HOME PROPERTIES INC
Form 10-K
February 26, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2009

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

COMMISSION FILE NUMBER: 1-13136
HOME PROPERTIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND	16-1455126
(State of incorporation)	(I.R.S. Employer Identification No.)

850 Clinton Square, Rochester, New York 14604
(Address of principal executive offices)(Zip Code)
Registrant's telephone number, including area code: (585) 546-4900

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange

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

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No ¨

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes ¨ No þ

Indicate by checkmark 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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
(The Registrant is not yet required to submit Interactive Data) Yes ¨ No ¨

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K ((§229.405 of this chapter) 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.þ

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ¨ No þ

The aggregate market value of the 32,321,773 shares of common stock held by non-affiliates was $1,102,172,459 based on the closing sale price of $34.10 per share on the New York Stock Exchange on June 30, 2009.

As of February 19, 2010, there were 34,966,801 shares of common stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part Into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders to be held on May 4, 2010	Part III

HOME PROPERTIES, INC.

TABLE OF CONTENTS

		Page
PART I.		
Item 1.	Business	3
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	17
Item 2.	Properties	18
Item 3.	Legal Proceedings	24
Item 4.	Submission of Matters to a Vote of Security Holders	24
Item 4A.	Executive Officers	24
PART II.		
Item 5.	Market for the Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities	26
Item 6.	Selected Financial Data	28
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	51
Item 8.	Financial Statements and Supplementary Data	52
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	52
Item 9A.	Controls and Procedures	52
Item 9B.	Other Information	52
PART III.		
Item 10.	Directors, Executive Officers and Corporate Governance	53
Item 11.	Executive Compensation	53
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters	53
Item 13.	Certain Relationships and Related Transactions, and Director Independence	53
Item 14.	Principal Accounting Fees and Services	53
PART IV.		
Item 15.	Exhibits, Financial Statement Schedules	54

PART I

Forward-Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including in the section entitled "Forward-Looking Statements" on Page 51 of this Form 10-K.

Item 1. Business

The Company

Home Properties, Inc. ("Home Properties" or the "Company") is a self-administered and self-managed real estate investment trust ("REIT") that owns, operates, acquires, develops and rehabilitates apartment communities. The Company's properties are regionally focused, primarily in selected Northeast, Mid-Atlantic and Southeast Florida markets along the East Coast of the United States. The Company was formed in November 1993 to continue and expand the operations of Home Leasing Corporation ("Home Leasing"). The Company completed an initial public offering of 5,408,000 shares of common stock (the "IPO") on August 4, 1994.

The Company conducts its business through Home Properties, L.P. (the "Operating Partnership"), a New York limited partnership and a management company – Home Properties Resident Services, Inc. ("HPRS"), which is a Maryland corporation. At December 31, 2009, the Company held 74.7% (71.7% at December 31, 2008) of the limited partnership units in the Operating Partnership ("UPREIT Units").

Home Properties, through its affiliates described above, as of December 31, 2009, operated 107 communities with 36,947 apartment units. Of these, 35,797 units in 105 communities are owned outright (the "Owned Properties"), 868 units in one community are managed and partially owned by the Company as general partner, and 282 units in one community are managed for other owners (collectively, the "Managed Properties").

The Owned Properties and the Managed Properties (collectively, the "Properties") are concentrated in the following market areas:

Market Area	Apts. Owned	Apts. Managed As General Partner	Apts. Fee Managed	Apt. Totals
Suburban Washington, D.C.	9,333	-	-	9,333
Baltimore, MD	7,814	-	282	8,096
Suburban New York City	6,967	-	-	6,967
Philadelphia, PA	5,603	-	-	5,603
Boston, MA	2,382	-	-	2,382
Chicago, IL	2,242	-	-	2,242
Southeast Florida	836	-	-	836
Portland, ME	620	-	-	620
Columbus, OH	-	868	-	868
Total Number of Units	35,797	868	282	36,947
Total Number of Communities	105	1	1	107

The Company's mission is to maximize long-term shareholder value by acquiring, repositioning, developing and managing market-rate apartment communities while enhancing the quality of life for its residents and providing employees with opportunities for growth and accomplishment. Our vision is to be a prominent owner and manager of market-rate apartment communities, located in selected high barrier, high growth, East Coast markets. The areas we have targeted for growth are the suburbs of Baltimore, Boston, New York City, Philadelphia and Washington, D.C. We expect to maintain or grow portfolios in markets that profitably support our mission as economic conditions permit.

The Company's long-term business strategies include: (i) aggressively managing and improving its communities to achieve increased net operating income; (ii) acquiring additional apartment communities with attractive returns at prices that provide a positive spread over the Company's long-term cost of capital; (iii) developing new apartment communities on raw land, on land adjacent to existing owned communities, and where there are density opportunities to replace existing garden apartments with mid- or high-rise structures; (iv) disposing of properties that have reached their potential, are less efficient to operate, or are located in markets where growth has slowed to a pace below the markets targeted for acquisition; and (v) maintaining a strong and flexible capital structure with cost-effective access to the capital markets.

Structure

The Company was formed in November 1993 as a Maryland corporation and is the general partner of the Operating Partnership. On December 31, 2009, it held a 74.7% partnership interest in the Operating Partnership comprised of: 1) a 1.0% interest as sole general partner; and 2) a 73.7% limited partner interest through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of Home Properties Trust, which is the limited partner. The holders of the remaining 25.3% of the UPREIT Units are certain individuals and entities who received UPREIT Units as consideration for their interests in entities owning apartment communities purchased by the Operating Partnership, including certain officers and directors of the Company.

The Operating Partnership is a New York limited partnership formed in December 1993. Holders of UPREIT Units in the Operating Partnership may redeem an UPREIT Unit for one share of the Company's common stock or cash equal to the fair market value at the time of the redemption, at the option of the Company. Management expects that it will continue to utilize UPREIT Units as a form of consideration for a portion of its acquisition properties when it is economical to do so.

HPRS is wholly owned by the Operating Partnership, and as a result, the accompanying consolidated financial statements include the accounts of both companies. HPRS is a taxable REIT subsidiary under the Tax Relief Extension Act of 1999.

In September 1997, Home Properties Trust ("QRS") was formed as a Maryland real estate trust and as a qualified REIT subsidiary. The QRS is wholly owned by Home Properties I, LLC which is owned 100% by the Company. The QRS is a limited partner of the Operating Partnership and holds all of the Company's interest in the Operating Partnership, except for the 1% held directly by the Company as sole general partner.

The Company currently has approximately 1,100 employees and its executive offices are located at 850 Clinton Square, Rochester, New York 14604. Its telephone number is (585) 546-4900.

Operating Strategies

The Company will continue to focus on enhancing long-term investment returns by: (i) developing new apartments and acquiring apartment communities and repositioning those apartment communities for long-term growth at prices that provide a positive spread over the Company's long-term cost of capital; (ii) recycling assets by disposing of properties in low growth markets and those that have reached their potential or are less efficient to operate due to size or remote location; (iii) balancing its decentralized property management philosophy with the efficiencies of centralized support functions and accountability including rent optimization and volume purchasing; (iv) enhancing the quality of living for the Company's residents by improving the service and physical amenities available at each community every year; (v) adopting new technology so that the time and cost spent on administration can be minimized while the time spent attracting and serving residents can be maximized; (vi) continuing to utilize its written

"Pledge" of customer satisfaction that is the foundation on which the Company has built its brand recognition; and (vii) focusing on reducing expenses while constantly improving the level of service to residents. Due to current economic conditions, in the short term, the Company does not anticipate adding any new development projects to its pipeline in 2010.

The Company has a strategy of acquiring and repositioning mature C to B- apartment properties. Since its 1994 IPO, the Company has acquired and repositioned 197 communities, containing more than 54,000 units. The rehabilitation and revitalization process requires a minimum 10% return on repositioning investments. It is expected

that capital expenditures on repositioning investments will increase from 2009 levels, but remain below the Company’s historic levels as potential residents may not prefer an upgraded apartment at a higher monthly rent in this current economic environment. Fewer capital expenditures will enable the Company to preserve capital. Extensive experience and expertise in repositioning has helped the Company build significant internal design and construction management skills. The complete repositioning of a community can take place over a five to seven year period. The comprehensive process typically begins with improvements in landscaping, signage and common areas. Exterior improvements increase curb appeal and marketability of the property. Deferred maintenance is corrected which can include new HVAC systems, roofs, balconies and windows. At many properties, community centers and swimming pools are added or upgraded. Apartment interiors are renovated when residents move out, with the most significant investments made in upgrading kitchens and baths. Complete remodeling of dated kitchens and bathrooms typically include new appliances, flooring, counters, cabinets, lighting, tile, fixtures, sinks, bathtubs and toilets. It may include the removal of kitchen walls to open up the living area. Where feasible, in-unit washers and dryers are added. Repositioning efforts upgrade properties that were C to B- level when acquired to the B to B+ level, which, over time, significantly increases the property's rental income, net operating income and market value.

Acquisition and Sale Strategies

The Company's strategy is to grow primarily through acquisitions in the suburbs of major metropolitan markets that have significant barriers to new construction, limited new apartment supply, easy access to the Company's headquarters and enough apartments available for acquisition to achieve a critical mass. Targeted markets also possess other characteristics, including acquisition opportunities below replacement costs, a mature housing stock, high average single-family home prices, a favorable supply/demand relationship, stable or moderate job growth, reduced vulnerability to economic downturns and large prime renter populations including immigrants, young adults in their twenties and early thirties, and seniors over age 55. The Company currently expects that its growth will be focused primarily within suburban sub-markets of selected metropolitan areas within the Northeast and Mid-Atlantic regions of the United States where it has already established a presence. The largest metropolitan areas the Company will focus on include Baltimore, Boston, New York City, Philadelphia and Washington, D.C. The Company may expand into new markets that possess the characteristics described above although it has no current plans to do so. Continued geographic specialization is expected to have a greater impact on operating efficiencies versus widespread accumulation of properties. The Company will continue to pursue the acquisition of individual properties as well as multi-property portfolios. It may also consider strategic investments in other apartment companies, as well as strategic alliances, such as joint ventures. The Company did not target any acquisitions in 2009. The Company now believes that it will have the opportunity to make acquisitions during 2010 and has projected $100 to $150 million in purchases for the year.

During 2009, the Company completed the sale of five communities with a total of 1,333 units for an aggregate consideration of $108.3 million, at a weighted average expected first-year capitalization rate of 7.8%. Capitalization rate (“cap rate”) is defined as the rate of interest used to convert the first year expected net operating income (“NOI”) less a 3% management fee into a single present value. NOI is defined by the Company as rental income and property other income less operating and maintenance expenses. The Company used the net proceeds from those properties of approximately $64.6 million, which were expected to produce a weighted average unleveraged internal rate of return ("IRR") of 6.2%, to pay down debt. IRR is defined as the discount rate at which the present value of the future cash flows of the investment is equal to the cost of the investment.

The Company has not specifically targeted additional communities for sale in 2010 but will continue to evaluate the sale of its communities. Typically, a property will be targeted for sale if management is of the opinion that it has reached its potential or if it is located in a slower growth market or is less efficient to operate.

Financing and Capital Strategies

The Company intends to continue to adhere to the following financing policies: (i) maintaining a ratio of debt-to-total market capitalization (total debt of the Company as a percentage of the value (using the Company's internally calculated Net Asset Value ("NAV" per share) of outstanding diluted common stock (including the common stock equivalents of the UPREIT Units) plus total debt) of approximately 55% or less; (ii) utilizing primarily fixed rate debt; (iii) varying debt maturities to avoid significant exposure to interest rate changes upon refinancing; and (iv) maintaining a line of credit so that it can respond quickly to acquisition opportunities.

Specific to 2009, and in response to the constrictions in the credit market, the Company pursued certain initiatives as follows: 1) The Company replaced the $140 million existing unsecured line of credit with a new $175 million facility which matures August 31, 2011. Pricing was more expensive, and moved from interest at 0.75% over the one-month LIBOR to a spread today of 3.00% with a LIBOR floor of 1.5%. In addition, up-front and on-going fees add another approximate 75 basis points to pricing. 2) During 2009, the Company had increased the level of the value of unencumbered properties in relationship to the total property portfolio from 19% to 20%. This higher level adds flexibility, allowing the Company to place secured financing on unencumbered assets if desired. 3) The Company benefits from its multifamily focus as the Government Sponsored Enterprises ("GSEs") Fannie Mae and Freddie Mac are still very active lending to apartment owners. The Company refinanced debt maturing in 2010 early, reducing the level of secured loans maturing in 2010 from $334 million to $146 million. 4) The Company initiated an At-The-Market (“ATM”) equity offering program through which it may sell up to 3.7 million shares of common stock, not to exceed $150 million of gross proceeds. Including trades which closed the first few days of January, 2010, the Company issued 1,041,200 shares generating net proceeds of $47 million.

For 2010, plans include increasing the level of the value of unencumbered properties to over 21% of the portfolio, maintaining the debt-to-total market capitalization ratio at a level equal to or slightly less than the level at December 31, 2009 and issuing the remainder of the dollar value authorized under the ATM program at levels above NAV.

On December 31, 2009, the Company's debt was approximately $2.3 billion and the debt-to-total market capitalization ratio was 51.1% based on the year-end closing price of the Company's common stock of $47.71. The weighted average interest rate on the Company's mortgage debt as of December 31, 2009 was 5.6% and the weighted average maturity was approximately five and one-half years. Debt maturities are staggered, ranging from May 2010, through November 2034. As of December 31, 2009, the Company had an unsecured line of credit facility from M&T Bank (acting as lead bank) of $175 million. This facility is available for acquisition and other corporate purposes and bears interest at rates ranging from 2.50% to 3.25% over the one-month LIBOR rate, increasing at higher levels of outstanding indebtedness, with a LIBOR floor of 1.50%. The one-month LIBOR was 0.23% at December 31, 2009 resulting in an effective rate of 4.75% for the Company. As of December 31, 2009, there was $53.5 million outstanding on the line of credit.

Management expects to continue to fund a portion of its continued growth by taking advantage of its UPREIT structure and using UPREIT Units as currency in acquisition transactions. During 2007, the Company issued $36.3 million worth of UPREIT Units as partial consideration for three acquired properties. During 2008 and 2009, no UPREIT Units were used as consideration for acquired properties. It is difficult to predict the level of demand from sellers for this type of transaction. In periods when the Company's stock price is trading at a discount to estimated NAV, it is unlikely that management would engage in UPREIT transactions.

During periods when the Company's shares are trading at a premium to its estimate of NAV, it is unlikely that management would engage in share repurchases. In such circumstances, it is more likely that management would pursue issuing equity in order to raise capital to be used to pay down existing indebtedness. This should be neutral to both earnings per share and NAV, increase the level of unencumbered assets and better position the Company to fund future acquisition and development pipeline needs.

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company can repurchase shares of its outstanding common stock and UPREIT Units. Shares or units may be repurchased through the open market or in privately-negotiated transactions. The Company's strategy is to opportunistically repurchase shares at a discount to its underlying NAV, thereby continuing to build value for long-term shareholders. At December 31, 2009, there was approval remaining to purchase 2,291,160 shares. The 2010 guidance assumes no

additional share repurchases.

Competition

The Company's properties are primarily located in developed areas where there are other multifamily properties which directly compete for residents. There is also competition from single family homes and condominiums for sale or rent. The competitive environment may have a detrimental effect on the Company's ability to lease apartments at existing and at newly developed properties, as well as on rental rates.

In addition, the Company competes with other real estate investors in seeking property for acquisition and development. These competitors include pension and investment funds, insurance companies, private investors, local owners and developers, and other apartment REITs. This competition could increase prices for properties that the Company would like to purchase and impact the Company's ability to achieve its long-term growth targets.

The Company believes, however, that it is well-positioned to compete effectively for both residents and properties as a result of its:

- focus on service and resident satisfaction, as evidenced by both The Home Properties Pledge, which provides a money-back service guarantee and lease flexibility, and by its resident turnover ratio which is consistently below the industry average;

- ability to issue UPREIT Units in purchase transactions, which provides sellers with the opportunity to defer taxes; and

- unique repositioning strategy that differentiates the Company from its competitors.

Market Environment

The markets in which Home Properties operates could be characterized long term as stable, with moderate levels of job growth. During 2009 and expected to continue through 2010, many regions of the United States are experiencing varying degrees of economic recession resulting in negative job growth for both the country as a whole and the Company's markets.

For 2007, the Company's markets experienced slightly stronger job growth of 1.0% compared to 0.9% for the country. With the current recession which started in 2008, job losses became the norm. The Company's markets still compare favorably for 2009 with job losses of 2.1% compared to 3.6% for the country. In addition, the unemployment rate for the Company's markets of 8.1% trails the country average of 9.7%. The Northern VA/DC market stands out for the Company as it experienced only slightly negative job growth of 0.5% for 2009, with one of the lowest unemployment rates of 6.2% at December 31, 2009. This market represents 26.1% of the total apartment unit count and produces 29.2% of the property NOI. These two favorable comparisons help explain why the Company's markets helped the Company outperform all of its public company multifamily peers on a measurement of same store NOI in 2009, and is expected to be at the top for this measurement in 2010. The information on the "Market Demographics and Multifamily Supply and Demand" tables on Pages 8 and 9 were compiled by the Company from the sources indicated on the tables. The methods used include estimates and, while the Company feels that the estimates are reasonable, there can be no assurance that the estimates are accurate. There can also be no assurance that the historical information included on the table will be consistent with future trends.

New construction in the Company's markets is low relative to the existing multifamily housing stock and compared to other regions of the country. In 2009, Home Properties' markets represented 27.4% of the total estimated existing U.S. multifamily housing stock, but only 17.0% of the country's estimated new supply of multifamily housing units.

An analysis of multifamily supply compared to multifamily demand can indicate whether a particular market is tightening, softening or in equilibrium. The fourth to last column in the "Multifamily Supply and Demand" table on Page 9 reflects current estimated net new multifamily supply as a percentage of new multifamily demand for the Company's markets and the United States. In our 2007 report, this percentage was more favorable for the Company at 57% compared to 111% for the country. This suggested that in the Company’s markets, new supply was meeting only 57% of the estimated new demand, versus the country where new supply was in excess of estimated new demand. In

2009, job losses have reduced household formations, resulting in both the Company's markets and the country experiencing reduced demand. Fortunately, new supply has also gone down during 2009, but at a much smaller pace than reduced demand. The comparison of this metric is still favorable for the Company’s markets relative to the country, with reduced supply equal to 15.4% of reduced demand for the Company versus reduced supply of only 4.0% of reduced demand for the entire United States.

Market Demographics

MSA Market Area	% of Owned Units	2009 Number of Households	December Job Growth Trailing 12 Months % Change	December Job Growth Trailing 12 Months Actual	December Unemployment Rate	2009 Median Home Value	2009 Multifamily Units as a % of Total Housing Units Stock (4)	2009 Multifamily Housing Stock (5)
Northern VA/DC	26.1 %	2,024,798	(0.5 %)	(15,700)	6.2 %	$ 365,988	31.0 %	667,471
Baltimore, MD	21.8 %	1,029,371	(1.8 %)	(24,200)	7.6 %	275,345	22.2 %	246,226
Suburban New York City (1)	19.5 %	6,823,897	(1.7 %)	(150,400)	9.2 %	411,078	45.0 %	3,310,802
Eastern PA (2)	15.6 %	2,536,067	(2.5 %)	(80,000)	9.1 %	210,785	19.2 %	523,761
Boston, MA	6.7 %	1,727,074	(1.4 %)	(34,800)	8.2 %	349,713	33.2 %	603,869
Chicago, IL	6.3 %	3,452,213	(4.1 %)	(182,300)	10.6 %	239,850	32.4 %	1,205,855
Southeast Florida (3)	2.3 %	2,063,242	(2.3 %)	(53,000)	10.9 %	256,618	42.2 %	1,010,398
Portland, ME	1.7 %	211,560	(2.7 %)	(5,300)	6.7 %	223,334	17.0 %	43,237
Home Properties Markets	100.0 %	19,868,222	(2.1 %)	(545,700)	8.1 %	$ 316,677	35.3 %	7,611,619
United States		115,306,103	(3.6 %)	(4,823,000)	9.7 %	$ 172,352	21.6 %	27,781,347

(1) Suburban New York City is defined for this report as New York-Northern New Jersey-Long Island, NY-NJ-PA MSA.
(2) Eastern Pennsylvania is defined for this report as Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA & Allentown-Bethlehem-Easton PA-NJ MSA.
(3) Southeast Florida is defined for this report as Miami-Fort Lauderdale-Miami Beach, FL MSA.
(4) Based on Claritas 2009 estimates calculated from the 2000 U.S. Census figures.
(5) 2009 Multifamily Housing Stock is from Claritas estimates based on the 2000 U.S. Census.

Sources: Bureau of Labor Statistics (BLS); Claritas, Inc.; US Census Bureau - Manufacturing & Construction Div.
Data collected is data available as of February 5, 2010 and in some cases may be preliminary.
BLS is the principal fact-finding agency for the Federal Government in the broad field of labor economics and statistics.
Claritas, Inc. is a leading provider of precision marketing solutions and related products/services.
U.S. Census Bureau's parent federal agency is the U.S. Dept. of Commerce, which promotes American business and trade.

	Multifamily Supply and Demand								
MSA Market Area	Estimated 2009 New Supply of Multifamily (6)	Estimated 2009 Multifamily Obsolescence (7)	Estimated 2009 Net New Multifamily Supply (8)	Estimated 2009 New Multifamily Household Demand (9)	Estimated Net New Multifamily Supply as a % of New Multifamily Demand	Estimated Net New Multifamily Supply as a % of Multifamily Stock	Expected Excess Demand (10)	Expected Excess Revenue Growth (11)
Northern VA/DC	2,708	3,337	(629)	(3,246)	19.4%	(0.1%)	(2,617)	(0.4%)
Baltimore, MD	1,814	1,231	583	(3,583)	(16.3%)	0.2%	(4,166)	(1.7%)
Suburban New York City (1)	8,029	16,554	(8,525)	(45,143)	18.9%	(0.3%)	(36,618)	(1.1%)
Eastern PA (2)	1,913	2,619	(706)	(10,245)	6.9%	(0.1%)	(9,539)	(1.8%)
Boston, MA	1,950	3,019	(1,069)	(7,706)	13.9%	(0.2%)	(6,637)	(1.1%)
Chicago, IL	1,379	6,029	(4,650)	(39,396)	11.8%	(0.4%)	(34,746)	(2.9%)
Southeast Florida (3)	1,074	5,052	(3,978)	(14,918)	26.7%	(0.4%)	(10,940)	(1.1%)
Portland, ME	10	216	(206)	(601)	34.3%	(0.5%)	(395)	(0.9%)
Home Properties Markets	18,877	38,057	(19,180)	(124,838)	15.4%	(0.3%)	(105,658)	(1.4%)
United States	111,359	138,907	(27,548)	(694,859)	4.0%	(0.1%)	(667,311)	(2.4%)

(1)-(5) see footnotes prior page

(6) Estimated 2009 New Supply of Multifamily = Multifamily permits (2009 figures U.S. Census Bureau, Mfg. & Constr. Div., 5+ permits only) adjusted by the average % of permits resulting in a construction start (estimated at 95%).
(7) Estimated 2009 Multifamily Obsolescence = 0.5% of Estimated 2009 Multifamily Housing Stock.
(8) Estimated 2009 Net New Multifamily Supply = Estimated 2009 New Supply of Multifamily - Estimated 2009 Multifamily Obsolescence.
(9) Estimated 2009 New Multifamily Household Demand = Trailing 12 month job growth (Nonfarm, not seasonally adjusted payroll employment figures) (12/31/2008-12/31/2009) multiplied by the expected % of new household formations resulting from new jobs (66.7%) and the % of multifamily households in each market (based on Claritas estimates).
(10) Expected Excess Demand = Estimated 2009 New Multifamily Household Demand - Estimated 2009 Net New Multifamily Supply.
(11) Expected Excess Revenue Growth = Expected Excess Demand divided by 2009 Multifamily Housing Stock. This percentage is expected to reflect the relative impact that changes in the supply and demand for multifamily housing units will have on occupancy rates and/or rental rates in each market, beyond the impact caused by broader economic factors, such as inflation and interest rates.

Environmental Matters

As a current or prior owner, operator and developer of real estate, the Company is subject to various federal, state and local environmental laws, regulations and ordinances and also could be liable to third parties as a result of environmental contamination or noncompliance at its properties. See the discussion under the caption, "We may incur costs due to environmental contamination or non-compliance" in Item 1A, Risk Factors, for information concerning the potential effect of environmental regulations on the Company's operations.

Available Information

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports required by Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are electronically filed with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549-2521. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains a Web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, which are available without charge.

Company Web Site

The Company maintains an Internet Web site at www.homeproperties.com. The Company provides free-of-charge access to its reports filed with the SEC, and any amendments thereto, through this Web site. These reports are available as soon as reasonably practicable after the reports are filed electronically with the SEC and are found under "Investors/SEC Filings." In addition, paper copies of annual and periodic reports filed with the SEC may be obtained at no charge by contacting the Corporate Secretary, Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604.

Current copies of the Company's Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, Corporate Governance Guidelines and Charters for the Audit, Compensation, Corporate Governance/Nominating and Real Estate Investment Committees of the Board of Directors are also available on the Company's Web site under the heading "Investors/Corporate Overview/Governance Documents Highlights." Copies of these documents are also available at no charge upon request addressed to the Corporate Secretary at Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604.

The reference to our Web site does not incorporate by reference the information contained in the Web site and such information should not be considered a part of this report.

Item 1A. Risk Factors

As used in this section, references to "we" or "us" or "our" refer to the Company, the Operating Partnership, and HPRS, taken as a whole.

Our business is subject to uncertainties and risks. Please carefully consider the risk factors described below, which apply to Home Properties, the Operating Partnership, and HPRS, in addition to other risks and factors set forth elsewhere in this Form 10-K. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business or prospects. The risk factors we describe contain or refer to certain forward-looking statements. You should review the explanation of the limitations of forward-looking statements contained in the section entitled “Forward-Looking Statements” on Page 51 of this Form 10-K.

Real Estate Investment Risks

We are subject to risks that are part of owning residential real estate.

Real property investments are subject to varying degrees of risk. If our communities do not generate revenues sufficient to meet operating expenses, debt service and capital expenditures, our cash flow and ability to make distributions to our stockholders will be adversely affected. A multifamily apartment community's revenues and value may be adversely affected by general economic conditions (including unemployment); local economic

conditions; local real estate considerations (such as oversupply of or reduced demand for apartments); the perception by prospective residents of the safety, convenience and attractiveness of the communities or neighborhoods in which they are located and the quality of local schools and other amenities; and increased operating costs (including real estate taxes and utilities). Certain significant fixed expenses are generally not reduced when circumstances cause a reduction in income from the investment.

We depend on rental income for cash flow to pay expenses and make distributions.

We are dependent on rental income from our multifamily properties to pay operating expenses, debt service and capital expenditures, and in order to generate cash to enable us to make distributions to our stockholders. If we are unable to attract and retain residents or if our residents are unable, due to an adverse change in the economic condition of the region or otherwise, to pay their rental obligations, our ability to make expected distributions will be adversely affected. In addition, the weather and other factors outside of our control can result in an increase in the operating expenses for which we are responsible.

The current economic crisis might negatively impact our occupancy rates, our residents' ability to pay rent and our ability to raise rents.

In 2008, 2009 and continuing into 2010, problems in the financial system have caused consumer confidence to plunge and unemployment to soar. Increasing job losses typically slow household formations, which could affect occupancy. In addition, continued job losses and weak economic conditions might negatively impact our current residents' ability to pay rent and would likely continue to impact our ability to raise rents.

Attractive acquisitions may not be available and acquisitions we may be able to make may fail to meet expectations.

In 2010, we plan to selectively acquire apartment communities that meet our investment criteria. We expect that other real estate investors, including insurance companies, pension funds, other REITs and other well-capitalized investors will compete with us to acquire existing properties and to develop new properties. This competition could increase prices for properties of the type we would likely pursue and adversely affect our growth and profitability. If we are able to make acquisitions, there are risks that those acquisitions will fail to meet our expectations. Our estimates of future income, expenses and the costs of improvements or redevelopment that are necessary to allow us to operate an acquired property as originally intended may prove to be inaccurate.

Real estate investments are relatively illiquid, and we may not be able to respond to changing conditions quickly.

Real estate investments are relatively illiquid and, therefore, we have limited ability to adjust our portfolio quickly in response to changes in economic or other conditions. In addition, the prohibition in the Internal Revenue Code (the "Code") on REITs holding property for sale and related regulations may affect our ability to sell properties without adversely affecting distributions to stockholders. A significant number of our properties were acquired using UPREIT Units and are subject to certain agreements which may restrict our ability to sell such properties in transactions that would create current taxable income to the former owners.

Current economic conditions may make it difficult for us to sell apartment communities on favorable terms.

We periodically sell apartment communities that no longer meet our strategic objectives. The uncertainty in the credit markets and the economy in general could negatively impact our ability to make dispositions or may adversely affect the price we receive since buyers may experience increased borrowing costs or an inability to obtain financing.

Competition could limit our ability to lease apartments or increase or maintain rents.

Our apartment communities compete with other housing alternatives to attract residents, including other rental apartments, condominiums and single-family homes that are available for rent, as well as new and existing condominiums and single-family homes for sale. Competitive residential housing in a particular area could adversely affect our ability to lease apartment units and to increase or maintain rental rates.

Repositioning and development risks could affect our profitability.

A key component of our strategy is to acquire properties and to reposition them for long-term growth. In addition, we have developed and are in the process of developing new apartment units. We plan to continue to selectively expand our development activities. Development projects generally require various governmental and other approvals, which have no assurance of being received. Our repositioning and development activities generally entail certain risks, including the following:

- funds may be expended and management's time devoted to projects that may not be completed due to a variety of factors, including without limitation, the inability to obtain necessary zoning or other approvals;
- construction costs of a project may exceed original estimates, possibly making the project economically unfeasible or the economic return on a repositioned property less than anticipated;
- projects may be delayed due to delays in obtaining necessary zoning and other approvals, adverse weather conditions, labor shortages, or other unforeseen complications;
- occupancy rates and rents at a completed development project or at a repositioned property may be less than anticipated; and
- the operating expenses at a completed development may be higher than anticipated.

These risks may reduce the funds available for distribution to our stockholders. Further, the repositioning and development of properties is also subject to the general risks associated with real estate investments.

Short-term leases expose us to the effects of declining market conditions.

Virtually all of the leases for our properties are short-term leases (generally, one year or less). Typically, our residents can leave after the end of a one-year lease term. As a result, our rental revenues are impacted by declines in market conditions more quickly than if our leases were for longer terms.

A significant uninsured property or liability loss could adversely affect us in a material way.

The Company carries comprehensive liability, fire, extended and rental loss insurance for each of our properties. There are however certain types of extraordinary losses, such as losses for terrorism and natural catastrophes, for which the Company may not have insurance coverage. If an uninsured loss occurred, we could lose our investment in, and cash flow from, the affected property, and could be required to repay any indebtedness secured by that property and related taxes and other charges.

Insurance costs and policy deductibles expose us to unpredictable expenses which may be material.

The Company's general liability, property and workers' compensation policies provide for deductibles and self-insured retention amounts. These deductibles and self-insured retention amounts expose the Company to potential uninsured losses. Management believes that this exposure is justified by savings in insurance premium amounts and, in some cases, was necessary in order for the Company to secure coverage. Depending on the level of claims experienced, insurance coverage may become difficult to obtain at the current premium and expense levels.

Changes in applicable laws, or noncompliance with applicable laws, could adversely affect our operations or expose us to liability.

We must operate our properties in compliance with numerous federal, state and local laws and regulations, including landlord tenant laws and other laws generally applicable to business operations. Noncompliance with laws could expose us to liability.

Compliance with changes in: (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions; (ii) rent control or rent stabilization laws; or (iii) other governmental rules and regulations or enforcement policies affecting the use and operation of our communities, including changes to building codes and fire and life-safety codes, may result in lower revenue growth or significant unanticipated expenditures.

We may incur costs and increased expenses to repair property damage resulting from inclement weather.

In every market except Florida, we are exposed to risks associated with inclement winter weather, including increased costs for the removal of snow and ice. In addition, in Southeast Florida, we have exposure to severe storms which could also increase the need for maintenance and repair of our communities in that region.

We may incur costs due to environmental contamination or non-compliance.

Under various federal, state and local environmental laws, regulations and ordinances, we may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances at our properties and may be held liable under these laws or common law to a governmental entity or to third parties for property, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the contamination. These damages and costs may be substantial. The presence of such substances, or the failure to properly remediate the contamination, may adversely affect our ability to borrow against, sell or rent the affected property.

The development, construction and operation of our communities are subject to regulations and permitting under various federal, state and local laws, regulations and ordinances, which regulate matters including wetlands protection, storm water runoff and wastewater discharge. Noncompliance with such laws and regulations may subject us to fines and penalties. We do not currently anticipate that we will incur any material liabilities as a result of noncompliance with these laws.

Certain federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos containing materials ("ACMs") when such materials are in poor condition or in the event of renovation or demolition of a building. These laws and the common law may impose liability for release of ACMs and may allow third parties to seek recovery from owners or operators of real properties for personal injury associated with exposure to ACMs. ACMs are present at several of our communities. We implement an operations and maintenance program at each of the communities at which ACMs are detected. We do not currently anticipate that we will incur any material liabilities as a result of the presence of ACMs at our communities.

We are aware that some of our communities have or may have lead paint and have implemented an operations and maintenance program at each of those communities to contain, remove or test for lead paint to limit the exposure of our residents. We do not currently anticipate that we will incur any material liabilities as a result of the presence of lead paint at our communities.

All of the Owned Properties and all of the communities that we are currently developing have been subjected to at least a Phase I or similar environmental assessment, which generally does not involve invasive techniques such as soil or ground water sampling. These assessments, together with subsurface assessments conducted on some of our properties, have not revealed, and we are not otherwise aware of, any environmental conditions that we believe would have a material adverse effect on our business, assets, financial condition or results of operation. There is no assurance that Phase I assessments would reveal all environmental liabilities or that environmental conditions not known to the Company may exist now or in the future which would result in liability to the Company for remediation or fines, either under existing laws and regulations or future changes to such requirements.

Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Although the occurrence of mold at multifamily and other structures, and the need to remediate such mold, is not a new phenomenon, there has been increased awareness in recent years that certain molds may in some instances lead to adverse health effects, including allergic or other reactions. There have been only limited cases of mold identified to us. We do not currently anticipate that we will incur any material liabilities relating to mold.

Additionally, we occasionally have been involved in managing, leasing and operating various properties for third parties. Consequently, we may be considered to have been an operator of such properties and, therefore, potentially liable for removal or remediation costs or other potential costs which could relate to hazardous or toxic substances. We are not aware of any material environmental liabilities with respect to properties managed by us for such third parties.

We may incur increased energy and other costs resulting from the climate change regulations.

The current concerns about climate change have resulted in various treaties, laws and regulations which are intended to limit carbon emissions. The Company believes these laws being enacted or proposed may cause energy and waste removal costs at our properties to increase, but we do not expect the direct impact of these increases to be material to our results of operations. Increased costs relating to energy either would be the responsibility of our residents directly or in large part may be passed through by us to our residents through the utility recovery programs. We may be able to pass increased waste removal costs on to our residents in the form of increased rental rates. If this is not possible in the current economic environment, it is still not expected that these additional costs would affect the Company's financial performance in any material way.

Financing and compliance requirements could limit our income and the ability to raise rents.

As a requirement relating to some of our financing, or, in some instances, relating to zoning or other municipal approvals, we have committed to make some of the apartments in a community available to households whose income does not exceed certain thresholds and/or to limit rent increases. As of December 31, 2009, approximately 10% of our apartment units were under some form of such limitations. These commitments typically expire after a period of time, and may limit our ability to raise rents aggressively and, in consequence, can also limit increases in the value of the communities subject to these restrictions.

Real Estate Financing Risks

The current instability in the credit markets could adversely affect our ability to obtain financing or re-financing at favorable rates.

As of December 31, 2009, we had approximately $2.11 billion of mortgage debt, a significant portion of which is subject to balloon payments. We do not expect to have cash flows from operations to make all of these balloon payments. The mortgage debt matures as follows:

2010	$ 146 million
2011	299 million
2012	127 million
2013	205 million
2014	96 million
Thereafter	1,240 million

In addition, in 2006, the Company issued $200 million of exchangeable notes with a coupon rate of 4.125%. The outstanding principal balance of the notes is $140 million. Holders of the notes may require the Company to repurchase the notes on November 1, 2011. Based on the fact that the current stock price for the Company's Common Stock is well below the exchange rate on the notes, we anticipate that the holders will exercise their repurchase rights.

Our ability to refinance these obligations and to obtain new financing could be negatively impacted by the instability and tightening in the credit and capital markets which has led to an increase in spreads and pricing of secured and

14

unsecured debt. Our established relationship with our lenders, including Fannie Mae and Freddie Mac, have provided some insulation to us from the turmoil being experienced by many other real estate companies. The Company has benefited from borrowing from Fannie Mae and Freddie Mac, but there are no assurances that these entities will remain in existence and will lend to the Company in the future. The Company has experienced more restrictive loan to value and debt service coverage ratio limits and an expansion in credit spreads. Continued turmoil in the capital markets could negatively impact the Company's ability to make acquisitions, develop communities, obtain new financing, and refinance existing borrowing at competitive rates. If we cannot refinance or extend the maturity of some of our current debt, the properties that are mortgaged could be foreclosed upon. This could adversely affect our cash flow and, consequently, the amount available for distribution to our stockholders. In order to finance the repurchase of the exchangeable notes, we might be forced to sell some of the properties at otherwise unacceptable prices or to issue equity at prices that would dilute the interests of our current stockholders.

The Company in part relies on its line of credit to meet its short-term liquidity requirements.

As of December 31, 2009, the Company had an unsecured line of credit agreement with M&T Bank, as administrative agent and lead bank, of $175 million which expires August 31, 2011, with an optional one-year extension. The credit facility succeeds the $140 million credit facility that matured on September 1, 2009. The Company had $53.5 million outstanding under the credit facility on December 31, 2009.

The credit agreement relating to the line of credit requires the Company to maintain certain financial covenants, ratios and measurements. A default in these requirements, if uncured, could result in a termination of the line of credit and a requirement that we repay outstanding amounts, which could adversely affect our liquidity and increase our financing costs.

Rising interest rates could adversely affect operations and cash flow.

As of December 31, 2009, approximately 89% of our debt was at fixed rates. This limits our exposure to changes in interest rates. Prolonged interest rate increases, however, could negatively affect our ability to make acquisitions, to dispose of properties at favorable prices, to develop properties and to refinance existing borrowings at acceptable rates.

There is no legal limit on the amount of debt we can incur.

The Board of Directors has adopted a policy of limiting our indebtedness to approximately 55% of our total market capitalization (with the equity component of total market capitalization based on the per share NAV presented to our Board of Directors at its most recent Board meeting), but our organizational documents do not contain any limitation on the amount or percentage of indebtedness we may incur. Accordingly, the Board of Directors could alter or eliminate its current policy on borrowing. If this policy were changed, we could become more highly leveraged, resulting in an increase in debt service that could adversely affect our ability to make expected distributions to stockholders and increase the risk of default on our indebtedness. Our NAV fluctuates based on a number of factors. Our line of credit agreement limits the amount of indebtedness we may incur.

Federal Income Tax Risks

There is no assurance that we will continue to qualify as a REIT.

We believe that we have been organized and have operated in such manner so as to qualify as a REIT under the Internal Revenue Service Code, commencing with our taxable year ended December 31, 1994. A REIT generally is not taxed at the corporate level on income it currently distributes to its shareholders as long as it distributes currently at least 90% of its taxable income (excluding net capital gains). No assurance can be provided, however, that we have qualified or will continue to qualify as a REIT or that new legislation, Treasury Regulations, administrative

interpretations or court decisions will not significantly change the tax laws with respect to our qualification as a REIT or the federal income tax consequences of such qualification.

We are required to make certain distributions to qualify as a REIT, and there is no assurance that we will have the funds necessary to make the distributions.

In order to continue to qualify as a REIT, we currently are required each year to distribute to our stockholders at least 90% of our taxable income (excluding net capital gains). In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions made by us with respect to the calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income for that year, and any undistributed taxable income from prior periods. We intend to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid the nondeductible excise tax and will rely for this purpose on distributions from the Operating Partnership. However, differences in timing between taxable income and cash available for distribution could require us to borrow funds or to issue additional equity to enable us to meet the 90% distribution requirement (and, therefore, to maintain our REIT qualification) and to avoid the nondeductible excise tax. The Operating Partnership is required to pay (or reimburse us, as its general partner, for) certain taxes and other liabilities and expenses that we incur, including any taxes that we must pay in the event we were to fail to qualify as a REIT. In addition, because we are unable to retain earnings (resulting from REIT distribution requirements), we will generally be required to refinance debt that matures with additional debt or equity. There can be no assurance that any of these sources of funds, if available at all, would be available to meet our distribution and tax obligations.

Our failure to qualify as a REIT would have adverse consequences.

If we fail to qualify as a REIT, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. In addition, unless entitled to relief under certain statutory provisions, we will be disqualified from treatment as a REIT for the four taxable years following the year during which REIT qualification is lost. The additional tax burden on us would significantly reduce the cash available for distribution by us to our stockholders. Our failure to qualify as a REIT could reduce materially the value of our common stock and would cause all our distributions to be taxable as ordinary income to the extent of our current and accumulated earnings and profits (although, subject to certain limitations under the Code, corporate distributees may be eligible for the dividends received deduction with respect to these distributions).

The Operating Partnership intends to qualify as a partnership but there is no guaranty that it will qualify.

We believe that the Operating Partnership qualifies as a partnership for federal income tax purposes. No assurance can be provided, however, that the Internal Revenue Service (the "IRS") will not challenge its status as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were to be successful in treating the Operating Partnership as an entity that is taxable as a corporation, we would cease to qualify as a REIT because the value of our ownership interest in the Operating Partnership would exceed 5% of our assets and because we would be considered to hold more than 10% of the voting securities of another corporation. Also, the imposition of a corporate tax on the Operating Partnership would reduce significantly the amount of cash available for distribution to its limited partners. Finally, the classification of the Operating Partnership as a corporation would cause its limited partners to recognize gain (upon the event that causes the Operating Partnership to be classified as a corporation) at least equal to their "negative capital accounts" (and possibly more, depending upon the circumstances).

Other Risks

The ability of our stockholders to effect a change of control is limited by certain provisions of our Articles of Incorporation as well as by Maryland law and our Executive Retention Plan.

Our Articles of Amendment and Restatement of the Articles of Incorporation, as amended (the "Articles of Incorporation"), authorize the Board of Directors to issue up to a total of 80 million shares of common stock, 10 million shares of excess stock and 10 million shares of preferred stock and to establish the rights and preferences of any shares issued. Further, under the Articles of Incorporation, the stockholders do not have cumulative voting rights.

In order for us to maintain our qualification as a REIT, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of its taxable year. We have limited ownership of the issued and outstanding shares of common stock by any single stockholder to 8.0% of the aggregate value of our outstanding shares.

The percentage ownership limit described above, the issuance of preferred stock in the future and the absence of cumulative voting rights could have the effect of: (i) delaying or preventing a change of control of us even if a change in control were in the stockholders' interest; (ii) deterring tender offers for our common stock that may be beneficial to the stockholders; or (iii) limiting the opportunity for stockholders to receive a premium for their common stock that might otherwise exist if an investor attempted to assemble a block of our common stock in excess of the percentage ownership limit or otherwise to effect a change of control of us.

As a Maryland corporation, we are subject to the provisions of the Maryland General Corporation Law. Maryland law imposes restrictions on some business combinations and requires compliance with statutory procedures before some mergers and acquisitions may occur, which may delay or prevent offers to acquire us or increase the difficulty of completing any offers, even if they are in our stockholders' best interests. In addition, other provisions of the Maryland General Corporation Law permit the Board of Directors to make elections and to take actions without stockholder approval (such as classifying our Board such that the entire Board is not up for re-election annually) that, if made or taken, could have the effect of discouraging or delaying a change in control.

Also, to assure that our management has appropriate incentives to focus on our business and properties in the face of a change of control situation, we have adopted an executive retention plan which provides some key employees with salary, bonus and some benefits continuation in the event of a change of control.

Potential conflicts of interest could affect some directors' decisions.

Unlike persons acquiring common stock, certain of our directors, who constitute less than a majority of the Board of Directors, own a significant portion of their interest in us through UPREIT Units. As a result of their status as holders of UPREIT Units, those directors and other limited partners may have interests that conflict with stockholders with respect to business decisions affecting us and the Operating Partnership. In particular, those directors may suffer different or more adverse tax consequences than us upon the sale or refinancing of some of the properties as a result of unrealized gain attributable to those properties. Thus, those directors and the stockholders may have different objectives regarding the appropriate pricing and timing of any sale or refinancing of properties. In addition, those directors, as limited partners of the Operating Partnership, have the right to approve certain fundamental transactions such as the sale of all or substantially all of the assets of the Operating Partnership, merger or consolidation or dissolution of the Operating Partnership and certain amendments to the Operating Partnership Agreement.

The future sale of shares under our At-The-Market offering and other programs may negatively impact our stock price.

In December 2009, the Company filed a Prospectus Supplement pursuant to a previously filed registration statement. Pursuant to the Prospectus Supplement, the Company may sell up to 3.7 million common shares from time to time in “at the market offerings” or negotiated transactions (not to exceed $150 million of gross proceeds). Prior to December 31, 2009, the Company issued 871,600 common shares under this offering. Sales of substantial amounts of shares of common stock in the public market or the perception that such sales might occur could adversely affect the market price of the common stock.

As of December 31, 2009, the Operating Partnership has issued and outstanding approximately 11.7 million UPREIT Units held by persons other than us or the QRS. The UPREIT Units may be exchanged on a one-for-one basis for shares of Common Stock under certain circumstances. In addition, Home Properties has granted options to purchase shares of stock to certain directors, officers and employees of Home Properties, of which, as of December 31, 2009, 3.2 million options remained outstanding and unexercised.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2009, the Owned Properties consisted of 105 multifamily residential communities containing 35,797 apartment units. In 2009, the Company sold five communities with a total of 1,333 units in three transactions for total consideration of $108.3 million.

The Owned Properties are generally located in established markets in suburban neighborhoods and are well maintained and well leased. Average physical occupancy at the Owned Properties was 94.8% for 2009. Occupancy is defined as total possible rental income, net of vacancy; as a percentage of total possible rental income. Total possible rental income is determined by valuing occupied units at contract rates and vacant units at market rents. The Owned Properties are typically two- and three-story garden style apartment buildings in landscaped settings and a majority are of brick or other masonry construction. The Company believes that its strategic focus on appealing to middle income residents and the quality of the services it provides to such residents results in lower resident turnover. Average turnover at the Owned Properties was approximately 40% for 2009, which is significantly below the national average of approximately 52% for garden style apartments.

Resident leases are generally for a one year term. Security deposits equal to one month's rent or less are generally required.

Certain of the Owned Properties collateralize mortgage loans. See Schedule III contained herein (Pages 84 to 86).

The table on the following pages illustrates certain of the important characteristics of the Owned Properties as of December 31, 2009.

Communities Wholly Owned and Managed by Home Properties

Regional Area		# Of Apts	Age In Years	Year Acq/Dev	Average Apt Size (Sq Ft)	(2) 2009 % Resident Turnover		(3) 2009 Average % Occupancy		(3) 2008 Average % Occupancy		2009 Avg Mo Rent Rate per Apt	2008 Avg Mo Rent Rate per Apt	12/31/2009 Total Cost (000)
	Core Communities (1)													
FL-Southeast	The Hamptons	668	20	2004	1,052	50	%	94	%	95	%	$ 1,007	$ 1,035	$ 69,078
FL-Southeast	Vinings at Hampton Village	168	20	2004	1,207	46	%	96	%	94	%	1,115	1,143	17,727
IL-Chicago	Blackhawk Apartments	371	48	2000	793	46	%	96	%	96	%	872	889	24,838
IL-Chicago	Courtyards Village	224	38	2001	674	48	%	97	%	97	%	826	828	17,671
IL-Chicago	Cypress Place	192	39	2000	852	43	%	97	%	97	%	938	951	15,029
IL-Chicago	The Colony	783	36	1999	704	43	%	96	%	97	%	882	896	56,801
IL-Chicago	The New Colonies	672	35	1998	657	56	%	96	%	96	%	726	723	36,348
MA-Boston	Gardencrest Apartments	696	61	2002	847	35	%	95	%	96	%	1,507	1,478	113,634
MA-Boston	Highland House	172	40	2006	733	31	%	96	%	97	%	1,145	1,140	19,832
MA-Boston	Liberty Place	107	21	2006	994	42	%	97	%	95	%	1,408	1,398	17,359
MA-Boston	Stone Ends Apartments	280	30	2003	815	39	%	97	%	95	%	1,223	1,231	39,211
MA-Boston	The Heights at Marlborough	348	36	2006	876	45	%	95	%	96	%	1,166	1,156	54,332
MA-Boston	The Meadows at Marlborough	264	37	2006	855	48	%	96	%	97	%	1,131	1,142	37,802
MA-Boston	The Townhomes of Beverly	204	39	2007	1,103	40	%	96	%	94	%	1,437	1,444	39,785
MA-Boston	The Village at Marshfield	276	37	2004	735	45	%	96	%	94	%	1,131	1,164	35,682
MA-Boston	Westwoods	35	19	2007	904	57	%	93	%	97	%	1,242	1,245	4,344
MD-Baltimore	Bonnie Ridge Apartments	960	43	1999	998	42	%	92	%	93	%	1,079	1,063	85,091
MD-Baltimore	Canterbury Apartments	618	31	1999	934	37	%	94	%	94	%	943	934	40,371

MD-Baltimore	Country Village Apartments	344	38	1998	776	51	%	96	%	95	%	903	894	24,730
MD-Baltimore	Dunfield Townhouses	312	22	2007	916	43	%	96	%	94	%	1,086	1,057	35,311
MD-Baltimore	Falcon Crest Townhomes	396	40	1999	993	37	%	93	%	93	%	974	973	24,510
MD-Baltimore	Fox Hall Apartments	720	33	2007	946	45	%	92	%	93	%	821	840	69,744
MD-Baltimore	Gateway Village Apartments	132	20	1999	963	38	%	96	%	96	%	1,277	1,272	11,157
MD-Baltimore	Heritage Woods	164	36	2006	965	47	%	97	%	96	%	1,028	1,021	17,202
MD-Baltimore	Mill Towne Village	384	36	2001	812	38	%	94	%	94	%	868	862	31,347
MD-Baltimore	Morningside Heights Apartments	1,050	44	1998	864	40	%	93	%	93	%	868	875	67,626
MD-Baltimore	Owings Run Apartments	504	14	1999	1,136	51	%	95	%	96	%	1,184	1,180	47,432
MD-Baltimore	Ridgeview at Wakefield Valley	204	21	2005	916	48	%	95	%	95	%	1,161	1,155	23,949
MD-Baltimore	Selford Townhomes	102	22	1999	987	51	%	92	%	92	%	1,291	1,300	8,669
MD-Baltimore	The Coves at Chesapeake	469	27	2006	986	45	%	93	%	91	%	1,186	1,200	72,981
MD-Baltimore	Timbercroft Townhomes	284	37	1999	998	15	%	99	%	99	%	884	851	14,868
MD-Baltimore	Top Field	156	36	2006	1,149	29	%	96	%	96	%	1,181	1,158	21,217
MD-Baltimore	Village Square (MD)	370	41	1999	948	45	%	94	%	95	%	1,132	1,151	26,436
MD-Baltimore	Woodholme Manor Apartments	177	40	2001	817	20	%	96	%	94	%	858	847	11,277
ME-Portland	Liberty Commons	120	3	2006	1,064	48	%	97	%	97	%	1,187	1,178	14,772

Regional Area		# Of Apts	Age In Years	Year Acq/Dev	Average Apt Size (Sq Ft)	(2) 2009 % Resident Tumover		(3) 2009 Average % Occupancy		(3) 2008 Average % Occupancy		2009 Avg Mo Rent Rate per Apt	2008 Avg Mo Rent Rate per Apt	12/31/2009 Total Cost (000)
ME-Portland	Redbank Village Apartments	500	65	1998	735	43	%	96	%	95	%	861	849	28,385
NJ-Northern	Barrington Gardens	148	36	2005	922	43	%	96	%	96	%	1,115	1,068	12,890
NJ-Northern	Chatham Hill Apartments	308	42	2004	944	33	%	94	%	95	%	1,708	1,722	62,245
NJ-Northern	East Hill Gardens	33	51	1998	654	24	%	94	%	95	%	1,481	1,500	3,314
NJ-Northern	Hackensack Gardens	198	61	2005	636	26	%	92	%	94	%	1,058	1,014	18,509
NJ-Northern	Jacob Ford Village	270	61	2007	842	23	%	96	%	95	%	1,139	1,094	31,794
NJ-Northern	Lakeview Apartments	106	60	1998	492	28	%	94	%	96	%	1,354	1,345	9,320
NJ-Northern	Northwood Apartments	134	44	2004	937	29	%	97	%	95	%	1,309	1,311	19,027
NJ-Northern	Oak Manor Apartments	77	53	1998	918	30	%	95	%	96	%	1,763	1,780	8,377
NJ-Northern	Pleasant View Gardens	1,142	41	1998	746	45	%	94	%	94	%	1,132	1,156	84,229
NJ-Northern	Pleasure Bay Apartments	270	38	1998	685	41	%	94	%	93	%	1,038	1,077	17,216
NJ-Northern	Royal Gardens Apartments	550	41	1997	874	30	%	96	%	96	%	1,217	1,229	37,477
NJ-Northern	Wayne Village	275	44	1998	760	33	%	96	%	96	%	1,385	1,383	24,408
NJ-Northern	Windsor Realty Company	67	56	1998	628	54	%	93	%	96	%	1,182	1,194	6,230
NY-Long Island	Bayview & Colonial	160	42	2000	884	31	%	95	%	95	%	1,215	1,190	15,641
NY-Long Island	Cambridge Village Associates	82	42	2002	747	33	%	98	%	98	%	1,667	1,643	8,494
NY-Long Island	Devonshire Hills	297	41	2001	803	36	%	96	%	97	%	1,679	1,697	58,371

NY-Long Island	Hawthorne Court	434	41	2002	678	40 %	97 %	96 %	1,369	1,393	51,568
NY-Long Island	Heritage Square	80	60	2002	718	36 %	96 %	97 %	1,682	1,661	9,885
NY-Long Island	Holiday Square	144	30	2002	570	22 %	95 %	97 %	1,178	1,160	12,271
NY-Long Island	Lake Grove Apartments	368	39	1997	836	44 %	96 %	96 %	1,377	1,397	36,874
NY-Long Island	Mid-Island Apartments	232	44	1997	546	30 %	97 %	96 %	1,320	1,313	17,879
NY-Long Island	Sayville Commons	342	8	2005	1,106	18 %	96 %	95 %	1,538	1,509	65,966
NY-Long Island	South Bay Manor	61	49	2000	849	44 %	96 %	94 %	1,618	1,630	8,473
NY-Long Island	Southern Meadows	452	38	2001	845	39 %	96 %	95 %	1,367	1,358	53,510
NY-Long Island	Stratford Greens Associates	359	35	2002	725	38 %	96 %	96 %	1,428	1,446	58,949
NY-Long Island	Westwood Village Apartments	242	40	2002	829	36 %	96 %	97 %	2,321	2,316	43,231
NY-Long Island	Woodmont Village Apartments	96	41	2002	704	38 %	96 %	94 %	1,282	1,332	11,873
NY-Long Island	Yorkshire Village Apartments	40	40	2002	779	38 %	97 %	98 %	1,751	1,724	4,709
PA-Philadelphia	Castle Club Apartments	158	42	2000	878	40 %	95 %	94 %	951	947	15,578
PA-Philadelphia	Chesterfield Apartments	247	36	1997	812	38 %	96 %	95 %	905	923	17,879
PA-Philadelphia	Curren Terrace	318	38	1997	782	44 %	94 %	94 %	879	902	21,789
PA-Philadelphia	Glen Brook Apartments	174	46	1999	707	46 %	91 %	93 %	823	824	10,419
PA-Philadelphia	Glen Manor Apartments	174	33	1997	667	37 %	95 %	95 %	802	801	9,049
PA-Philadelphia	Golf Club Apartments	399	40	2000	857	47 %	94 %	95 %	1,068	1,061	40,329
PA-Philadelphia	Hill Brook Place Apartments	274	41	1999	699	40 %	96 %	96 %	854	872	18,816

Regional Area		# Of Apts	Age In Years	Year Acq/Dev	Average Apt Size (Sq Ft)	(2) 2009 % Resident Turnover		(3) 2009 Average % Occupancy		(3) 2008 Average % Occupancy		2009 Avg Mo Rent Rate per Apt	2008 Avg Mo Rent Rate per Apt	12/31/2009 Total Cost (000)
PA-Philadelphia	Home Properties of Bryn Mawr	316	58	2000	822	65	%	91	%	94	%	1,121	1,062	33,651
PA-Philadelphia	Home Properties of Devon	631	46	2000	917	46	%	93	%	93	%	1,093	1,112	70,634
PA-Philadelphia	New Orleans Park	442	38	1997	685	42	%	94	%	95	%	862	862	28,114
PA-Philadelphia	Racquet Club East Apartments	466	38	1998	911	37	%	95	%	96	%	1,028	1,033	37,031
PA-Philadelphia	Racquet Club South	103	40	1999	816	39	%	95	%	95	%	890	899	6,833
PA-Philadelphia	Ridley Brook Apartments	244	47	1999	925	40	%	95	%	95	%	917	907	14,570
PA-Philadelphia	Sherry Lake Apartments	298	44	1998	812	40	%	95	%	95	%	1,171	1,187	29,710
PA-Philadelphia	The Brooke at Peachtree Village	146	23	2005	1,261	30	%	97	%	96	%	1,108	1,106	19,137
PA-Philadelphia	The Landings	384	36	1996	912	47	%	96	%	96	%	981	993	30,953
PA-Philadelphia	Trexler Park Apartments	250	35	2000	921	52	%	93	%	94	%	1,048	1,059	24,670
PA-Philadelphia	William Henry Apartments	363	38	2000	938	43	%	93	%	95	%	1,105	1,123	42,102
VA-Suburban DC	Braddock Lee Apartments	255	54	1998	757	33	%	97	%	96	%	1,273	1,265	21,533
VA-Suburban DC	Cider Mill	864	31	2002	834	34	%	95	%	95	%	1,102	1,095	98,239
VA-Suburban DC	Cinnamon Run	511	49	2005	1,006	30	%	95	%	96	%	1,194	1,176	74,899
VA-Suburban DC	East Meadow Apartments	150	38	2000	1,034	37	%	98	%	96	%	1,282	1,307	16,617
VA-Suburban DC	Elmwood Terrace	504	36	2000	946	46	%	93	%	94	%	917	912	32,879
VA-Suburban DC	Falkland Chase Apartments	450	72	2003	759	39	%	94	%	93	%	1,349	1,359	67,013
VA-Suburban DC	Mount Vernon Square	1,387	35	2006	868	39	%	95	%	95	%	1,196	1,174	153,406
VA-Suburban DC	Orleans Village	851	41	2000	1,015	38	%	95	%	96	%	1,321	1,303	94,256

VA-Suburban DC	Park Shirlington Apartments	294	54	1998	858	31	%	96	%	96	%	1,290	1,264	24,678
VA-Suburban DC	Peppertree Farm	879	55	2005	1,051	33	%	93	%	94	%	1,174	1,148	111,144
VA-Suburban DC	Seminary Hill Apartments	296	49	1999	888	34	%	97	%	97	%	1,249	1,235	24,299
VA-Suburban DC	Seminary Towers Apartments	541	45	1999	879	38	%	95	%	95	%	1,295	1,284	46,642
VA-Suburban DC	Tamarron Apartments	132	22	1999	1,075	41	%	97	%	95	%	1,444	1,453	13,195
VA-Suburban DC	The Apartments at Wellington Trace	240	7	2004	1,106	49	%	97	%	92	%	1,269	1,279	31,496
VA-Suburban DC	The Manor Apartments (MD)	435	40	2001	1,004	33	%	96	%	92	%	1,211	1,183	49,223
VA-Suburban DC	The Manor Apartments (VA)	198	35	1999	845	38	%	96	%	96	%	1,029	1,040	12,786
VA-Suburban DC	The Sycamores	185	31	2002	876	42	%	97	%	96	%	1,341	1,356	24,491
VA-Suburban DC	Virginia Village	344	42	2001	1,010	38	%	98	%	97	%	1,259	1,235	40,311
VA-Suburban DC	West Springfield Terrace	244	31	2002	1,019	52	%	97	%	97	%	1,413	1,432	39,201
VA-Suburban DC	Woodleaf Apartments	228	24	2004	709	35	%	94	%	93	%	1,181	1,156	24,195
	Core Total/Weighted Avg	34,768	39		874	40	%	95	%	95	%	$1,137	$1,136	$3,541,045

21

Regional Area		# Of Apts	Age In Years	Year Acq/Dev	Average Apt Size (Sq Ft)	(2) 2009 % Resident Tumover	(3) 2009 Average % Occupancy	(3) 2008 Average % Occupancy	2009 Avg Mo Rent Rate per Apt	2008 Avg Mo Rent Rate per Apt	12/31/2009 Total Cost (000)
	2008 Acquisition Communities (4)										
MD-Baltimore	Saddle Brooke	468	36	2008	889	43 %	91 %	93 %	$1,042	$1,041	$53,860
VA-Suburban DC	Westchester West	345	37	2008	1,005	38 %	92 %	94 %	1,278	1,334	49,975
	2008 Construction Communities (5)										
PA-Philadelphia	Trexler Park West	216	1	2008	1,049	49 %	95 %	92 %	$1,235	$1,234	$25,816
	2008 Total/Weighted Avg	1,029	25	2008	961	42 %	93 %	93 %	$1,162	$1,176	$129,651
	Owned Portfolio Total/Weighted Avg	35,797	38		877	40 %	95 %	95 %	$1,137	$1,135	$3,670,696

(1) "Core Communities" represents the 34,768 apartment units owned consistently throughout 2009 and 2008.
(2) "Resident Turnover" reflects, on an annual basis, the number of moveouts, divided by the total number of apartment units.
(3) "Average % Occupancy" is the average physical occupancy for the years ended December 31, 2009 and 2008.
(4) For communities acquired during 2008, this is the average occupancy from the date of acquisition.
(5) Trexler Park West construction was completed in 2008.

22

Property Development

The Company has the ability to develop new market-rate communities. It plans to engage in development activity only in markets in which it currently is doing business to add net asset value and supplement future earnings and growth. It expects to develop new apartment communities on raw land and on land adjacent to existing Owned Properties, as well as to increase the density of units at some communities currently owned.

1200 East West Highway is in Silver Spring, Maryland and was under construction during 2008 and 2009. It is a 14-story high rise with 247 apartments and 10,600 square feet of retail or nonresidential space that is expected to be completed in the second quarter of 2010 at a total cost of $82 million. Initial occupancy is expected in March, 2010 with stabilization anticipated after a one-year lease-up period. The costs associated with construction in progress for this development were $73 million as of December 31, 2009.

The Courts at Huntington Station, just south of Old Town Alexandria in Fairfax County, Virginia was also under construction during 2008 and 2009. It is a podium design, with 421 units, adjacent to the Huntington Metro station and consists of four, four-story buildings. Construction on Phase I (202 units) is expected to be completed during the second quarter of 2010, with initial occupancy expected in April, 2010 and the lease-up period is projected to last eleven months. Construction on Phase II (219 units) has commenced and is scheduled to be complete in the second quarter of 2011, reaching stabilized occupancy a year later. Total costs are estimated at $127 million, with $80 million construction in progress for this development as of December 31, 2009.

The Company had three projects in the pre-construction phase during 2009:

- Ripley Street, an approximately 300-unit high rise, is located in Silver Spring, Maryland. The earliest time that construction potentially could start is during the second quarter of 2011, with a total cost projected of $106 million. The pre-construction costs for this project, consisting mostly of land value, were $19 million as of December 31, 2009.

  - Cobblestone Square, an approximately 300-unit garden apartment community, is located in Fredericksburg, Virginia. Certain approvals are required before construction could potentially begin either later in 2010 or early 2011, with total costs projected of $53 million. The pre-construction costs, consisting mostly of land value, were $13 million as of December 31, 2009.

- Falkland Chase, located in Silver Spring, Maryland, currently has 450 garden apartments constructed between 1936 and 1939. The Company is planning on redeveloping the North parcel, which will be renamed Falkland North. The Company is in the very early stages of design and approval, and currently projects to redevelop this parcel into approximately 1,100 units. Construction is expected to start at the earliest during 2012, with at a total cost projected of $315 million. As this is a large project, the Company may decide to pursue a joint venture partner. The pre-construction costs associated with this project were $2 million and are included in other assets as of December 31, 2009.

Property Management

As of December 31, 2009, the Managed Properties consist of two multifamily communities, one 868 unit community managed as general partner in Columbus, Ohio and one fee-managed 282 unit community in Annapolis, Maryland.

The Company may pursue the management of additional properties not owned by the Company, but will only do so when such additional properties can be effectively and efficiently managed in conjunction with other properties owned or managed by Home Properties, or where the Company views the properties as potential acquisitions in desirable

markets.

Supplemental Property Information

At December 31, 2009, none of our properties have an individual net book value equal to or greater than ten percent of the total assets of the Company or would have accounted for ten percent or more of the Company's aggregate gross revenues for 2009. There is no resident who has one or more leases which, in the aggregate, account for more than 10% of the aggregate gross revenues for the year ended December 31, 2009.

Item 3. Legal Proceedings

The Company is subject to a variety of legal actions for personal injury or property damage arising in the ordinary course of its business, most of which are covered by insurance. Various claims of employment and resident discrimination are also periodically brought. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such legal proceedings and claims will not have a material adverse effect on the Company's liquidity, financial position or results of operations.

Item 4. Submission of Matters to Vote of Security Holders

None.

Item 4A. Executive Officers

The following table sets forth, as of February 19, 2010, the nine executive officers of the Company, together with their respective ages, positions and offices.

Name	Age	Position
Edward J. Pettinella	58	President and Chief Executive Officer of Home Properties and HPRS
David P. Gardner	54	Executive Vice President and Chief Financial Officer of Home Properties and HPRS
Ann M. McCormick	53	Executive Vice President, General Counsel and Secretary of Home Properties and HPRS
Lisa M. Critchley	48	Senior Vice President, Human Resources of Home Properties
Scott A. Doyle	48	Senior Vice President, Strategic Property Management of Home Properties and HPRS
Donald R. Hague	58	Senior Vice President, Development of Home Properties
Robert J. Luken	45	Senior Vice President, Chief Accounting Officer and Treasurer of Home Properties and HPRS
Bernard J. Quinn	53	Senior Vice President, Property Management Operations of Home Properties
John E. Smith	59	Senior Vice President and Chief Investment Officer of Home Properties and HPRS

Edward J. Pettinella has served as President and Chief Executive Officer of the Company since January 1, 2004. He is also a director. He joined the Company in 2001 as an Executive Vice President and director. He is also the President and Chief Executive Officer of HPRS. From 1997 until February 2001, Mr. Pettinella served as President, Charter One Bank of New York and Executive Vice President of Charter One Financial, Inc. From 1980 through 1997, Mr. Pettinella served in several managerial capacities for Rochester Community Savings Bank, Rochester, NY, including the positions of Chief Operating Officer and Chief Financial Officer. Mr. Pettinella serves on the Board of Directors of Rochester Business Alliance, United Way of Greater Rochester, The Lifetime Healthcare Companies, National Multi Housing Council and Syracuse University School of Business and is a member of the Board of Governors of the

National Association of Real Estate Investment Trusts. He is also a member of Urban Land Institute. Mr. Pettinella is a graduate of the State University at Geneseo and holds an MBA Degree in finance from Syracuse University.

David P. Gardner has served as Executive Vice President since 2004 and a Vice President and Chief Financial Officer of the Company since its inception. He holds the same titles in HPRS. Mr. Gardner joined Home Leasing in 1984 as Vice President and Controller. In 1989, he was named Treasurer of Home Leasing and Chief Financial Officer in December 1993. From 1977 until joining Home Leasing, Mr. Gardner was an accountant at Cortland L. Brovitz & Co. Mr. Gardner is a graduate of the Rochester Institute of Technology.

Ann M. McCormick has served as Executive Vice President since 2004 and a Vice President, General Counsel and Secretary of the Company since its inception. She holds the same titles in HPRS. Mrs. McCormick joined Home Leasing in 1987 and was named Vice President, Secretary and General Counsel in 1991. Prior to joining Home Leasing, she was an associate with the law firm of Nixon Peabody LLP. Mrs. McCormick is a graduate of Colgate University and holds a Juris Doctor from Cornell University.

Lisa M. Critchley has served as Senior Vice President since joining the Company in June 2007. Prior to joining the Company, she was employed by ALSTOM Signaling, Inc. as Director of Human Resources since 2004. She was an Assistant Dean at the William E. Simon School of Business Administration from 1999 until 2004. Mrs. Critchley is a graduate of St. John Fisher College and holds an MBA from the E. Phillip Saunders College of Business of the Rochester Institute of Technology.

Scott A. Doyle has served as Senior Vice President since 2000, and, from 1997 until 2000, was a Vice President of the Company. He holds the same title in HPRS. He joined Home Properties in 1996 as a Regional Property Manager. Mr. Doyle is a Certified Property Manager (CPM) as designated by the Institute of Real Estate Management. Prior to joining Home Properties, he worked with CMH Properties, Inc., Rivercrest Realty Associates and Arcadia Management Company. He is a graduate of State University at Plattsburgh, New York.

Donald R. Hague has served as Senior Vice President since January 1, 2008. He joined the Company in 2006 as a Vice President. From 2000 until 2006, Mr. Hague was a Vice President of KSI Services, Inc. Prior to that, he worked with The Evans Company and was a partner in a land development and homebuilding company. He is a graduate of Davidson College and holds an MBA from George Washington University.

Robert J. Luken has served as Senior Vice President since 2004, and as Chief Accounting Officer since January, 2005. He has been the Company's Treasurer since 2000 and became a Vice President in 1997. He holds the same title in HPRS. He joined the Company in 1996, serving as its Controller. Prior to joining the Company, he was the Controller of Bell Corp. and an Audit Supervisor for PricewaterhouseCoopers LLP. Mr. Luken is a graduate of St. John Fisher College and holds an MBA from the William E. Simon Graduate School of Business Administration of the University of Rochester. He is a Certified Public Accountant. He is on the Board of Directors of The Bell Company, LLC.

Bernard J. Quinn has served as Senior Vice President since 2009 and Vice President since 2000. Prior to joining Home Properties, Mr. Quinn was a Regional Property Manager for Millcreek Realty Co. Home Properties purchased Millcreek’s Philadelphia portfolio in 1997. Mr. Quinn is a graduate of Villanova University.

John E. Smith has served as Chief Investment Officer of the Company since January, 2006, and as Senior Vice President since 2001. From 1998 until 2001, he was a Vice President of the Company. He holds the same title in HPRS. Prior to joining the Company in 1997, Mr. Smith was general manager for Direct Response Marketing, Inc. and Executive Vice President for The Equity Network, Inc. Mr. Smith was Director of Investment Properties at Hunt Commercial Real Estate for 20 years. He has been a Certified Commercial Investment Member (CCIM) since 1982, a New York State Certified Instructor and has taught accredited commercial real estate courses at various institutions in four states.

25

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information, Holders and Dividends

The Common Stock has been traded on the New York Stock Exchange ("NYSE") under the symbol "HME" since July 28, 1994. The following table sets forth for the previous two years the quarterly high and low sales prices per share reported on the NYSE, as well as all dividends paid with respect to the common stock.

	High	Low	Dividends
2009			
First Quarter	$41.16	$23.35	$0.67
Second Quarter	$39.95	$29.71	$0.67
Third Quarter	$44.89	$29.86	$0.67
Fourth Quarter	$49.23	$37.55	$0.67
2008			
First Quarter	$52.22	$39.17	$0.66
Second Quarter	$54.21	$47.11	$0.66
Third Quarter	$60.39	$46.81	$0.66
Fourth Quarter	$57.76	$24.93	$0.67

As of February 19, 2010, the Company had approximately 3,523 shareholders of record, 34,966,801 common shares (plus 11,595,743 UPREIT Units convertible into 11,595,743 common shares) were outstanding, and the closing price was $45.56. It is the Company's policy to pay dividends. The Company has historically paid dividends on a quarterly basis in the months of February, May, August and November.

On February 13, 2010, the Board of Directors declared a dividend of $0.58 per share for the quarter ended December 31, 2009. The dividend is payable March 5, 2010 to shareholders of record on March 1, 2010.

Performance Graph

The following graph compares the cumulative return on the Company's common stock during the five year period ended December 31, 2009 to the cumulative return of the NAREIT All Equity REIT Index and the Standard and Poor's 500 Index for the same period. The total return assumes that dividends were reinvested quarterly at the same price as provided under the Company's Dividend Reinvestment and Direct Stock Purchase Plan and is based on a $100 investment on December 31, 2004. Stockholders should note that past performance does not predict future results.

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009
HME	$100.00	$100.87	$153.72	$122.36	$117.24	$149.02
NAREIT Equity	$100.00	$112.17	$151.49	$127.72	$79.54	$101.80
S&P 500	$100.00	$104.91	$121.48	$128.15	$80.74	$102.11

Certain of our future filings with the SEC may "incorporate information by reference," including this Form 10-K. Unless we specifically state otherwise, this Performance Graph shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

26

Issuer Purchases of Equity Securities

In 1997, the Company's Board of Directors (the "Board") approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units ("Company Program"). The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action does not establish a specific target stock price or a specific timetable for share repurchase. In addition, participants in the Company's Stock Benefit Plan can use common stock of the Company that they already own to pay all or a portion of the exercise price payable to the Company upon the exercise of an option. In such event, the common stock used to pay the exercise price is returned to authorized but unissued status, and for purposes of this table is deemed to have been repurchased by the Company. At December 31, 2009, the Company had authorization to repurchase 2,291,160 shares of common stock and UPREIT Units under the Company Program.

The following table summarizes the total number of shares (units) repurchased by the Company during the quarter ended December 31, 2009:

Period	Total shares/units purchased (1)	Average price per share/unit	Maximum shares/units available under the Company Program(2)
Balance October 1, 2009:			2,291,160
October, 2009	-	-	2,291,160
November, 2009	5,083	$44.35	2,291,160
December, 2009	3,440	46.07	2,291,160
Balance December 31, 2009:	8,523	$45.05	2,291,160

(1) During the quarter ended December 31, 2009, and as permitted by the Company's Stock Benefit Plan, 8,523 shares of common stock already owned by option holders were used by those holders to pay the exercise price associated with their option exercise. These shares were returned to the status of authorized but unissued shares.

(2) During the quarter ended December 31, 2009, there were no shares (units) repurchased and no Board approved increases under the Company Program.

Item 6. Selected Financial and Operating Information

The following table sets forth selected financial and operating data on a historical basis for the Company and should be read in conjunction with the financial statements appearing elsewhere in this Form 10-K (amounts in thousands, except per share and unit data).

	2009	2008	2007	2006	2005
Revenues:					
Rental income	$462,086	$452,142	$434,475	$378,704	$336,962
Other income (1)	41,523	41,901	38,498	30,242	20,004
Total revenues	503,609	494,043	472,973	408,946	356,966
Expenses:					
Operating and maintenance	211,265	207,517	196,121	171,601	155,133
General and administrative	24,476	25,488	23,412	21,693	19,652
Interest	122,814	119,330	117,559	100,754	85,621
Depreciation and amortization	119,689	111,310	103,637	86,650	72,373
Impairment of assets held as general partner	-	4,000	-	-	400
Total expenses	478,244	467,645	440,729	380,698	333,179
Income from operations before gain on early extinguishment of debt	25,365	26,398	32,244	28,248	23,787
Gain on early extinguishment of debt	-	11,304	-	-	-
Income from continuing operations	25,365	37,702	32,244	28,248	23,787
Discontinued operations:					
Income (loss) from discontinued operations	(2,601)	3,943	8,139	14,603	14,207
Gain on disposition of property	24,314	51,560	42,126	110,514	80,708
Discontinued operations	21,713	55,503	50,265	125,117	94,915
Net income	47,078	93,205	82,509	153,365	118,702
Net income attributable to noncontrolling interest	(12,659)	(27,124)	(22,712)	(43,199)	(37,190)
Preferred dividends	-	-	(1,290)	(5,400)	(6,279)
Preferred stock issuance costs write-off	-	-	(1,902)	-	-
Net income attributable to common shareholders	$34,419	$66,081	$56,605	$104,766	$75,233
Basic earnings per share data:					
Income from continuing operations	$0.56	$0.84	$0.63	$0.49	$0.37
Discontinued operations	0.48	1.23	1.08	2.71	1.98
Net income attributable to common shareholders	$1.04	$2.07	$1.71	$3.20	$2.35
Diluted earnings per share data:					
Income from continuing operations	$0.56	$0.82	$0.61	$0.48	$0.36
Discontinued operations	0.48	1.22	1.06	2.66	1.97
Net income attributable to common shareholders	$1.04	$2.04	$1.67	$3.14	$2.33
Cash dividends declared per common share	$2.68	$2.65	$2.61	$2.57	$2.53
Balance Sheet Data:					
Real estate, before accumulated depreciation	$3,915,979	$3,872,390	$3,680,155	$3,451,762	$3,330,710

Total assets	3,268,034	3,317,094	3,216,199	3,240,135	2,977,870
Total debt (including held for sale in 2005)	2,302,281	2,317,500	2,178,305	2,110,820	1,924,086
Cumulative redeemable preferred stock (2)	-	-	-	60,000	60,000
Common stockholders' equity	661,112	650,778	675,683	765,051	656,812
Other Data:					
Net cash provided by operating activities	$149,624	$160,081	$162,558	$162,996	$136,466
Net cash provided by (used in) investing activities	(47,565)	(80,584)	(87,553)	159,653	(179,944)
Net cash provided by (used in) financing activities	(99,817)	(79,039)	(187,108)	(209,828)	40,944
Funds From Operations – Diluted, as adjusted by the Company (3)	146,171	157,318	148,617	146,641	137,606
Weighted average number of shares/units outstanding:					
Shares – Basic	33,040,839	31,991,817	33,130,067	32,697,794	31,962,082
Shares – Diluted	33,172,116	32,332,688	33,794,526	33,337,557	32,328,105
Shares/units – Basic	45,274,376	45,200,405	46,520,695	47,262,678	47,714,251
Shares/units – Diluted	45,405,653	45,541,276	47,185,154	47,902,441	48,411,325
Total communities owned at end of period	105	110	123	123	153
Total apartment units owned at end of period	35,797	37,130	37,496	36,954	43,432

(1) Other income includes property other income, interest income and other income.

(2) Cumulative redeemable preferred stock was redeemable solely at the option of the Company.

(3) Pursuant to the revised definition of Funds From Operations ("FFO") adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), FFO is defined as net income (computed in accordance with accounting principles generally accepted in the United States of America ("GAAP")) excluding gains or losses from sales of property, noncontrolling interest, extraordinary items and cumulative effect of change in accounting principle plus depreciation from real property including adjustments for unconsolidated partnerships and joint ventures less dividends from non-convertible preferred shares. Because of the limitations of the FFO definition as published by NAREIT as set forth above, the Company has made certain interpretations in applying the definition. The Company believes all adjustments not specifically provided for are consistent with the definition.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO after a specific and defined supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate. The adjustment to exclude losses from early extinguishments of debt results when the sale of real estate encumbered by debt requires us to pay the extinguishment costs prior to the debt's stated maturity and to write-off unamortized loan costs at the date of the extinguishment. Such costs are excluded from the gains on sales of real estate reported in accordance with GAAP. However, we view the losses from early extinguishments of debt associated with the sales of real estate as an incremental cost of the sale transactions because we extinguished the debt in connection with the consummation of the sale transactions and we had no intent to extinguish the debt absent such transactions. We believe that this supplemental adjustment more appropriately reflects the results of our operations exclusive of the impact of our sale transactions.

Although our FFO as adjusted clearly differs from NAREIT's definition of FFO, and may not be comparable to that of other REITs and real estate companies, we believe it provides a meaningful supplemental measure of our operating performance because we believe that, by excluding the effects of the losses from early extinguishments of debt associated with the sales of real estate, management and investors are presented with an indicator of our operating performance that more closely achieves the objectives of the real estate industry in presenting FFO.

Neither FFO nor FFO as adjusted should be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance. Neither FFO nor FFO as adjusted represents cash generated from operating activities determined in accordance with GAAP, and neither is a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO and FFO as adjusted should be compared with our reported net income and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

FFO and FFO as adjusted fall within the definition of "non-GAAP financial measure" set forth in Item 10(e) of Regulation S-K and as a result the Company is required to include in this report a statement disclosing the reasons why management believes that presentation of this measure provides useful information to investors. Management believes that in order to facilitate a clear understanding of the combined historical operating results of the Company, FFO and FFO as adjusted should be considered in conjunction with net income as presented in the consolidated financial statements included elsewhere herein. Management believes that by excluding gains or losses related to dispositions of property and excluding real estate depreciation (which can vary among owners of similar assets in similar condition based on historical cost accounting and useful life estimates), FFO and FFO as adjusted can help one compare the operating performance of a company's real estate between periods or as compared to different companies. In addition, FFO as adjusted by the Company ties the losses on early extinguishment of debt to the real estate which was sold triggering the extinguishment. The Company also uses these measures to compare its performance to that of its peer group. FFO and FFO as adjusted do not represent cash generated from operating

activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. Neither FFO nor FFO as adjusted should be considered as an alternative to net income as an indication of the Company's performance or to cash flow as a measure of liquidity.

(3) (continued)

The following table sets forth the calculation of FFO and FFO as adjusted for the previous five years, beginning with "net income attributable to common shareholders" from the Company's audited financial statements prepared in accordance with GAAP (in thousands):

	2009	2008	2007	2006	2005
Net income attributable to common shareholders	$34,419	$66,081	$56,605	$104,766	$75,233
Convertible preferred dividends (a)	-	-	-	-	880
Real property depreciation and amortization (b)	118,480	114,260	110,536	99,420	97,686
Noncontrolling interest	12,659	27,124	22,712	43,199	37,190
Gain on disposition of property	(24,314)	(51,560)	(42,126)	(110,514)	(73,383)
FFO – Basic and Diluted, as defined by NAREIT	141,244	155,905	147,727	136,871	137,606
Loss from early extinguishment of debt in connection with sale of real estate	4,927	1,413	890	9,770	-
FFO – Basic and Diluted, as adjusted by the Company	$146,171	$157,318	$148,617	$146,641	$137,606
Weighted average common shares/units outstanding:					
Basic	45,274.4	45,200.4	46,520.7	47,262.7	47,714.3
Diluted (a)	45,405.7	45,541.3	47,185.2	47,902.4	48,411.3
FFO – Diluted, as adjusted by the Company per share/unit (a)	$3.22	$3.45	$3.15	$3.06	$2.84

(a) The calculation of FFO and FFO per share assumes the conversion of dilutive common stock equivalents and convertible preferred stock. Therefore, the convertible preferred dividends are added to FFO, and the common stock equivalent is included in both the basic and diluted weighted average common shares/units outstanding.

(b) For 2005 only, includes amounts passed through from unconsolidated investments.

All REITs may not be using the same definition for FFO. Accordingly, the above presentation may not be comparable to other similarly titled measures of FFO of other REITs.

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

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to facilitate an understanding of the Company's business and results of operations. It should be read in conjunction with the Consolidated Financial Statements, the accompanying Notes to Consolidated Financial Statements and the selected financial data included elsewhere in this Form 10-K. This Form 10-K, including the following discussion, contains forward-looking statements regarding future events or trends as described more fully under "Forward-Looking Statements" on Page 51. Actual results could differ materially from those projected in such statements as a result of the risk factors described in Item 1A, "Risk Factors," of this Form 10-K.

The Company is engaged in the ownership, management, acquisition, rehabilitation and development of residential apartment communities primarily in selected Northeast, Mid-Atlantic and Southeast Florida markets. As of December 31, 2009, the Company operated 107 apartment communities with 36,947 apartments. Of this total, the Company owned 105 communities, consisting of 35,797 apartments, managed as general partner one partnership that owned 868 apartments, and fee managed one property with 282 apartments for a third party.

Executive Summary

The Company operated during 2009 in a declining economic environment. For historical reference, from 2004 through 2007, both the Company's markets and the country as a whole experienced positive job growth; 1.0%, 1.1%, 1.2% and 1.0% for the Company, and 1.7%, 1.5%, 1.7% and 0.9% for the country, respectively. An increase in job growth leads to household formations, which creates an increase in demand for rental housing. In addition, during 2006 and continuing through most of 2009, the rising home mortgage interest rates and subsequent sub-prime lending crisis issues made it more difficult for residents who may have considered purchasing a home. After years of home ownership being the number one reason our residents gave for moving out of our apartment communities, it dropped to number two in 2007 and number three in both 2008 and 2009. In the three-year period from 2004 to 2006, home purchases represented, on average, over 19% of our move-outs. In 2007 and 2008, we experienced the first significant drop in years, with move out for home purchase declining to 15.5% and 12.0%, respectively. During 2009, we have seen stabilization of this measurement, with the percentage staying at the same 12.0% level as experienced in 2008. The government program of providing a tax credit for certain qualified buyers seems to have provided a floor, such that we do not anticipate this level going down in 2010. As referenced in our Market Demographics table on Page 8 of this report, job growth for our markets declined in 2009 with 2.1% negative growth over 2008, on top of a 1.2% decline in 2008. As there is usually a lag between job loss and its effect on household formation, this decline did not create a measurable decreased demand for our apartments until very late in 2008. This reduced demand put pressure on our ability in 2009 to raise rents and maintain occupancy, which will continue into 2010 with an unemployment rate of 8.1% in our markets at December 31, 2009, and no catalyst in the near term for increasing employment.

The reason for using rent concessions, and the ultimate level of those concessions, had been consistent historically with concessions in 2006 and 2007 at just slightly over 90 basis points. During late 2007, the Company started converting to a new property management operating system ("MRI") that wasn't fully rolled out until late spring 2008. The Company implemented a Lease Rent Options ("LRO") program that no longer uses concessions to set market rents. Concessions continued in the legacy operating system but were phased out during 2008 upon converting properties to the new program. Under the new program rents are set to market daily, based on apartment availability, local supply of and demand for units, and pricing. Therefore, concessions dropped considerably in 2008 to 37 basis points of rent potential, with a further drop in 2009 to 29 basis points. Rent concessions are still used, but sparingly,

in specific locations for specific units.

The Company owned 102 communities with 34,768 apartment units throughout 2008 and 2009 where comparable operating results are available for the years presented (the "2009 Core Properties"). Occupancies at the 2009 Core Properties decreased slightly, by 10 basis points, from 95.0% to 94.9%. Occupancies in the fourth quarter of 2009 averaged 95.1%, compared to 94.9% a year ago. Including bad debt in the calculation to arrive at economic occupancy, this metric remained steady at 93.7% for both 2009 and 2008. The level of bad debt increased in 2008 to 125 basis points compared to 84 basis points in 2007. For 2009, we were able to maintain a similar level at 122 basis points. The Company has taken measures to reduce this level by taking a more active role in the collection of receivables instead of relying on third party providers. The addition of utility reimbursements for residents has increased receivables, which along with the recession, has put pressure on our ability to limit bad debts to historical levels. For 2010, we are projecting bad debts to be 130 basis points of rent potential.

The Company uses a measurement referred to as Available to Rent, or ATR. This is a leading indicator of future occupancy rates and refers to units which will be available for rent, based upon leases signed or termination notices received relating to future move in/move out dates. As of the end of January, 2010, our ATR was 5.9%, compared to the same time period a year ago when ATR was 6.7%. This suggests that occupancy could improve as we expect to have fewer units available to rent in the near future. For 2010, we are projecting physical occupancy to be equal to 2009.

Total Core Properties rental revenue growth for 2009 was projected to be 1.4%, consisting of 2.3% in rental rate growth less 0.9% in economic occupancy decline. Actual results were 0.1% in rental rate growth, and 0.0% decrease in economic occupancy, resulting in 0.1% total rental revenue growth, or 150 basis points lower than guidance. The continued decline in the economy made it difficult to hold rents up at the level projected at the first of the year.

The guidance for 2010 Core Properties (apartment units owned throughout 2009 and 2010, the "2010 Core Properties") revenue growth is 0.2%. Rental rates are projected to decrease 0.1%, including above-average rental increases at certain communities resulting from continued efforts to upgrade the properties. Economic occupancies are expected to stay flat for the year, such that rental revenues are projected to decrease 0.1%. Property other income is expected to rise year over year, increasing the 0.1% rental revenue decline to 0.2% total revenue growth. Driving the property other income growth is a $1.5 million increase from utility recovery income. Expenses for 2010 Core Properties are projected to increase 3.1%.

These revenue and expense projections result in 2010 Core Properties NOI growth of negative 1.9% at the mid-point of 2010 guidance. Markets where the Company expects NOI results above the average include: Boston -0.3%; Baltimore -0.6%; and Washington, D.C. -0.9%. Markets with below average expectations include: New York City Metro area -2.3%; Florida -2.7%; Philadelphia -3.2%; Maine -3.0%; and Chicago -11.2%. Certain historical demographic information for these markets may be found in the tables on Pages 8 and 9 of this report.

Of the two items comprising NOI, revenue and operating expenses, the revenue component is likely to be more volatile. It is difficult to predict when the ultimate recovery will commence, including factors such as job growth (loss) and housing demand. A worsening economic recession is not expected. A slight recovery is anticipated the second half of the year, which if not achieved could put pressure on the Company's ability to reach the mid-point of guidance. An economic recovery sooner than anticipated could allow the Company to achieve results above the mid-point of guidance. The Company has given FFO guidance for 2010 with a range of $2.75 to $2.99 per share.

The Company has anticipated acquisitions of $100 million in its budget for 2010. The Company is committed to a disciplined approach to acquisitions, but with stabilizing cap rates and a renewed confidence in underwriting positive NOI growth for years after 2010, coupled with improvements in the credit market, we believe that this is a time to make conservative acquisitions.

During 2010, the Company will target leverage slightly under 51% of debt-to-total market capitalization (calculated using the stock price to estimate equity value) in order to meet the goals described above. This level is 40 basis points less than the measurement at the end of 2009.

Results of Operations (dollars in thousands, except unit and per unit data)

Comparison of year ended December 31, 2009 to year ended December 31, 2008.

The Company owned 102 communities with 34,768 apartment units throughout 2008 and 2009 where comparable operating results are available for the years presented (the "2009 Core Properties"). For the year ended December 31, 2009, the 2009 Core Properties showed a decrease in total revenues of 0.1% and no change in net operating income compared to the 2008 period. Property level operating expenses decreased 0.2%. Average physical occupancy for the 2009 Core Properties decreased from 95.0% to 94.9%, with average monthly rental rates increasing 0.1% to $1,137 per apartment unit.

A summary of the 2009 Core Properties NOI is as follows:

	2009	2008	$ Change	% Change
Rent	$444,623	$444,264	$359	0.1 %
Utility recovery revenue	19,425	20,088	(663)	(3.3%)
Rent including recoveries	464,048	464,352	(304)	(0.1%)
Other income	20,444	20,558	(114)	(0.6%)
Total revenue	484,492	484,910	(418)	(0.1%)
Operating and maintenance	(201,702)	(202,128)	426	0.2 %
Net operating income	$282,790	$282,782	$8	0.0 %

Net operating income ("NOI") may fall within the definition of "non-GAAP financial measure" set forth in Item 10(e) of Regulation S-K and, as a result, the Company may be required to include in this report a statement disclosing the reasons why management believes that presentation of this measure provides useful information to investors. The Company believes that NOI is helpful to investors as a supplemental measure of the operating performance of a real estate company because it is a direct measure of the actual operating results of the Company's apartment communities. In addition, the apartment communities are valued and sold in the market by using a multiple of NOI. The Company also uses this measure to compare its performance to that of its peer group.

During 2008, the Company acquired and developed a total of 861 apartment units in three communities (the "2008 Acquisition Communities"). The inclusion of these acquired and developed communities generally accounted for the significant changes in operating results for the year ended December 31, 2009. In addition, the reported income from operations include the consolidated results of one investment where the Company is the managing general partner that has been determined to be a Variable Interest Entity ("VIE").

A summary of the NOI from continuing operations for the Company as a whole is as follows:

	2009	2008	$ Change	% Change
Rent	$462,086	$452,142	$9,944	2.2 %
Utility recovery revenue	19,782	20,155	(373)	(1.9%)
Rent including recoveries	481,868	472,297	9,571	2.0 %
Other income	20,982	21,181	(199)	(0.9%)
Total revenue	502,850	493,478	9,372	1.9 %
Operating and maintenance	(211,265)	(207,517)	(3,748)	(1.8%)
Net operating income	$291,585	$285,961	$5,624	2.0 %

33

During 2009, the Company disposed of five properties in three transactions with a total of 1,333 units, which had partial results for 2009 and full year results for 2008 and 2007 (the "2009 Disposed Communities"). During 2008, the Company disposed of fifteen properties in six transactions with a total of 1,227 units, which had partial results for 2008 and full year results for 2007 (the "2008 Disposed Communities"). The results of these disposed properties have been reflected in discontinued operations and are not included in the tables above.

For the year ended December 31, 2009, income from continuing operations decreased by $12,337 when compared to the year ended December 31, 2008. The decrease was primarily attributable to the following factors: an increase in rental income of $9,944, an increase in other income of $300, a decrease in general and administrative expense of $1,012 and no impairment of assets held as general partner. These changes were more than offset by a decrease in property other income of $572, a decrease in interest income of $106, an increase in operating and maintenance expense of $3,748, an increase in interest expense of $3,484 and an increase in depreciation and amortization of $8,379. In addition, the 2008 results included a nonrecurring gain on early extinguishment of debt of $11,304. Each of the items are described in more detail below.

Of the $9,944 increase in rental income, $9,454 is attributable to the 2008 Acquisition Communities and $131 is attributable to the consolidation of the VIE. The balance, an increase of $359, relates to a 0.1% increase from the 2009 Core Properties due primarily to an increase of 0.1% in weighted average rental rates, accompanied by no change in economic occupancy which was 93.7% for both periods. Utility recovery revenue decreased by $373, comprised of an increase attributable to the 2008 Acquisition Communities of $290, offset by a $663 decrease to the Core Properties. The lower utility recovery revenue in 2009 is due primarily to warmer than normal temperatures in 2009 compared to cooler temperatures in the spring of 2008, leading to decreased energy consumption and lower heat billed through to residents.

The remaining property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport rentals, revenue from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents, decreased in 2009 by $199. Of this decrease, $85 is attributable to the 2008 Acquisition Communities, which realized $473 of nonrecurring commercial revenues in 2008; and $114 is attributable to the 2009 Core Properties, which realized $367 in nonrecurring other income in 2008, partially offset by higher laundry and pet fees in the 2009 period.

Interest income decreased $106 due to a lower level of invested excess cash on hand and lower interest rates as compared to the prior year.

Other income, which primarily reflects management and other real estate service fees recognized by the Company, increased by $300. This is primarily due to an increase in post closing consultation fees recognized between periods in connection with property dispositions, as the fourth quarter 2008 dispositions resulted in first quarter 2009 fees, in addition to the first quarter 2009 dispositions resulting in fees recognized in 2009.

Of the $3,748 increase in operating and maintenance expenses, $4,174 is attributable to the 2008 Acquisition Communities. The balance for the 2009 Core Properties, a $426 decrease in operating expenses or 0.2%, is primarily a result of increases in personnel expense, real estate taxes and snow removal costs. These increases were more than offset by reductions in property insurance, gas heating costs and property management G&A.

The breakdown of operating and maintenance costs for the 2009 Core Properties by line item is listed below:

	2009	2008	$ Variance	% Variance
Electricity	$8,698	$8,402	$(296)	(3.5%)
Gas	18,356	19,290	934	4.8%
Water & sewer	14,076	13,562	(514)	(3.8%)
Repairs & maintenance	29,449	29,540	91	0.3%
Personnel expense	45,172	43,903	(1,269)	(2.9%)
Advertising	4,100	4,341	241	5.6%
Legal & professional	1,561	1,786	225	12.6%
Office & telephone	5,599	5,853	254	4.3%
Property insurance	9,681	12,060	2,379	19.7%
Real estate taxes	46,255	44,444	(1,811)	(4.1%)
Snow	1,181	696	(485)	(69.7%)
Trash	3,378	3,264	(114)	(3.5%)
Property management G&A	14,196	14,987	791	5.3%
Total	$201,702	$202,128	$426	0.2%

Natural gas heating costs were down $934, or 4.8%, from a year ago, due mostly to decreases in natural gas pricing as a direct result of the Company's natural gas purchasing program. For 2009, our natural gas weighted average cost, including transportation of $3.00 per decatherm, was $10.94 per decatherm compared to $11.38 for the 2008 period, a 3.9% decrease. In addition to the savings on the commodity cost we also experienced a slight decrease in consumption during 2009 due to the impact of conservation measures and slightly warmer temperatures.

As of the middle of February, 2010, the Company has fixed-price contracts covering approximately 99% of its natural gas exposure for the balance of the 2009/2010 heating season. Risk is further diversified by staggering contract term expirations. For the balance of the 2009/2010 heating season, the Company estimates the average price per decatherm will be approximately $6.82, excluding transportation which has historically approximated $3.00 per decatherm. For the 2010/2011 heating season, the Company has fixed-priced contracts covering approximately 74% of its natural gas exposure for an estimated weighted average cost for fixed and floating rate contracts of $6.34 per decatherm, excluding transportation.

Water & sewer costs were up $514, or 3.8%, from a year ago and is attributable to general cost increases being assessed by local municipalities; however, the water & sewer recovery program enables the Company to recapture much of these cost increases from our residents.

Repairs & maintenance expenses were down $91, or 0.3%, primarily due to the 2009 period including $77 more in recoveries from insurance claims. Without the impacts of these insurance recoveries, the recurring repairs & maintenance expenses decreased $14, which reflects the diligent efforts of property management to control costs through the renegotiation of service contracts permitted by the competitive economic environment. The Company has provided guidance for 2010 which anticipates a 3.9% increase in repairs and maintenance.

Personnel expenses were up $1,269 or 2.9%, over 2008. Cost increases were partially offset by a $305 decrease in health and workers compensation reserves between periods. In 2009, reserves were lowered by $324 as compared to 2008, where we were able to lower these reserves by $19. The change in the reserves between periods reflects the variable nature of health and workers compensation claims, the settlement of nearly 25% of the open prior year claims during 2009 and the positive impacts of Company initiatives for emphasizing safety in the workplace which were

launched in mid-2009. It is important to note that for 2009 and 2010, the Company has entered into guaranteed cost programs for workers compensation, which will eliminate the volatility of claims reserves sometimes experienced under partial self-insurance programs. The balance of the increase in personnel costs after the favorable reserve changes was $1,574, or 3.6%, which includes a 2.6% salary and wage increase between periods.

Advertising expenses were down $241, or 5.6%, in 2009 and is reflective of the resident marketing program which places less emphasis and spending on print media and more focus on referrals and internet-based methods which have resulted in a 1% increase in traffic in 2009 as compared to 2008.

Legal & professional expenses were down $225, or 12.6%, primarily due to 2008 including a nonrecurring specific reserve for pending litigation.

Property insurance costs decreased $2,379, or 19.7%, due in part to a favorable change of $1,191 in the self-insurance reserves. In 2009, we realized a reduction of $369 compared to an increase of $822 in 2008. The favorable reduction is attributable to the resolution of over 50% of the prior year's open general liability and property loss claims during 2009 at amounts less than previously estimated, along with the actuarially favorable impact of having fewer open claims. The decrease before reserve adjustments of $1,188, or 9.9%, is partially the result of settling $483 of subrogation claims in 2009 and increased emphasis on preventing losses at the communities through safety training programs and the installation of in-unit fire extinguishers for every apartment and townhome.

Real estate taxes were up $1,811, or 4.1%. A mitigating factor was $1,318 in refunds received in 2009 from successful tax assessment appeals compared to $590 in the 2008 period. Without the impact of refunds, recurring taxes were up $2,539, or 5.7%, reflecting increased assessments and typical rate increases in our markets.

Snow removal costs were up $485, or 69.7%. The year 2009 produced above normal snowfalls compared to below normal snowfalls in 2008. Trash removal costs were up $114, or 3.5%, driven by higher costs, including fuel surcharges, being passed through to the Company by trash haulers.

Property management general and administrative costs decreased $791, or 5.3%, primarily due to staff reductions as a result of efficiencies enabled through key application software investments and lower performance-based compensation.

The operating expense ratio (the ratio of operating and maintenance expense compared to rental and property other income) for the 2009 Core Properties was 41.6% and 41.7% for 2009 and 2008, respectively. The consistent performance despite a tough operating climate is the result of increases in rental rates achieved through ongoing efforts to upgrade and reposition properties for maximum potential, deliberate cost savings implemented at the communities, and Company-wide programs designed to reduce or maintain spending levels. In general, the Company's operating expense ratio is higher than that experienced in other parts of the country due to relatively high real estate taxes and heating costs in its markets.

General and administrative expenses ("G&A") decreased in 2009 by $1,012 or 4.0%, from $25,488 in 2008 to $24,476 in 2009. G&A as a percentage of total revenues (including discontinued operations) were 4.8% for 2009 as compared to 5.0% for 2008. The incentive bonus is down $2,015, or 50.1%, as compared to 2008, which reflects the decrease in the Company's operating performance as compared to the prior year. Stock based compensation expenses were up $1,296 in 2009 as compared to 2008, due in part to the change in estimated forfeitures from the 2004 grant year and the impact of the prescribed accounting rule changes in vesting period determination for retirement eligibility that took effect in 2006. In addition, the Company recorded $582 in nonrecurring severance costs in the 2009 period. A decrease of $130, or 11.1%, was realized in the external costs incurred for auditing, tax and consultation expense.

Interest expense increased by $3,484 in 2009 primarily as a result of interest expense on the new debt of the 2008 Acquisition Communities, partially offset by lower interest on the Senior Notes as a result of the $60,000 principal amount extinguishment in the fourth quarter 2008. In addition, amortization from deferred charges relating to the financing of properties totaled $3,373 and $2,933, and was included in interest expense for 2009 and 2008,

respectively.

Depreciation and amortization expense increased $8,379 due to the incremental depreciation on the capital expenditures for additions and improvements to the Core Properties of $69,541 and $100,751 in 2009 and 2008, respectively, as well as a full year of depreciation expense for the 2008 Acquisition Communities.

In the fourth quarter of 2008, the Company made a formal decision to pursue the sale of its general partnership interest in the VIE. This decision, and the resulting shortened holding period, resulted in a re-valuation of the underlying real estate and goodwill of the partnership. The Company performed a valuation analysis on the underlying real estate, and as a result, recorded a $4,000 impairment charge to reduce its long-term asset's net book value to fair market value including a $394 impairment charge to write off the goodwill associated with the management contract.

During October and November 2008, the Company repurchased and retired $60,000 principal amount (with a carrying value of $57,367) of its exchangeable senior notes for $45,360, in several privately-negotiated transactions resulting in a gain on early extinguishment of debt of $11,304, after the write off of $703 unamortized debt issuance costs.

Included in discontinued operations for 2009 are the operating results of the 2009 Disposed Communities. Included in discontinued operations for 2008 are the operating results of the 2009 and 2008 Disposed Communities. For purposes of the discontinued operations presentation, the Company only includes interest expense and losses from early extinguishment of debt associated with specific mortgage indebtedness of the properties that are sold or held for sale.

Included in the $24,314 gain on disposition of property reported for 2009 is the sale of five apartment communities. Included in the $51,560 gain on disposition of property reported for 2008 is the sale of fifteen apartment communities.

Net income decreased $46,127 in 2009 primarily due to there being no gain on early extinguishment of debt, a decrease in gain on disposition of property of $27,246 and $6,544 lower income from discontinued operations in 2009 compared to 2008.

Comparison of year ended December 31, 2008 to year ended December 31, 2007.

The Company owned 97 communities with 33,227 apartment units throughout 2007 and 2008 where comparable operating results are available for the years presented (the "2008 Core Properties"). For the year ended December 31, 2008, the 2008 Core Properties showed an increase in total revenues of 3.5% and a net operating income increase of 3.3% over the 2007 period. Property level operating expenses increased 3.7%. Average physical occupancy for the 2008 Core Properties increased from 94.8% to 95.0%, with average monthly rental rates increasing 2.8% to $1,141 per apartment unit.

A summary of the 2008 Core Properties NOI is as follows:

	2008	2007	$ Change	% Change
Rent	$426,788	$415,934	$10,854	2.6 %
Utility recovery revenue	19,649	16,920	2,729	16.1 %
Rent including recoveries	446,437	432,854	13,583	3.1 %
Other income	19,597	17,557	2,040	11.6 %
Total revenue	466,034	450,411	15,623	3.5 %
Operating and maintenance	(193,690)	(186,774)	(6,916)	(3.7 %)
Net operating income	$272,344	$263,637	$8,707	3.3 %

During 2008, the Company acquired and developed a total of 861 apartment units in three communities (the "2008 Acquisition Communities"). In addition, the Company experienced full-year results for the 1,709 apartment units in six apartment communities (the "2007 Acquisition Communities") acquired and developed during 2007. The inclusion of these acquired and developed communities generally accounted for the significant changes in operating results for the year ended December 31, 2008. In addition, the reported income from operations include the

consolidated results of one investment where the Company is the managing general partner that has been determined to be a Variable Interest Entity ("VIE").

A summary of the NOI from continuing operations for the Company as a whole is as follows:

	2008	2007	$ Change	% Change
Rent	$452,142	$434,475	$17,667	4.1 %
Utility recovery revenue	20,155	17,123	3,032	17.7 %
Rent including recoveries	472,297	451,598	20,699	4.6 %
Other income	21,181	18,288	2,893	15.8 %
Total revenue	493,478	469,886	23,592	5.0 %
Operating and maintenance	(207,517)	(196,121)	(11,396)	(5.8 %)
Net operating income	$285,961	$273,765	$12,196	4.5 %

During 2009, the Company disposed of five properties in three transactions with a total of 1,333 units, which had full year results for 2008 and 2007 (the "2009 Disposed Communities"). During 2008, the Company disposed of fifteen properties in six transactions with a total of 1,227 units, which had partial results for 2008 and full year results for 2007 (the "2008 Disposed Communities"). During 2007, the Company disposed of five properties with a total of 1,084 units, which had partial results for 2007 (the "2007 Disposed Communities"). The results of these disposed properties have been reflected in discontinued operations and are not included in the table above.

For the year ended December 31, 2008, income from continuing operations increased by $5,458 when compared to the year ended December 31, 2007. The increase was primarily attributable to the following factors: an increase in rental income of $17,667, an increase in property other income of $5,925, and a gain on early extinguishment of debt of $11,304. These increases were partially offset by a decrease in interest and other income of $2,521, an increase in operating and maintenance expense of $11,396, an increase in general and administrative expense of $2,076, an increase in interest expense of $1,771, an increase in depreciation and amortization of $7,673, and an impairment of assets held as general partner of $4,000. Each of the items are described in more detail below.

Of the $20,699 increase in rental income including utility recoveries, $5,003 is attributable to the 2007 Acquisition Communities, $2,137 is attributable to the 2008 Acquisition Communities partially offset by a $24 decrease attributable to the consolidation of the VIE. The balance of $13,583 relates to a 3.1% increase from the 2008 Core Properties due primarily to an increase of 2.8% in weighted average rental rates, accompanied by a decrease in economic occupancy from 93.9% to 93.8%, resulting in 2.6% rental growth before utility recovery revenue. Included in the Core increase is $2,729 which represents increased utility recovery revenue compared to 2007 attributable to the Company's water & sewer, heat, and electric recovery programs, which were initiated in the second quarter of 2005 and phased in through the third quarter of 2007.

The remaining property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport rentals, revenue from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents, increased in 2008 by $2,893. Of this increase, $330 is attributable to the 2007 Acquisition Communities and $572 is attributable to the 2008 Acquisition Communities; partially offset by a $49 decrease attributable to the VIE. The balance of $2,040 relates to an 11.6% increase from the 2008 Core Properties resulting from increased emphasis on charging early termination fees and late charges as compared to 2007.

Interest income decreased $1,799 due to a lower level of invested excess cash on hand. The 2007 period realized higher interest income from proceeds of the fourth quarter 2006 and second half 2007 property dispositions and proceeds from exchangeable senior notes awaiting reinvestment into replacement and development property.

Other income, which is comprised of management and other real estate service fees recognized by the Company, decreased by $723, primarily due to a $612 reduction in post closing consultation fees recognized between periods. The first half of 2007 realized higher fees as a result of the significant fourth quarter 2006 property dispositions.

Of the $11,396 increase in operating and maintenance expenses, $3,023 is attributable to the 2007 Acquisition Communities, $699 is attributable to the 2008 Acquisition Communities and a $758 increase attributable to the consolidation of the VIE reflecting an increase in repairs & maintenance that occurred in 2008. The balance for the 2008 Core Properties, a $6,916 increase in operating expenses or 3.7%, is primarily a result of increases in repairs and maintenance, property insurance and real estate taxes. These increases were offset in part by reductions in gas heating and snow removal costs.

The breakdown of operating and maintenance costs for the 2008 Core Properties by line item is listed below:

	2008	2007	$ Variance	% Variance
Electricity	$8,144	$7,737	$(407)	(5.3%)
Gas	18,131	18,943	812	4.3%
Water & sewer	12,873	12,403	(470)	(3.8%)
Repairs & maintenance	28,388	26,368	(2,020)	(7.7%)
Personnel expense	42,051	41,232	(819)	(2.0%)
Advertising	4,150	4,358	208	4.8%
Legal & professional	1,736	1,355	(381)	(28.1%)
Office & telephone	5,219	5,312	93	1.8%
Property insurance	11,582	9,733	(1,849)	(19.0%)
Real estate taxes	43,223	41,036	(2,187)	(5.3%)
Snow	662	1,034	372	36.0%
Trash	3,198	2,744	(454)	(16.5%)
Property management G&A	14,333	14,519	186	1.3%
Total	$193,690	$186,774	$(6,916)	(3.7%)

Natural gas heating costs were down $812, or 4.3%, from 2007, due mostly from decreases in natural gas pricing as a direct result of the Company's natural gas purchasing program. For 2008, our natural gas weighted average cost, including transportation of $3.00 per decatherm, was $11.38 per decatherm compared to $11.89 for the 2007 period, a 4.3% decrease. The savings on the commodity was partially offset by a slight increase in consumption during 2008.

Water & sewer costs were up $470, or 3.8% from 2007, due primarily to two properties realizing refunds of $223 during 2007 relating to the correction of metering issues that did not reoccur in 2008, with the balance of the increase, $247, or 2.0%, attributable to general cost increases being assessed by local municipalities; however, the water & sewer recovery program, which became fully phased in during 2006, enables the Company to recapture much of these cost increases from our residents.

Repairs & maintenance expenses were up $2,020, or 7.7%, primarily due to the 2007 period including $602 more in recoveries from insurance claims. Without the impacts of these insurance recoveries, the recurring repairs & maintenance expenses increased $1,418, or 5.4%, mostly in contract repairs and cleaning.

Personnel expenses were up $819 or 2.0% over 2007. Of the increase, $798 is reflective of changes in health and workers compensation reserves between periods. In 2007, reserves were increased by $779 as compared to 2008, where we were able to decrease these reserves by $19. The swing in the reserves between periods reflects the variable nature of health and workers compensation claims. The balance of the increase in personnel costs after reserve changes was $1,617, or 3.9%, which includes a 2.7% salary and wage increase between periods.

Advertising expenses were down $208, or 4.8% in 2008 and is reflective of the resident marketing program which places less emphasis and spending on print media and more focus on referrals and internet based methods which have

resulted in a 10% increase in traffic in 2008 as compared to 2007.

Legal & professional expenses were up $381, or 28.1%, primarily due to a specific reserve for pending litigation.

Property insurance costs increased $1,849, or 19.0%, primarily attributed to a change in how the Company is exposed to the self-insurance portion of the November 1, 2008 policy renewal. Historically, we had a $250 deductible per occurrence, so we were responsible for the first $250 on a large fire loss. For the 2008 policy year,

we were responsible for an aggregate retention amount of $2,250 for all losses before a smaller deductible of $100 on each occurrence thereafter. In looking at the year from an actuarial perspective, the new pricing should produce similar results over the 12-month policy period, but could produce volatility for the year. Less than two months into the policy period, we suffered a $1,300 loss from a large fire on Christmas night 2008, or almost 60% of the aggregate retention for the year. As we are 100% responsible for this loss, the entire $1,300 loss was recognized in December, 2008.

Real estate taxes were up $2,187, or 5.3%. The contributing factor was $1,081 in refunds received in 2007 from successful tax assessment appeals compared to $590 in the 2008 period. Without the impact of refunds, recurring taxes were up $1,696, or 4.1%.

Snow removal costs were down $372, or 36.0%. The year 2007 produced above normal snowfalls compared to below normal snowfalls in 2008.

Trash removal costs were up $454, or 16.5%, driven by higher costs, including fuel surcharges, being passed through to the Company by trash haulers.

The operating expense ratio (the ratio of operating and maintenance expense compared to rental and property other income) for the 2008 Core Properties was 41.6% for 2008 as compared to 41.5% for 2007. The consistent performance resulted from the 3.5% increase in total revenue achieved through ongoing efforts to upgrade and reposition properties for maximum potential and a full year impact of the Company's roll out of its heating cost recovery program, which began in 2005; partially offset by the 3.7% increase in operating and maintenance expense. In general, the Company's operating expense ratio is higher than that experienced in other parts of the country due to relatively high real estate taxes and heating costs in its markets.

General and administrative expenses ("G&A") increased in 2008 by $2,076 or 8.9% from $23,412 in 2007 to $25,488 in 2008. G&A as a percentage of total revenues (including discontinued operations and gain on early extinguishment of debt) were 4.8% for 2008 as compared to 4.6% for 2007. If not for $520 in one-time uncompleted transaction costs expensed in the third quarter of 2007, the G&A as a percentage of total revenues would have been 4.5% in 2007. Stock-based compensation expenses were up $1,016 in 2008 as compared to 2007. The 2008 stock plan contained vesting conditions that triggered a $388 increase in director restricted stock compensation recognized in the second quarter of 2008 as compared to the terms in the prior plans. It is important to note that this is a timing difference only and that the total value of the stock awards was similar between years. Also, the change in estimated forfeitures from the 2003 grant year added $195 more expense in the current period. Incentive bonus expense was up $835 in 2008 as compared to 2007, which was driven by the increases in the Company's operating performance and increases in base salaries as compared to prior year. The rollout, training and support of the new property management systems accounted for staff and consulting increases of $328 within the information systems department. Additionally, the ramp-up of the development department accounted for a $285 increase. A decrease of $312, or 21.0%, was realized in the external costs incurred for auditing, tax and consultation expense, including costs to comply with Section 404 of Sarbanes-Oxley.

Interest expense increased by $1,771 in 2008 primarily as a result of a full year of interest expense for the 2007 Acquisition Communities, increased borrowings on the line of credit and the increased borrowings for the 2008 Acquisition Communities. In addition, amortization from deferred charges relating to the financing of properties totaled $2,933 and $2,830, and was included in interest expense for 2008 and 2007, respectively.

Depreciation and amortization expense increased $7,673 due to the incremental depreciation on the capital expenditures for additions and improvements to the 2008 Core Properties of $90,530 and $76,084 in 2008 and 2007, respectively, a full year of depreciation expense for the 2007 Acquisition Communities as well as the additional depreciation expense on the 2008 Acquisition Communities.

In the fourth quarter of 2008, the Company made a formal decision to pursue the sale of its general partnership interest in the VIE. This decision, and the resulting shortened holding period, resulted in a re-valuation of the underlying real estate and goodwill of the partnership. The Company performed a valuation analysis on the underlying real estate, and as a result, recorded a $4,000 impairment charge to reduce its long-term asset's net book value to fair market value including a $394 impairment charge to write off the goodwill associated with the management contract.

During October and November 2008, the Company repurchased and retired $60,000 principal amount (with a carrying value of $57,367) of its exchangeable senior notes for $45,360, in several privately-negotiated transactions resulting in a gain on early extinguishment of debt of $11,304, after the write off of $703 unamortized debt issuance costs, which was recorded in the fourth quarter of 2008.

Included in discontinued operations for 2008 are the operating results, net of minority interest, of the 2009 and 2008 Disposed Communities. Included in discontinued operations for 2007 are the operating results, net of minority interest, of the 2009, 2008 and 2007 Disposed Communities. For purposes of the discontinued operations presentation, the Company only includes interest expense and losses from early extinguishment of debt associated with specific mortgage indebtedness of the properties that are sold or held for sale.

Included in the $51,560 gain on disposition of property reported for 2008 is the sale of fifteen apartment communities. Included in the $42,126 gain on disposition of property reported for 2007 is the sale of five apartment communities.

Net income increased $10,696 primarily due to the $11,304 gain of early extinguishment of debt and an increase in gain on sale of discontinued operations of $9,434 in 2008 compared to 2007; partially offset by $5,846 lower income from continuing operations before gain on early extinguishment of debt and $4,196 lower income from discontinued operations in 2008 compared to 2007.

Liquidity and Capital Resources

General

In 2000, the Company obtained an investment grade rating from Fitch, Inc. The rating in effect at December 31, 2009 (no change from initial rating) is a corporate credit rating of "BBB" (Triple-B).

The Company's principal liquidity demands are expected to be distributions to the common stockholders and holders of UPREIT Units, capital improvements and repairs and maintenance for its properties, acquisition and development of additional properties and debt repayments. The Company may also acquire equity ownership in other public or private companies that own and manage portfolios of apartment communities.

The Company intends to meet its short-term liquidity requirements through net cash flows provided by operating activities and its existing bank line of credit, described below. The Company considers its ability to generate cash to be adequate to meet all operating requirements, including availability to pay dividends to its stockholders and make distributions to its Unit holders in accordance with the provisions of the Internal Revenue Code, as amended, applicable to REITs.

Specific to 2009, and in response to the constrictions in the credit market, the Company pursued certain initiatives as follows: 1) The Company replaced the $140 million existing unsecured line of credit with a new $175 million facility which matures August 31, 2011. Pricing was more expensive, and moved from interest at 0.75% over the one-month LIBOR to a spread today of 3.00% with a LIBOR floor of 1.5%. In addition, up-front and on-going fees add another approximate 75 basis points to pricing. 2) During 2009, the Company had increased the level of the value of unencumbered properties in relationship to the total property portfolio from 19% to 20%. This higher level adds flexibility, allowing the Company to place secured financing on unencumbered assets if desired. 3) The Company benefits from its multifamily focus as the Government Sponsored Enterprises ("GSEs") Fannie Mae and Freddie Mac are still very active lending to apartment owners. The Company refinanced debt maturing in 2010 early, reducing the level of secured loans maturing in 2010 from $334 million to $146 million. 4) The Company initiated an

At-The-Market ("ATM") equity offering program through which it may sell up to 3.7 million shares of common stock, not to exceed $150 million of gross proceeds. Including trades which closed the first few days of January, 2010, the Company issued 1,041,200 shares generating net proceeds of $47 million.

For 2010, plans include increasing the level of the value of unencumbered properties to over 21% of the portfolio, maintaining the debt-to-total market capitalization ratio at a level equal to or slightly less than the level at December 31, 2009 and issuing the remainder of the dollar value authorized under the ATM program at levels above NAV.

Cash Flow Summary

The Company's net cash flow from operating activities decreased from $160 million in 2008, to $150 million in 2009. The $10 million decrease was principally due to $12 million lower accounts payable and other accrued expenses at the end of 2009 compared to 2008. The primary liability accounts showing a decrease between periods were: accrued bonuses which were $2 million lower at the 2009 year end as a result of lower operating performance, self-insurance reserves which decreased $2 million due to the emphasis in closing claims and the impact of safety measures leading to lower actuarially computed losses, accounts payable which decreased $8 million due to lower capital expenditures and taking advantage of early payment discounts during the fourth quarter of 2009, and $1 million lower accrued payroll as a result of there being fewer unpaid days at the end of 2009.

Cash used in investing activities was $48 million during 2009 compared to $81 million for 2008. Cash outflows for the purchase of properties and land for development were $35 million and $28 million, respectively for 2008 as compared to no spending during 2009. The lack of property and land acquisitions during 2009 is due to the acquisition environment not producing accretive acquisition opportunities. Cash outflows for capital improvements were $79 million during 2009 as compared to $107 million for 2008. The $28 million lower outflow in 2009 reflects management’s conscious efforts to conserve cash and focus only on selective rehabilitation in markets that are able to support rent increases. Cash outflows for additions to construction in progress were $74 million in 2009 as compared to $33 million in 2008. The higher spending on development in 2009 reflects the ongoing construction of two communities which will be placed into service in 2010. During 2009, the proceeds from the sale of five communities yielded $106 million or $81,000 per apartment unit as compared to $122 million or $101,000 per apartment unit in 2008 from the sale of fifteen properties. The lower sale price per unit in 2009 is reflective of the locations and cap rates of the sold properties as compared to the 2008 sales.

Net cash used in financing activities totaled $100 million in 2009, primarily as a result of net proceeds of the ATM common stock offering of $39 million and proceeds from stock option exercises of $8 million; more than offset by distributions paid to shareholders and UPREIT Unitholders of $122 million, a net paydown of $17 million on the line of credit and payments of borrowing costs of $7 million. Net cash used in financing activities totaled $79 million for 2008, primarily as a result of net borrowing under our line of credit of $69 million, net borrowing on mortgage notes of $64 million and proceeds from stock option exercises of $11 million, more than offset by distributions paid to shareholders and UPREIT Unitholders of $120 million, common stock repurchases of $54 million and $45 million for early extinguishment of exchangeable senior notes with a principal amount of $60 million.

Line of Credit

As of December 31, 2009, the Company had a $175 million unsecured line of credit agreement with M&T Bank, as administrative agent and lead bank, which expires August 31, 2011, with a one-year extension, at the Company’s option. The Company had $53.5 million outstanding under the credit facility on December 31, 2009. The line of credit agreement provides the ability to issue up to $20 million in letters of credit. While the issuance of letters of credit does not increase the borrowings outstanding under the line of credit, it does reduce the amount available. At December 31, 2009, the Company had outstanding letters of credit of $5.8 million. As of December 31, 2009, the amount available on the credit facility was $115.7 million (net of $5.8 million which was restricted to support letters of credit and net of $53.5 million in outstanding borrowings). Borrowings under the line of credit bear interest at rates ranging from 2.50% to 3.25% over the one-month LIBOR rate, increasing at higher levels of outstanding indebtedness, with a LIBOR floor of 1.50%. The one-month LIBOR was 0.23% at December 31, 2009, resulting in an effective rate of 4.75% for the Company.

Accordingly, increases in interest rates will increase the Company's interest expense and as a result will affect the Company's results of operations and financial condition.

Indebtedness

As of December 31, 2009, the weighted average interest rate on the Company's total indebtedness of $2.3 billion was 5.56% with staggered maturities averaging approximately six and one quarter years. Approximately 89% of total indebtedness is at fixed rates. This limits the exposure to changes in interest rates, minimizing the effect of interest rate fluctuations on the Company's results of operations and cash flows.

Unencumbered Assets

The Company increased the percentage of unencumbered assets of the total property pool. At the end of 2007, free and clear assets inclusive of unencumbered development properties, were 16% of the property portfolio. This grew to 19% at year end 2008 and to 20% as of December 31, 2009. Higher levels of unsecured assets add borrowing flexibility because more capacity is available for unsecured debt under the terms of the Company's unsecured line of credit agreement. The Company estimates that, under current underwriting standards, approximately $400 million borrowing capacity is available at December 31, 2009.

Exchangeable Senior Notes

In October 2006, the Company issued $200 million of exchangeable senior notes with a coupon rate of 4.125%, which generated net proceeds of $195.8 million. The net proceeds were used to repurchase 933,000 shares of common stock for a total of $58 million, pay down $70 million on the line of credit, with the balance used for redemption of the Series F Preferred Shares and property acquisitions. During the fourth quarter of 2008, the Company repurchased $60 million of the exchangeable senior notes for $45.4 million. The exchange terms and conditions are more fully described under "Contractual Obligations and Other Commitments", below.

UPREIT Units

The issuance of UPREIT Units for property acquisitions continues to be a source of capital for the Company. During 2008 and 2009, the Company did not issue any UPREIT Units as consideration for acquired properties.

Property Dispositions

During 2009, the Company sold five communities, with a total of 1,333 units, for $108.3 million. A gain on sale of approximately $24.3 million was realized from these sales. The weighted average first year capitalization rate projected on these dispositions was 7.8%.

During 2008, the Company sold 15 communities for a total sales price of $124.5 million. A gain on sale of approximately $51.6 million was realized from these sales. The Company was able to sell these properties at a weighted average first year capitalization rate of 6.8%.

Management has not specifically targeted additional communities for sale in 2010 but will continue to evaluate the sale of its communities. The Company has not anticipated closing on sales in its budget for 2010.

Universal Shelf Registration

On April 4, 2007, the Company filed a Form S-3 universal shelf registration statement with the SEC that registers the issuance, from time to time, of common stock, preferred stock or debt securities. The Company may offer and sell securities issued pursuant to the universal shelf registration statement after a prospectus supplement, describing the

type of security and amount being offered, is filed with the SEC. The registration statement expires in April 2010. The Company plans to file a new registration statement before the existing one expires.

Dividend Reinvestment and Direct Stock Purchase Plan ("DRIP")

The Company's DRIP provides the stockholders of the Company an opportunity to automatically invest their cash dividends in additional shares of common stock. In addition, eligible participants may make monthly payments or other voluntary cash investments in shares of common stock. The maximum monthly investment permitted without

prior Company approval is currently $10,000. The Company meets share demand under the DRIP through share repurchases by the transfer agent in the open market on the Company's behalf or new share issuances. Management monitors the relationship between the Company's stock price and its estimated net asset value (“NAV”). During times when the difference between these two values is small, resulting in little dilution of NAV by common stock issuances, the Company can choose to issue new shares. At times when the gap between NAV and stock price is greater, the Company has the flexibility to satisfy the demand for DRIP shares with stock repurchased by the transfer agent in the open market. In addition, the Company can issue waivers to DRIP participants to provide for investments in excess of the $10,000 maximum monthly investment. No such waivers were granted during 2008 or 2009.

Series F Preferred Shares

In March 2002, the Company issued 2,400,000 shares of its 9.00% Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Shares"), with a $25.00 liquidation preference per share. This offering generated net proceeds of approximately $58.1 million. The net proceeds were used to fund the Series B preferred stock repurchase, property acquisitions, and property upgrades. Each Series F Preferred share received an annual dividend equal to 9.00% of the liquidation preference per share (equivalent to a fixed annual amount of $2.25 per share). The Series F Preferred Shares were redeemed by the Company on March 26, 2007 at a redemption price of $25.00 per share, plus accrued and unpaid dividends of $0.4 million. In accordance with the SEC's clarification of EITF Abstracts, Topic No. D-42, The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock, the initial offering costs of $1.9 million associated with the issuance of the Series F Preferred Shares were written-off in the first quarter of 2007, and are reflected as a reduction of net income available to common stockholders in determining earnings per share for the year ended December 31, 2007.

Stock Repurchase Program

In 1997, the Company's Board of Directors (the "Board") approved a stock repurchase program under which the Company may repurchase shares of its common stock or UPREIT Units ("Company Program"). The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action did not establish a target stock price or a specific timetable for repurchase. At December 31, 2007, there was approval remaining to purchase 1,362,748 shares. During 2008, the Company repurchased 1,071,588 shares of its outstanding common stock at a cost of $50 million at a weighted average price of $46.66 per share. On May 1, 2008, the Board approved a 2,000,000-share increase in the stock repurchase program, resulting in a remaining authorization level of 2,291,160 shares as of December 31, 2008. There were no repurchases under the Company Program during 2009. The Company will continue to monitor stock prices, the NAV, and acquisition/development alternatives to determine the current best use of capital between the two major uses of capital – stock buybacks and acquisitions/development. At the present time, the Company has no intention of buying any stock back during 2010.

At-The-Market Equity Offering Program

On December 3, 2009, the Company initiated an “At-The-Market” ("ATM") equity offering program through which it may sell up to 3.7 million shares of common stock (not to exceed $150 million of gross proceeds), from time to time in ATM offerings or negotiated transactions. During the year ended December 31, 2009, the Company issued 871,600 shares of common stock at an average price per share of $45.70, for aggregate gross proceeds of $39.8 million. Aggregate net proceeds from such issuances, after deducting commissions and other transaction costs of $0.8 million were $39.0 million. In addition, the Company issued an additional 169,600 shares of common stock at an average price per share of $48.37, for aggregate proceeds of $8.2 million with a trade date in December 2009 and a settlement date in January 2010. Aggregate net proceeds from such issuances, after deducting commissions and other transaction costs of $0.2 million were $8.0 million.

Critical Accounting Policies–

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, management has utilized information available including industry practice and its own past

44

history in forming its estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by management in formulating its estimates inherent in these financial statements may not materialize. However, application of the accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates which may impact comparability of the Company's results of operations to those of companies in similar businesses.

Disclosure of critical and significant accounting policies is incorporated herein by reference to the discussion under Part IV, Item 15, Notes to Consolidated Financial Statements, Notes 2 and 3.

Variable Interest Entities (dollars in thousands, except unit data)

The Company is the general partner in one variable interest entity ("VIE") with a total of 868 units syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company manages the day-to-day operations of the partnership for a management fee. In addition, the Company has certain operating deficit and tax credit guarantees to the limited partner of that partnership. The Company is responsible for funding operating deficits to the extent there are any and can receive operating incentive awards if cash flows reach certain levels. The effect on the Consolidated Balance Sheets of including this VIE as of December 31, 2009 and 2008 includes total assets of $11,436 and $14,136, total liabilities of $17,060 and $18,056 and partners' deficit of $5,624 and $3,920, respectively. The VIE is included in the Consolidated Statement of Operations for the years ended December 31, 2009, 2008 and 2007.

During 2008, the Company determined to pursue a strategy to sell its general partner interest in the VIE as a result of continued deterioration in property performance and the surrounding market in general. In addition, the Limited Partner of the VIE agreed to allow the Company to pursue an exit strategy. The Company has the property under contract for sale with significant outstanding contingencies that need to be resolved, including limited partner approval and a pending refinancing, before the property can be sold. The decision to pursue a plan to exit the property lead to a re-evaluation of the holding period cash flows and resulting fair market value of the VIE's assets under the authoritative guidance for impairment of long-lived assets (ASC 360-10). Under the authoritative guidance, the Company estimated the undiscounted cash flows for the holding period along with a residual sales value. The undiscounted cash flows of the assets did not equal or exceed the assets net book value, which is indicative of an impairment of the asset. In order to determine the amount of the impairment, the Company calculated the fair value of the assets by using a weighted combination of a direct capitalization approach and a comparable sales approach, as this combination was deemed to be the most indicative of the Company's fair value in an orderly transaction between market participants. The data used to determine the fair market value included historical industry data for estimated capitalization rates, historical and budgeted NOI for the VIE, and recent comparable sales in the market in which the property is located. This resulted in an impairment charge of $4,000 (including $394 of goodwill), which is included in the impairment of assets held as general partner for the year ended December 31, 2008. The events leading to the impairment of the VIE and the pending contract contingencies do not satisfy the criteria for held for sale treatment, accordingly, the VIE is not included in discontinued operations for the periods presented.

Acquisitions and Dispositions (dollars in thousands, except unit and per unit data)

In 2009, the Company sold five properties with a total of 1,333 units for total consideration of $108,300, or an average of $81,250 per unit. The weighted average expected first year cap rate of the 2009 Disposed Communities was 7.8%. The weighted average unleveraged IRR during the Company's ownership for the properties sold was 9.6%.

In 2008, the Company acquired two communities with a total of 813 units for total consideration of $100,400, or an average of approximately $123,500 per unit. For the same time period, the Company sold fifteen properties with a total of 1,227 units for total consideration of $124,500, or an average of $101,400 per unit. The weighted average

expected first year cap rate of the 2008 Acquisition Communities was 6.8% and of the 2008 Disposed Communities was 6.8%. The weighted average unleveraged IRR during the Company's ownership for the properties sold was 13.3%.

Contractual Obligations and Other Commitments

The primary obligations of the Company relate to its borrowings under the line of credit, exchangeable senior notes and mortgage notes payable. The Company's line of credit matures in August 2011 (not including a one-year extension, at the option of the Company), and had $53.5 million outstanding at December 31, 2009. The $2.1 billion in mortgage notes payable have varying maturities ranging from 4 months to 25 years. The principal payments on the mortgage notes payable for the years subsequent to December 31, 2009, are set forth in the table below as "Long-term debt."

In October 2006, the Company issued $200 million of exchangeable senior notes with a coupon rate of 4.125%. The notes are exchangeable into cash equal to the principal amount of the notes and, at the Company's option, cash or common stock for the exchange value, to the extent that the market price of common stock exceeds the initial exchange price of $73.34 per share, subject to adjustment. The exchange price is adjusted for payments of dividends in excess of the reference dividend per the indenture of $0.64 per share. The adjusted exchange price at December 31, 2009 was $72.87 per share. Upon an exchange of the notes, the Company will settle any amounts up to the principal amount of the notes in cash and the remaining exchange value, if any, will be settled, at the Company's option, in cash, common stock or a combination of both. The notes are not redeemable at the option of the Company for five years, except to preserve the status of the Company as a REIT. Holders of the notes may require the Company to repurchase the notes upon the occurrence of certain designated events. In addition, prior to November 1, 2026, the holders may require the Company to repurchase the notes on November 1, 2011, 2016 and 2021. The notes will mature on November 1, 2026, unless previously redeemed, repurchased or exchanged in accordance with their terms prior to that date. During October and November 2008, the Company repurchased and retired $60 million principal amount (with a carrying value of $57.4 million) of its exchangeable senior notes for $45.4 million, in several privately-negotiated transactions at a 24.4% discount from the principal amount. An adjusted gain on debt extinguishment of $11.3 million (after the write off of $0.7 million unamortized debt issuance costs) was recorded in the fourth quarter of 2008, as compared to the originally reported gain of $13.9 million. The adjustment is as a result of recently adopted accounting standards as more fully described in Note 3.

The Company leases its corporate office space from an affiliate and the office space for its regional offices from non-affiliated third parties. The rent for the corporate office space is a gross rent that includes real estate taxes and common area maintenance. The regional office leases are net leases which require an annual base rent plus a pro-rata portion of real estate taxes. In July 2009, the Company extended the lease on its corporate office space through September 2019, plus two five-year renewal options. The new lease term commenced on October 1, 2009. These leases are set forth in the table below as "Operating leases."

Purchase obligations represent those costs that the Company is contractually obligated to pay in the future. The significant components of this caption are costs for capital improvements at the Company's properties, as well as costs for normal operating and maintenance expenses at the site level that are tied to contracts such as utilities, landscaping and grounds maintenance and advertising. The purchase obligations include amounts tied to contracts, some of which expire in 2010. It is the Company's intention to renew these normal operating contracts, however, there has been no attempt to estimate the length or future costs of these contracts.

Tabular Disclosure of Contractual Obligations:

	Payments Due by Period (in thousands)						
Contractual Obligations	Total	2010	2011	2012	2013	2014	Thereafter
Long-term debt (1)	$ 2,112,645	$ 173,084	$ 320,965	$ 144,996	$ 222,716	$ 106,351	$ 1,144,533
Exchangeable senior notes (1)	140,000	-	140,000	-	-	-	-
Line of credit (1)	53,500	-	53,500	-	-	-	-
Operating leases	10,636	1,835	1,629	1,579	1,390	1,414	2,789
Purchase obligations	10,655	10,623	30	2	-	-	-
Total (2)	$ 2,327,436	$ 185,542	$ 516,124	$ 146,577	$ 224,106	$ 107,765	$ 1,147,322

(1) Amounts include principal payments only. The Company will pay interest on outstanding indebtedness based on the rates and terms summarized in Notes 6, 7 and 8.

(2) The contractual obligations and other commitments in the table are set forth as required by Item 303(a)(5) of Regulation S-K promulgated by the SEC in January of 2003 and are not prepared in accordance with generally-accepted accounting principles.

As discussed in the section entitled "Variable Interest Entities," the Company, through its general partnership interest in an affordable property limited partnership, has guaranteed certain low income housing tax credits to limited partners in this partnership totaling approximately $3 million. With respect to the guarantee of the low income housing tax credits, the Company believes the property's operations conform to the applicable requirements and does not anticipate any payment on the guarantee. In addition, the Company, acting as general partner in this partnership, is obligated to advance funds to meet partnership operating deficits.

Capital Improvements (dollars in thousands, except unit and per unit data)

Effective January 1, 2009, the Company updated its estimate of the amount of recurring, non-revenue enhancing capital expenditures incurred on an annual basis for a standard garden style apartment. The Company now estimates that the amount of these capital expenditures is $800 per apartment unit compared to $780 per apartment unit in the prior year. This new amount better reflects current actual costs since the last update.

The Company's policy is to capitalize costs related to the acquisition, development, rehabilitation, construction and improvement of properties. Capital improvements are costs that increase the value and extend the useful life of an asset. Ordinary repair and maintenance costs that do not extend the useful life of the asset are expensed as incurred. Costs incurred on a lease turnover due to normal wear and tear by the resident are expensed on the turn. Recurring capital improvements typically include appliances, carpeting and flooring, HVAC equipment, kitchen/bath cabinets, new roofs, site improvements and various exterior building improvements. Non-recurring, revenue generating capital improvements include, among other items, community centers, new windows, and kitchen/bath apartment upgrades. Revenue generating capital improvements will directly result in rental earnings or expense savings. The Company capitalizes interest and certain internal personnel costs related to the communities under rehabilitation and construction.

47

The table below is a list of the items that management considers recurring, non-revenue enhancing capital and maintenance expenditures for a standard garden style apartment. Included are the per unit replacement cost and the useful life that management estimates the Company incurs on an annual basis.

Category	Capitalized Cost per Unit	Useful Life(1)	Capitalized Expenditure Per Unit Per Year(2)	Maintenance Expense Cost per Unit Per Year(3)	Total Cost per Unit Per Year
Appliances	$1,436	9	$160	$ 13	$173
Blinds/shades	135	3	45	7	52
Carpets/cleaning	770	4	193	180	373