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