,185 |
| Number of apartment homes | 2,289 | 2,289 | 1,966 | 1,966 |

**Operating Performance of our Disposition Communities**

The 2002 disposition communities consist of the former Summit Breckenridge, Summit New Albany, Summit Pike Creek, Summit Stonefield, Summit Meadow, Summit Mayfaire, Summit Sand Lake and Summit Windsor (an aggregate of 2,399 apartment homes), all of which were sold during the year ended December 31, 2002. The disposition of three of these eight communities completed our exit of the Richmond, Virginia, Columbus, Ohio and Newark, Delaware markets.

During the year ended December 31, 2002, a joint venture in which we held a 50% ownership interest sold an apartment community formerly known as The Heights at Cheshire Bridge (318 apartment homes) located in Atlanta, Georgia.

The 2001 disposition communities consist of the former Summit Palm Lake, Summit Arbors, Summit Radbourne, Summit Lofts, Summit Stony Point, Summit Gateway, Summit Deerfield, Summit Waterford and Summit Walk (an aggregate of 2,189 apartment homes), all of which were sold during the year ended December 31, 2001. The 2000 disposition communities consist of the former Summit Creekside, Summit Eastchester, Summit Sherwood, Summit River Crossing, Summit Blue Ash, Summit Park and Summit Village (an aggregate of 1,676 apartment homes), all of which were sold during the year ended December 31, 2000.

The operating performance of the disposition communities (excluding The Heights at Cheshire Bridge) is summarized below (dollars in thousands):

| | Year Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2001 | 2000 |
| Property revenue: | | | | |
| Rental | $17,212 | $35,928 | $11,905 | $24,503 |
| Other | 1,299 | 2,798 | 989 | 1,935 |
| Total property revenue | 18,511 | 38,726 | 12,894 | 26,438 |
| Property operating and maintenance expense | 6,350 | 12,875 | 4,540 | 9,060 |
| Property operating income | $12,161 | $25,851 | $ 8,354 | $17,378 |

| | | | | |
|---|---|---|---|---|
| Number of apartment homes | 2,399 | 4,588 | 2,189 | 3,865 |

On March 5, 2003, we sold Summit Fairways, located in Orlando, Florida, for $18.8 million as part of our strategy to exit our non-core markets. We expect to record a gain on disposition of Summit Fairways.

**Operating Performance of Summit Management Company**

The Operating Partnership owns 1% of the voting stock and 99% of the non-voting stock of Summit Management Company (the Management Company ). The remaining 99% of voting stock and 1% of non-voting stock are held by one of the Co-Chairmen of our Board of Directors. As a result of this stock ownership, the Operating Partnership has a 99% economic interest and the Co-Chairman has a 1% economic interest in the Management Company. Because of our ability to exercise significant influence, the Management Company is accounted for on the equity method of accounting.

The operating performance of the Management Company and its wholly owned subsidiary, Summit Apartment Builders, Inc. (the Construction Company ), is summarized below (dollars in thousands):

| | Year Ended December 31, | | | Year Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | % Change | 2001 | 2000 | % Change |
| Revenues: | | | | | | |
| Management fees charged to Operating Partnership | $6,022 | $ 6,473 | -7.0% | $ 6,473 | $ 5,735 | 12.9% |
| Third party management fee revenue | 787 | 913 | -13.8% | 913 | 1,103 | -17.2% |
| Construction revenue | 2,031 | 2,701 | -24.8% | 2,701 | 2,494 | 8.3% |
| Gain on sale of real estate assets | | | | | 238 | -100.0% |
| Other | 261 | 455 | -42.6% | 455 | 372 | 22.3% |
| Total revenues | 9,101 | 10,542 | -13.7% | 10,542 | 9,942 | 6.0% |
| Expenses: | | | | | | |
| Operating | 8,240 | 9,177 | -10.2% | 9,177 | 9,398 | -2.4% |
| Depreciation | 575 | 319 | 80.3% | 319 | 313 | 1.9% |
| Amortization | 294 | 298 | -1.3% | 298 | 303 | -1.7% |
| Interest | 300 | 300 | 0.0% | 300 | 677 | -55.7% |
| Total expenses | 9,409 | 10,094 | -6.8% | 10,094 | 10,691 | -5.6% |
| (Loss) income before extraordinary items | (308) | 448 | -168.8% | 448 | (749) | 159.8% |
| Extraordinary items | | | | | (30) | 100.0% |
| Net (loss) income | $ (308) | $ 448 | -168.8% | $ 448 | $ (779) | 157.5% |

The decrease in revenue from 2001 to 2002 is primarily due to a 4.9% decline in collections from the Operating Partnership s fully stabilized communities and a $670,000 decrease in construction revenue. All of the construction revenue during the years ended December 31, 2002, 2001 and 2000 was from contracts with the Operating Partnership. Operating expenses decreased at the Management Company primarily due to a reduction in personnel expenses of $769,000 at the Management Company and Construction Company during the year. The decrease in construction revenues and reduction in personnel expenses at the Construction Company were due to the fact that we have curtailed, and may continue to curtail, our development efforts to increase our financial flexibility in the current economic environment.

The increase in revenue from 2000 to 2001 was primarily due to an increase in fees earned from managing our lease-up communities. Operating expenses remained stable in 2001 as compared to 2000, decreasing by only $221,000. In addition, interest expense decreased from 2000 to 2001 due to the repayment of an intercompany loan during 2000.

Third party apartment homes under management were 1,105 in 2002, 1,004 in 2001 and 1,723 in 2000. Property management fees from third parties as a percentage of total property management revenues were 11.6% in 2002, 12.4% in 2001 and 16.1% in 2000.

**Other Income and Expenses**

Interest income increased by $306,000 to $2.6 million in 2002 compared to 2001, primarily due to a preferred return of $375,000 earned on an equity investment in 2002. Interest income decreased by $1.3 million to $2.3 million in 2001 compared to 2000, primarily due to a $1.0 million decrease in interest earned on proceeds from property sales placed in escrow in accordance with like-kind exchange income tax regulations.

Other income decreased by $413,000 to $478,000 in 2002 compared to 2001, and increased by $273,000 to $891,000 in 2001 compared to 2000 primarily as a result of a $325,000 fee received in 2001 in connection with a community that is being developed by a third party developer.

Depreciation expense increased by $1.9 million to $35.8 million in 2002 compared to 2001, primarily due to depreciation expense related to the initiation and increase of depreciation expense related to recently developed communities as well as depreciation on the community acquired during 2002, offset by the absence of a full year of depreciation for the communities sold during 2002 and 2001. Depreciation expense increased by $2.5 million to $33.9 million in 2001 compared to 2000, primarily due to depreciation expense related to the initiation of depreciation on recently developed communities as well as a full year of depreciation on communities acquired during the second half of 2000, partially offset by the absence of a full year of depreciation on communities sold during 2000 and 2001.

Interest expense decreased by $5.0 million to $33.3 million in 2002 compared to 2001 primarily due to a $20.8 million decrease in our average indebtedness outstanding and a decrease in the average effective interest rate of 0.39% (6.62% to 6.23%) in 2002 as compared to 2001. Interest expense increased by $1.4 million to $38.3 million in 2001 compared to 2000 primarily due to an increase of $45.9 million in our average indebtedness outstanding, offset by a decrease in the average effective interest rate of 0.34% (7.04% to 6.70%) in 2001 as compared to 2000.

General and administrative expenses decreased by $825,000 to $6.1 million in 2002 compared to 2001 primarily due to $1.8 million of non-recurring charges related to an increase in the costs of abandoned pursuit projects and severance costs associated with senior staff reductions in our organization during 2001, offset by an increase in professional fees of $449,000 related to the increased cost of doing business as a public company in 2002 when compared to 2001 and an increase in non-cash compensation of $304,000 recorded in 2002 as compared to 2001. Approximately $900,000 of the $1.8 million non-recurring charges in 2001 is related to an increase in the costs of abandoned pursuit projects and approximately $900,000 is related to severance costs associated with senior staff reductions in our organization. As a percentage of total revenues, general and administrative expenses before non-recurring charges were 3.5% in 2002, 3.6% in 2001, and 2.5% in 2000.

The $78.7 million gain on sale of assets in 2002 resulted from the disposition of eight communities. The eight communities were (referred to below using former community names):

| Community | Market |
|---|---|
| Summit Breckenridge | Richmond, VA |
| Summit Mayfaire | Raleigh, NC |
| Summit Meadow | Columbia, MD |
| Summit New Albany | Columbus, OH |
| Summit Pike Creek | Wilmington, DE |
| Summit Sand Lake | Orlando, FL |
| Summit Stonefield | Philadelphia, PA |
| Summit Windsor | Frederick, MD |

The communities disposed of in 2002 were part of our plan to dispose of assets that no longer meet our growth objectives or to make desired changes in the number of apartment homes in each of our core markets. The sale of Summit Breckenridge, Summit New Albany and Summit Pike Creek completed our exit of Richmond, Virginia, Columbus, Ohio and Wilmington, Delaware. We believe that by concentrating our efforts and capital in a limited number of core markets we will gain a competitive advantage as we improve operational efficiencies, build a more significant brand name and improve market knowledge. Also, by disposing of assets that no longer meet our long-term growth objectives, capit