

SUMMIT PROPERTIES INC
Form 10-K
March 12, 2004

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, 2003 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 28202
(Address of principal executive offices)

(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 No

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.

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

Yes No

The aggregate market value of the Registrant's Common Stock, par value \$.01 per share, held by nonaffiliates of the Registrant, as of June 30, 2003 was \$519,212,449.

The number of shares of the Registrant's Common Stock, par value \$.01 per share, outstanding as of March 9, 2004 was 31,382,366.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2004 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 35. 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 ("REIT") that focuses on the development, construction, acquisition and operation of luxury apartment communities. As of December 31, 2003, we owned 46 completed communities comprised of 14,098 apartment homes with an additional 1,687 apartment homes under construction in five 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 multi-family development, construction, acquisition, operation portfolio management and capital markets expertise. As of December 31, 2003, we had approximately 450 employees.

We operate throughout the Southeast and Mid-Atlantic states and have chosen to focus on five markets consisting of Washington, D.C., Southeast Florida, Atlanta, Raleigh and Charlotte. We have established city operating offices in all of our 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 a 90.2% economic owner as of December 31, 2003. 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."

Company History

We were formed in 1993 to continue and expand the multi-family 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, shepherded the growth of its multifamily development and management activities and now serves as a Co-Chairmen of our Board of Directors. We have elected to be treated as a REIT for federal income tax purposes. We completed our initial public offering of common stock on February 8, 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 McLean, Virginia, Ft. Lauderdale, Florida, Atlanta, Georgia and Raleigh, North Carolina.

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 90.2% of the common units of limited partnership interest in the Operating Partnership as of December 31, 2003. As of December 31, 2003, the Operating Partnership also had outstanding 2.2 million Series C Cumulative Redeemable 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, 2003, entitled us to share in 90.2% 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, townhomes and detached single-family homes that are available for rent or sale. These housing alternatives could adversely affect our ability to increase or maintain our rents and occupancy. 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 as well as excellence in product location, design and quality.

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 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 any 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 for which we may have liability.

* * * * *

We maintain a website 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 exhibits 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 (the "SEC"). Our reports filed with, or furnished to, the SEC are also available on the SEC's website at www.sec.gov.

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Item 2. Properties

Our Communities

As of December 31, 2003, we owned, and operated through the Operating Partnership, 46 completed communities with 14,098 apartment homes. The average age of our completed communities is approximately six years. All of our communities target middle to upper income apartment residents as customers and have amenities consistent with the desires of this resident population. We have an additional 1,687 apartment homes under construction in five communities. As of December 31, 2003, we also held a 25% ownership interest in four completed communities with 1,203 apartment homes through a joint venture. The following is a summary of the 46 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.	10	3,294	25.1%
Atlanta, Georgia	11	3,579	23.1%
Raleigh, North Carolina	8	2,582	18.9%
Charlotte, North Carolina	9	1,901	15.3%
Southeast Florida	6	2,120	12.9%
Philadelphia, Pennsylvania	1	352	2.8%
Orlando, Florida	1	270	1.9%
	<u>46</u>	<u>14,098</u>	<u>100.0%</u>

The following table highlights information regarding these 46 completed communities:

M a r k e t Area/Community	Location	Number of Apartments	Year Completed	Average Apartment Size (sq. ft.)	Average	Average	Average	Average	Mortgage
					Occupancy (%) 2003 (a)	Occupancy (%) 2002 (a)	Rent per Occupied Home 2003 (b)	Rent per Occupied Home 2002 (b)	Notes Payable at December 31, 2003 (000's)

SAME-PROPERTY
COMMUNITIES (c)

ATLANTA

Summit Club Dunwoody	Atlanta, GA	324	1997	1,007	93.2	91.7	\$ 804	\$ 889	(d)
Summit Deer Creek	Atlanta, GA	292	2000	1,187	88.0	90.1	829	912	-
Summit Glen	Atlanta, GA	242	1992	983	92.0	93.6	781	899	(d)
Summit on the River	Atlanta, GA	352	1997	1,103	92.6	94.3			