HOME PROPERTIES INC
Form 10-K
February 22, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

o **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, $0.01 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 x No o

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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). Yes x No o

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. ¨

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the 48,992,495 shares of common stock held by non-affiliates was $3,006,179,493 based on the closing sale price of $61.36 per share on the New York Stock Exchange on June 30, 2012.

As of February 14, 2013, there were 51,535,219 shares of common stock, $0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	**Part Into Which Incorporated**
Proxy Statement for the Annual Meeting of Stockholders to be held on April 30, 2013	Part III

Table of Contents

HOME PROPERTIES, INC.

TABLE OF CONTENTS

			Page
PART I.			
	Item 1.	Business	3
	Item 1A.	Risk Factors	13
	Item 1B.	Unresolved Staff Comments	21
	Item 2.	Properties	21
	Item 3.	Legal Proceedings	27
	Item 4.	Mine Safety Disclosures	27
PART II.			
	Item 5.	Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
	Item 6.	Selected Financial Data	31
	Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	34
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	57
	Item 8.	Financial Statements and Supplementary Data	58
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	58
	Item 9A.	Controls and Procedures	58
	Item 9B.	Other Information	58
PART III.			
	Item 10.	Directors, Executive Officers and Corporate Governance	59
	Item 11.	Executive Compensation	59
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters	59
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	59
	Item 14.	Principal Accounting Fees and Services	59
PART IV.			
	Item 15.	Exhibits, Financial Statement Schedules	60
	Signatures		104
	Exhibit Index		105

Table of Contents

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 56 of this Form 10-K.

Item 1. Business

The Company

Home Properties, Inc. (Home Properties or the Company) was formed in November 1993, as a Maryland corporation and 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 and Mid-Atlantic regions of the United States. The Company completed an initial public offering of 5,408,000 shares of common stock (the IPO) on August 4, 1994 and is traded on the New York Stock Exchange (NYSE) under the symbol HME . The Company is included in Standard & Poor s MidCap 400 Index.

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, 2012, the Company held 83.2% (81.8% at December 31, 2011) of the limited partnership units in the Operating Partnership (UPREIT Units).

Home Properties, through its affiliates described above, as of December 31, 2012, owned and operated 121 communities with 42,635 apartment units (the Communities or the Properties).

The Properties are concentrated in the following market areas:

Market Area	Communities	Apartment Units
Suburban Washington, D.C.	32	13,161
Baltimore, MD	23	10,477
Suburban New York City	28	7,225
Philadelphia, PA	17	5,067

Boston, MA	12	3,303
Chicago, IL	7	2,566
Southeast Florida	2	836
Totals	121	42,635

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.

Table of Contents

The Company (continued)

The Company s long-term business strategies include:

- proactively managing and improving its communities to achieve increased net operating income;
- acquiring additional apartment communities with attractive returns at prices that provide a positive spread over the Company s long-term cost of capital;
- limited development of new apartment communities on entitled land, on land adjacent to existing owned communities, and, where there are density opportunities, to replace existing garden apartments with mid-rise structures;
- 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 that of the markets targeted for acquisition; and
- 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, 2012, it held an 83.2% partnership interest in the Operating Partnership comprised of: a 1.0% interest as sole general partner; and an 82.2% 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 16.8% 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 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 1,200 employees and its executive offices are located at 850 Clinton Square, Rochester, New York 14604. Its telephone number is (585) 546-4900.

Table of Contents

Operating Strategies

The Company will continue to focus on enhancing long-term investment returns by:

- acquiring apartment communities and repositioning them for long-term growth at prices that provide a positive spread over the Company s long-term cost of capital;
- complementing its core acquisition and repositioning strategy by developing a limited number of new apartment units;
- 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;
- balancing its decentralized property management philosophy with the efficiencies of centralized support functions and accountability including rent optimization and volume purchasing;
- enhancing the quality of living for the Company s residents by improving annually the service and physical amenities available at each community in an environmentally responsible manner;
- 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;
- continuing to utilize its written Pledge of customer satisfaction that is the foundation on which the Company has built its brand recognition; and
- focusing on reducing expenses while constantly improving the level of service to residents.

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 219 communities, containing more than 61,000 units. The rehabilitation and revitalization process targets a minimum 10% return on repositioning investments. It is expected that capital expenditures in 2013 on repositioning investments will decrease slightly from 2012 levels, which were the highest in the Company s history, as residents demonstrated a preference for an upgraded apartment at a higher

monthly rent in a recovering economic environment. 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 includes 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. When 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.

Table of Contents

Acquisition, Development and Sale Strategies

The Company s strategy is to grow primarily through acquisitions in the suburbs of major metropolitan markets that are near public transportation and major highways, 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 and young adults in their twenties and early thirties. The Company currently expects 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.

During 2012, the Company acquired three communities with a total of 2,018 units for an aggregate consideration of $298 million, or an average of approximately $148,000 per apartment unit. The weighted average expected first year capitalization rate for the acquired communities was 5.9%. Capitalization rate (cap rate) is defined as the rate of interest used to convert the first year expected net operating income (NOI) less a 2.7% 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. Two acquisitions were in suburban Washington, D.C.; and one was in the suburb of Baltimore.

The Company believes that it will have the opportunity to make acquisitions during 2013 and has projected $200 million to $300 million in purchases for the year.

The Company has the ability to develop new market-rate communities. It plans to engage in development activity only in markets in which it is currently doing business in order to add net asset value and supplement future earnings and growth. It expects to develop new apartment communities on entitled land and on land adjacent to existing Properties, as well as to increase the density of units at some communities currently owned. The Company plans to continue construction of one project started in late 2011 and another started in the second quarter of 2012. The Company plans to spend approximately $120 million on development in 2013. There are no additional construction starts planned for 2013.

After not selling any communities in both 2010 and 2011, the Company closed on the sale of six communities in 2012 with a total of 1,596 units for approximately $160 million, resulting in a weighted average unlevered internal rate of return (IRR) of 14.1% over the ownership period of these six communities. 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 specifically identified additional communities for sale in 2013 and will continue to evaluate the sale of its communities. The Company expects to dispose of between $200 million and $300 million of properties for the year. 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. After many years of being a net acquirer, for 2013 the Company is looking to create a better balance, with an equal range targeted of acquisitions and dispositions. Property sale proceeds add another significant source of capital, reducing reliance on debt and equity sources.

Table of Contents

Financing and Capital Strategies

The Company intends to continue to adhere to the following financing policies:

- 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, the UPREIT Units, plus total debt)) of approximately 42% or less;

- utilizing primarily fixed rate debt;

- varying debt maturities to avoid significant exposure to interest rate changes upon refinancing; and

- maintaining a line of credit so that it can respond quickly to acquisition opportunities.

On December 31, 2012, the Company s debt was approximately $2.8 billion and the debt-to-total market capitalization ratio was 42.2% based on the year-end closing price of the Company s common stock of $61.31. The weighted average interest rate on the Company s mortgage debt as of December 31, 2012 was 5.06% and the weighted average maturity was approximately five years. Debt maturities are staggered, with an average 10.9% of loans maturing each of the next nine years. The range is from a high of 22.7% in 2016 (includes line facility bank term loan) to a low of 2.9% in 2014. As of December 31, 2012, the Company had a $275 million unsecured line of credit facility with M&T Bank and U.S. Bank National Association (acting as joint lead banks) and nine other participating commercial banks with $162.5 million outstanding on the line of credit.

To further strengthen the Company s balance sheet and increase its financial flexibility, during 2012 the Company pursued certain capital market initiatives as follows:

- The Company increased the level of the value of unencumbered properties in relationship to the total property portfolio from 33% to 39%. This higher level adds flexibility, allowing the Company to place additional unsecured financing if desired, or increase secured borrowing on unencumbered assets.

- 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. However, no secured debt was added during 2011 or 2012, except for one small loan assumed in conjunction with a property acquisition. The Company paid off approximately $42 million of mortgage debt in 2012 with a weighted average interest rate of 6.79%.

- The Company sold 2.4 million shares of common stock through its at-the-market (ATM) equity offering program, generating $145 million in net proceeds.

- In 2011, the Company entered into a five-year unsecured term loan for $250 million that bears monthly interest at 1.3% above the one-month LIBOR. On July 19, 2012, the Company entered into interest rate swap agreements that effectively convert the variable LIBOR portion of this loan to a fixed rate, resulting in an effective rate of 1.99% as of December 31, 2012.

- With a focus of adding unsecured debt, in June 2012, the Company issued a private placement note in the amount of $50 million with a seven-year term at a fixed interest rate of 4.16%.

The capital market initiatives described above allowed the Company to achieve stronger key debt and credit metrics at December 31, 2012 versus December 31, 2011 as follows:

- total debt to value was reduced to 45.2% from 46.9%;(1)

- total secured debt to value was reduced to 35.0% from 39.7%;(1)

- interest coverage ratio was increased from 2.5 times to 3.0 times;

- fixed charge coverage ratio was increased from 2.4 times to 2.9 times; and

- value of unencumbered asset pool was increased from $1.9 billion to $2.7 billion; or from 33.3% to 39.0% of total value, respectively.

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(1) As calculated under the terms of the line of credit facility.

Table of Contents

Financing and Capital Strategies (continued)

For 2013, the Company plans to continue to increase the level of the value of unencumbered properties to over 40% 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, 2012 and issuing shares under the current or future ATM programs.

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 2010, the Company issued $4.8 million worth of UPREIT Units as partial consideration for one acquired property. During 2011 and 2012, 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.

In 1997, the Company s Board of Directors (the Board) 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 estimated NAV, thereby continuing to build value for long-term shareholders. The last year where the Company repurchased any shares under this program was 2008. At December 31, 2012, there was approval remaining to purchase 2.3 million shares. Management does not anticipate making additional share repurchases in 2013.

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 limited 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.

Table of Contents

Market Environment

The markets in which Home Properties operates could be characterized long term as stable, with moderate levels of job growth. After a recessionary period, starting in 2010 and expected to continue through 2013, many regions of the United States have been experiencing varying degrees of economic recovery resulting in improving job growth for both the country as a whole and the Company s markets.

In 2011, the Company s markets job growth was slightly behind the U.S. average with 0.7% job growth versus 1.3%, respectively. In 2012, the Company s markets job growth continued to lag the U.S. average with a 1.1% growth rate versus 1.4%. However, the unemployment rate for the Company s markets of 6.9% continues to compare favorably to the country average of 7.6%. The Company s Northern VA/DC market continues to experience the lowest unemployment rate of 5.2% at December 31, 2012. This market represents 30.9% of the Company s total apartment unit count. These favorable comparisons help explain why the Company s markets helped the Company outperform many of its public company multifamily peers on a measurement of same store NOI growth in both 2011 and 2012, producing the fourth best same store NOI growth out of twelve peers each year.

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 2012, Home Properties markets represented 27.8% of the total estimated existing U.S. multifamily housing stock, but only 18.0% of the country s estimated new supply of multifamily housing units.

The information on the Market Demographics and Multifamily Supply and Demand tables on pages 10 and 11 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 tables will be consistent with future trends.

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 11 reflects current estimated net new multifamily supply as a percentage of new multifamily demand for the Company s markets and the United States. For both the Company s markets and the country as a whole, net new supply is low compared to expected new demand. For the country, net new supply represents 66.5% of net new demand, creating an environment where both pricing and/or occupancy will remain stable with room for some improvement. The relationship in the Company s markets is much better, where net new supply after obsolescence is expected to meet only 27.0% of the expected increasing demand for rental housing.

Table of Contents

Market Demographics

CBSA Market Area	% of Company Units	2012 Number of Households	2012 Job Growth	2012 vs. 2011 Job Growth % Change	December 2012 Unemployment Rate	2012 Median Home Value	2012 Multifamily Units as a % of Total Housing Units Stock (5)	2012 Multifamily Housing Stock (6)
Northern VA/DC	30.9%	2,124,902	30,200	1.0%	5.2%	359,142	29.3%	663,573
Baltimore, MD	24.6%	1,045,893	11,700	0.9%	7.0%	262,126	19.6%	223,481
Suburban New York City (1)	16.9%	6,986,610	118,700	1.4%	8.5%	404,713	37.6%	2,857,906
Eastern PA (2)	11.9%	2,600,019	28,200	0.9%	8.4%	210,846	14.9%	416,740
Boston, MA (3)	7.7%	1,994,716	53,800	2.0%	5.9%	564,405	21.3%	462,736
Chicago, IL	6.0%	3,508,312	34,700	0.8%	8.6%	203,997	24.8%	949,813
Southeast Florida (4)	2.0%	2,115,417	1,200	0.1%	8.1%	171,076	39.0%	969,904
Home Properties Markets	100.0%	20,375,869	278,500	1.1%	6.9%	328,277	29.4%	6,544,153
United States		118,582,568	1,857,000	1.4%	7.6%	168,275	17.6%	23,573,720

(1) Suburban New York City is defined for this report as New York-Northern New Jersey-Long Island, NY-NJ-PA Core Based Statistical Area (CBSA).

(2) Eastern Pennsylvania is defined for this report as Philadelphia-Camden-Wilmington, PA-NJ-DE-MD CBSA & Allentown-Bethlehem-Easton PA-NJ CBSA.

(3) Boston, MA is defined for this report as Boston-Cambridge-Quincy, MA CBSA & Portland-South Portland-Biddeford, ME CBSA.

(4) Southeast Florida is defined for this report as Miami-Fort Lauderdale-Miami Beach, FL CBSA.

(5) Based on The Nielsen Company 2012 estimates calculated from the 2000 U.S. Census figures.

(6) 2012 Multifamily Housing Stock is from The Nielsen Company estimates of five or more units based on the 2000 U.S. Census.

Sources: Bureau of Labor Statistics (BLS); The Nielsen Company (formerly Claritas); US Census Bureau - Manufacturing & Construction Div.

Data collected is data available as of January 30, 2013 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.

The Nielsen Company is a leading provider of precision marketing solutions and related products and services.

U.S. Census Bureau s parent Federal agency is the U.S. Dept. of Commerce, which promotes American business and trade.

Table of Contents

Multifamily Supply and Demand

CBSA Market Area	Estimated 2012 New Supply of Multifamily (7)	Estimated 2012 Multifamily Obsolescence (8)	Estimated 2012 Net New Multifamily Supply (9)	Estimated 2012 New Multifamily Household Demand (10)	Estimated Net New Multifamily Supply as a % of New Multifamily Demand	Estimated Net New Multifamily Supply as a % of Multifamily Stock	Expected Excess Demand (11)	Expected Excess Revenue Growth (12)
Northern VA/DC	10,450	3,318	7,132	5,902	120.8%	1.1%	(1,230)	(0.2)%
Baltimore, MD	1,945	1,117	828	1,530	54.1%	0.4%	702	0.3%
Suburban New York City (1)	17,160	14,290	2,870	29,769	9.6%	0.1%	26,899	0.9%
Eastern PA (2)	3,300	2,084	1,216	2,803	43.4%	0.3%	1,587	0.4%
Boston, MA (3)	4,145	2,314	1,831	7,643	24.0%	0.4%	5,812	1.3%
Chicago, IL	3,145	4,749	(1,604)	5,740	(27.9)%	(0.2)%	7,344	0.8%
Southeast Florida (4)	7,053	4,850	2,203	312	706.1%	0.2%	(1,891)	(0.2)%
Home Properties Markets	47,198	32,722	14,476	53,699	27.0%	0.2%	39,223	0.6%
United States	262,762	117,869	144,893	217,997	66.5%	0.6%	73,104	0.3%

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(1)-(6) see footnotes prior page

(7) Estimated 2012 New Supply of Multifamily = Multifamily permits (2012 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%).

(8) Estimated 2012 Multifamily Obsolescence = Estimated 2012 Multifamily Housing Stock multiplied by the estimated % of obsolescence (0.5%).

(9) Estimated 2012 Net New Multifamily Supply = Estimated 2012 New Supply of Multifamily - Estimated 2012 Multifamily Obsolescence.

(10) Estimated 2012 New Multifamily Household Demand = 2012 job growth (Nonfarm, not seasonally adjusted payroll employment figures) (12/31/2011-12/31/2012) multiplied by the expected % of new household formations resulting from new jobs (66.7%) and the % of multifamily households in each market (based on Nielsen estimates).

(11) Expected Excess Demand = Estimated 2012 New Multifamily Household Demand - Estimated 2012 Net New Multifamily Supply.

(12) Expected Excess Revenue Growth = Expected Excess Demand divided by 2012 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.

Table of Contents

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 that could adversely affect our financial results and reputation 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 (collectively, the Reports), 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 1-800-732-0330 for further information on the operation of the Public Reference Room. The SEC maintains a website 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. In addition, you can read similar information about the Company at the offices of the NYSE at 20 Broad Street, New York, NY 10005.

Company Website

The Company maintains an Internet website at www.homeproperties.com. The Company provides free-of-charge access to its Reports filed with the SEC, and any amendments thereto, through this website. 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, a paper copy of the 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 with Certification, Corporate Governance Guidelines and Charters for the Audit, Compensation, Corporate Governance/Nominating and Real Estate Investment Committees of the Board are also available on the Company s website under the heading Investors/Corporate Overview/Governance Documents Highlights. A copy of these documents is 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 website does not incorporate by reference the information contained in the website and such information should not be considered a part of this report.

Table of Contents

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 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 56 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 and regional economic conditions (including population shifts); local and regional real estate considerations (such as oversupply of or reduced demand for apartments); changes in home ownership or condominium affordability; the perception by prospective residents of the 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 a community.

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 financial results and 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.

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

We plan to continue 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 perform less favorably than we expect. 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. Other acquisition risks include environmental issues, structural issues, competition, economic submarket changes and employment variables.

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 number of our properties were acquired using UPREIT Units and twelve of those properties 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.

Table of Contents

Real Estate Investment Risks (continued)

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. The recent challenges in the credit and housing markets have increased single-family housing inventory that may compete with our properties.

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 communities. 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.

If any of these risks materialized, the effect may negatively impact our financial results and 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.

An increase in operating expenses, including real estate taxes, would negatively affect our financial results.

Unanticipated increases in real estate taxes and other unanticipated or increased operating expenses cannot always be passed through to residents in the form of higher rents and may adversely affect financial results and our ability to make expected distributions.

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 certain natural catastrophes and relating to environmental contamination, for which the Company may not have insurance coverage. If an uninsured loss occurred, we could incur significant expense. As a result of a catastrophic uninsured event impacting an entire

Table of Contents

Real Estate Investment Risks (continued)

property, 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.

The Company is subject to increased exposure to economic and other competitive factors due to concentration of its Properties in certain markets.

At December 31, 2012, approximately 30.9%, 24.6%, 16.9% and 11.9% (on an apartment unit basis) of the Company s Properties are located in the Washington, D.C., Baltimore, Maryland, suburban New York City and Philadelphia geographic areas. The Company s current strategy is to reduce its concentration in the Washington, D.C. market to below 30%. However, geographic concentration could present risks if local property market performance falls below expectations as a result of deteriorating economic conditions or other factors. This could have a negative impact on the Company s financial condition and results of operations, which could adversely affect our ability to make expected distributions.

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 all of our markets, we have exposure to severe storms which also could increase the need for maintenance and repair of our communities.

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, it is still not expected that these additional costs would affect the Company s financial performance in any material way.

Table of Contents

Real Estate Investment Risks (continued)

We may incur costs due to environmental contamination or non-compliance that could adversely affect our financial results and reputation.

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 some 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. At some of our properties, we are required by federal law to provide lead-based paint disclosures to our residents. Failure to comply with the federal notification requirement can result in a penalty. We do not currently anticipate that we will incur any material liabilities as a result of the presence of lead-based paint at our communities or the failure to provide disclosures.

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. This has resulted in an increasing number of lawsuits against owners and managers of multifamily properties. Insurance companies have reacted by excluding mold-related claims from existing policies and pricing mold endorsements at prohibitively high rates. We have adopted programs designed to minimize any impact mold might have on our residents or the property. However, if mold should become an issue in the future, our financial condition or results of operations may be adversely affected.

All of the 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. In addition, environmental conditions not known to the Company may exist now or in the future which could result in liability to the Company for remediation or fines or to third parties for property or personal injury damages, either under existing laws and regulations or future changes to such requirements.

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.

Table of Contents

Real Estate Financing Risks

We are subject to general risks related to debt.

We are subject to the customary risks associated with debt financing. For example, if a property is mortgaged to secure payment of indebtedness and we are unable to meet its debt service obligations, the property could be foreclosed upon. This could adversely affect our cash flow and, consequently, the amount available for distributions to stockholders.

We may not be able to obtain refinancing at favorable rates.

Because a significant amount of our financing is not fully self-amortizing, we anticipate that only a portion of the principal of our indebtedness will be repaid prior to maturity. So, we will need to refinance debt. Accordingly, there is a risk that we will not be successful in refinancing existing indebtedness or that the terms of such refinancing will not be as favorable as the terms of the existing indebtedness. We aim to stagger our debt maturities with the goal of minimizing the amount of debt which must be refinanced in any year.

As of December 31, 2012, we had approximately $2.2 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:

2013	$	190 million
2014		75 million
2015		255 million
2016		344 million
2017		265 million
Thereafter		1,036 million

Financing may not be available and issuing equity could dilute our stockholders interests.

Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. Debt or equity financing may not be available in sufficient amounts, or on favorable terms or at all. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of our existing stockholders could be diluted.

Potential reduction or elimination of the role that Fannie Mae and Freddie Mac play in the multifamily financing sector may negatively impact the multifamily sector and our ability to obtain financing.

Fannie Mae and Freddie Mac (the GSEs) are a major source of financing for secured multifamily real estate. We and other multifamily companies depend in part on the GSEs to finance growth by purchasing or guarantying apartment loans. In 2011, the Obama administration released a report proposing that the GSEs be gradually eliminated. The report proposed three possible courses for long-term reform of housing finance. A final decision by the government to eliminate the GSEs or to change their mandate may adversely affect interest rates and capital availability. In 2012, the Company added only $7 million of secured debt assumed in connection with an acquisition. Instead we added $50 million of unsecured debt and increased outstandings on our unsecured line of credit by $160 million. This demonstrates the Company s declining reliance on the GSEs. In addition, management believes, based on the positive performance of the multifamily sector and its low mortgage default rate, that other sources of financing would enter the market such as pension funds and insurance companies.

Table of Contents

Real Estate Financing Risks (continued)

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

As of December 31, 2012, the Company had an unsecured line of credit agreement of $275 million with an initial maturity date of December 8, 2015, and a one-year extension, at the Company s option. The Company had $162.5 million outstanding under the credit facility on December 31, 2012.

The credit agreement relating to the line of credit requires the Company to maintain certain financial covenants, ratios and measurements. Maintaining compliance with these covenants could limit our flexibility. In addition, 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.

Failure to comply with the financial covenants relating to its unsecured debt, could result in a default and early repayment of the loans.

In addition to the line of credit, as of December 31, 2012, the Company had $450 million of unsecured debt outstanding. These loans require the Company to maintain some of the same covenants, ratios and measurements as under the line of credit. A default in any of these requirements could result in a default of these unsecured loans and a requirement that the loan be repaid early. This could adversely affect our liquidity and result in increased borrowing costs.

Rising interest rates could adversely affect operations and cash flow.

As of December 31, 2012, approximately 87% 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.

Failure to hedge effectively against interest rates may adversely affect results of operations.

We may manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as interest rate cap agreements and rate swap agreements. These agreements involve risks, such as the risk that the counterparties may fail to honor their obligations under these arrangements and that these arrangements may reduce the benefits to us if interest rates decline. Failure to hedge effectively against interest rate changes could have a negative impact on our financial performance and our ability to make distributions to our shareholders and pay amounts due on our debt.

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

The Board 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 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 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.

Table of Contents

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 and state 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).

Table of Contents

Other Risks

The loss of members of key personnel could negatively affect the Company s performance.

We depend on the efforts of our executive officers, particularly Edward J. Pettinella, the Company s President and Chief Executive Officer. If he resigned or otherwise ceased to be employed by the Company, operations could be adversely affected. Mr. Pettinella has entered into an Employment Agreement with the Company.

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 Incorporation, as amended (the Articles of Incorporation), authorize the Board 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.

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

Beginning in 2009, the Company made the necessary filings with the Securities and Exchange Commission to institute the sale of its common shares from time to time in at the market offerings or negotiated transactions (the ATM). As of December 31, 2012, approximately 2.4 million shares remain available under the current filings relating to the ATM. If authorized by its Board of Directors, the Company, in the future could affect additional filings to register additional common shares for sale under the ATM. 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.

Table of Contents

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2012, the Properties consisted of 121 multifamily residential communities containing 42,635 apartment units. In 2012, the Company acquired three communities with a total of 2,018 units in three transactions for total consideration of $298.2 million. Also in 2012, the Company sold six communities in separate transactions with a total of 1,596 units for total consideration of $159.6 million. In 2011, the Company acquired eight communities with a total of 2,817 units in eight transactions for total consideration of $500.7 million.

The Properties are generally located in established markets in suburban neighborhoods and are well maintained and well leased. Average physical occupancy at the Properties was 94.9% for 2012. Physical 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. Average economic occupancy at the Properties was 94.0% for 2012. Economic occupancy is defined as total possible rental income, net of vacancy and bad debt expense as a percentage of total possible rental income. The 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 Properties was approximately 39% for 2012, 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 Properties collateralize mortgage loans. See Schedule III contained herein (pages 100 to 102).

The table on the following pages illustrates certain of the important characteristics of the Properties as of December 31, 2012.

Table of Contents

Property Information

Region		# Of Apts	Age In Years	Year Acq/Dev	Average Apt Size (Sq Ft)	(2) 2012 Resident Turnover %	(3) 2012 Average Occupancy %	(3) 2011 Average Occupancy %	(4) 2012 Avg Mo Rent Rate per Apt $	(4) 2011 Avg Mo Rent Rate per Apt $	12/31/2012 Total Cost (000) $
	Core Communities (1)										
FL - Southeast	The Hamptons	668	23	2004	945	45%	95%	95%	$ 1,007	$ 979	$ 74,418
FL - Southeast	Vinings at Hampton Village	168	23	2004	1,171	44%	96%	96%	1,124	1,104	19,195
IL - Chicago	Blackhawk	371	51	2000	804	54%	96%	95%	896	871	26,885
IL - Chicago	Courtyards Village	224	41	2001	765	46%	97%	98%	892	843	19,300
IL - Chicago	Cypress Place	192	42	2000	840	33%	97%	97%	1,008	944	16,648
IL - Chicago	Lakeview Townhomes	120	16	2010	1,080	47%	94%	94%	1,228	1,153	16,741
IL - Chicago	The Colony	783	39	1999	716	43%	97%	97%	897	867	60,393
IL - Chicago	The New Colonies	672	38	1998	674	59%	95%	96%	773	756	39,005
MA - Boston	Gardencrest	695	64	2002	907	35%	97%	96%	1,637	1,548	119,414
MA - Boston	Highland House	172	43	2006	709	33%	97%	96%	1,244	1,170	21,183
MA - Boston	Liberty Commons	120	6	2006	1,075	49%	96%	97%	1,310	1,267	14,929
MA - Boston	Liberty Place	107	24	2006	924	36%	96%	96%	1,508	1,447	18,152
MA - Boston	Redbank Village	500	68	1998	752	43%	97%	96%	941	906	31,669
MA - Boston	Stone Ends	280	33	2003	813	43%	96%	95%	1,310	1,250	42,411
MA - Boston	The Heights at Marlborough	348	39	2006	898	43%	95%	94%	1,250	1,187	59,603
MA - Boston	The Meadows at Marlborough	264	40	2006	822	39%	95%	95%	1,202	1,147	41,549
MA - Boston	The Townhomes of Beverly	204	42	2007	973	39%	96%	96%	1,544	1,485	42,111
MA - Boston	The Village at Marshfield	276	40	2004	766	39%	96%	96%	1,202	1,158	40,498
MA - Boston	Westwoods	35	22	2007	832	26%	97%	97%	1,310	1,232	4,654
MD - Baltimore	Annapolis Roads	282	37	2010	977	38%	92%	90%	1,280	1,258	38,626
MD - Baltimore	Bonnie Ridge	960	46	1999	998	40%	96%	95%	1,142	1,105	88,880
MD - Baltimore	Canterbury	618	34	1999	858	42%	95%	95%	1,007	974	44,386

MD - Baltimore	Charleston Place	858	41	2010	817	33%	96%	97%	1,178	1,130	115,801
MD - Baltimore	Country Village	344	41	1998	773	48%	95%	97%	1,049	993	26,411
MD - Baltimore	Dunfield	312	25	2007	916	46%	95%	96%	1,200	1,153	39,353
MD - Baltimore	Fox Hall	720	36	2007	826	40%	92%	92%	895	870	78,116
MD - Baltimore	Gateway Village	132	23	1999	932	34%	96%	96%	1,368	1,336	12,446
MD - Baltimore	Heritage Woods	164	39	2006	925	43%	96%	97%	1,194	1,136	18,146
MD - Baltimore	Middlebrooke	208	38	2010	834	50%	95%	95%	989	942	20,432
MD - Baltimore	Mill Towne Village	384	39	2001	804	42%	96%	94%	924	904	32,894
MD - Baltimore	Morningside Heights	1,050	47	1998	865	38%	92%	93%	929	896	75,085
MD - Baltimore	Owings Run	504	17	1999	1,064	43%	95%	96%	1,269	1,242	51,165
MD - Baltimore	Ridgeview at Wakefield Valley	204	24	2005	972	53%	96%	95%	1,221	1,208	25,109
MD - Baltimore	Saddle Brooke	468	39	2008	889	43%	94%	93%	1,099	1,036	60,541
MD - Baltimore	Selford	102	25	1999	946	42%	97%	94%	1,409	1,364	9,508
MD - Baltimore	The Coves at Chesapeake	469	30	2006	986	43%	94%	92%	1,286	1,234	77,682
MD - Baltimore	The Greens at Columbia	168	26	2010	969	39%	94%	96%	1,427	1,362	28,183

Table of Contents

Property Information

Region		# Of Apts	Age In Years	Year Acq/Dev	Average Apt Size (Sq Ft)	(2) 2012 Resident Turnover %	(3) 2012 Average Occupancy %	(3) 2011 Average Occupancy %	(4) 2012 Avg Mo Rent Rate per Apt $	(4) 2011 Avg Mo Rent Rate per Apt $	12/31/2012 Total Cost (000) $
MD - Baltimore	Top Field	156	39	2006	1,132	37%	95%	97%	1,315	1,270	23,056
MD - Baltimore	Village Square	370	44	1999	967	41%	96%	96%	1,193	1,166	29,267
MD - Baltimore	Westbrooke	110	51	2010	651	42%	95%	95%	862	823	7,967
NJ - Northern	Barrington Gardens	148	39	2005	837	45%	97%	97%	1,286	1,198	14,219
NJ - Northern	Chatham Hill	308	45	2004	856	42%	95%	95%	1,881	1,764	66,185
NJ - Northern	East Hill Gardens	33	54	1998	694	30%	98%	95%	1,607	1,555	3,623
NJ - Northern	Hackensack Gardens	198	64	2005	552	35%	98%	98%	1,176	1,119	20,611
NJ - Northern	Jacob Ford Village	270	64	2007	744	26%	99%	97%	1,327	1,247	35,579
NJ - Northern	Lakeview	106	63	1998	575	36%	97%	96%	1,431	1,380	10,458
NJ - Northern	Northwood	134	47	2004	850	28%	97%	97%	1,387	1,339	20,480
NJ - Northern	Oak Manor	77	56	1998	1,006	26%	98%	95%	1,890	1,797	9,321
NJ - Northern	Pleasant View	1,142	44	1998	738	37%	96%	96%	1,190	1,151	92,459
NJ - Northern	Pleasure Bay	270	41	1998	803	43%	97%	95%	1,081	1,041	20,653
NJ - Northern	Royal Gardens	550	44	1997	872	32%	97%	96%	1,294	1,246	41,531
NJ - Northern	Wayne Village	275	47	1998	790	27%	97%	97%	1,443	1,402	26,493
NJ - Northern	Windsor Realty	67	59	1998	622	51%	95%	97%	1,324	1,287	6,712
NY - Long Island	Bayview/Colonial	160	45	2000	717	29%	99%	98%	1,312	1,260	16,501
NY - Long Island	Cambridge Village	82	45	2002	725	33%	98%	98%	1,873	1,789	8,846
NY - Long Island	Crescent Club	257	39	2010	876	28%	96%	97%	1,345	1,275	36,096
NY - Long Island	Devonshire Hills	656	44	2001	767	39%	97%	97%	1,641	1,584	126,360
NY - Long Island	Hawthorne Court	434	44	2002	759	34%	97%	97%	1,478	1,439	57,497
NY - Long Island	Heritage Square	80	63	2002	696	40%	98%	98%	1,837	1,744	10,486
NY - Long Island	Holiday Square	144	33	2002	575	21%	99%	96%	1,269	1,223	13,322

NY - Long Island	Lake Grove	368	42	1997	775	38%	96%	96%	1,503	1,442	41,339
NY - Long Island	Mid-Island Estates	232	47	1997	684	32%	99%	98%	1,461	1,402	19,700
NY - Long Island	Sayville Commons	342	11	2005	1,012	19%	97%	97%	1,629	1,590	67,838
NY - Long Island	South Bay Manor	61	52	2000	806	36%	97%	96%	1,684	1,642	8,806
NY - Long Island	Southern Meadows	452	41	2001	813	33%	96%	96%	1,464	1,411	56,289
NY - Long Island	Westwood Village	242	43	2002	917	34%	97%	96%	2,484	2,384	45,861
NY - Long Island	Woodmont Village	97	44	2002	725	40%	96%	97%	1,370	1,325	12,669
NY - Long Island	Yorkshire Village	40	43	2002	766	35%	98%	98%	1,905	1,839	5,054
PA - Philadelphia	Castle Club	158	45	2000	814	41%	94%	94%	1,013	978	17,360
PA - Philadelphia	Glen Manor	174	36	1997	642	38%	95%	96%	821	813	10,334
PA - Philadelphia	Golf Club	399	43	2000	857	48%	95%	94%	1,137	1,094	44,683
PA - Philadelphia	Hill Brook Place	274	44	1999	711	34%	96%	95%	942	905	22,348
PA - Philadelphia	Home Properties of Bryn Mawr	316	61	2000	705	72%	95%	94%	1,435	1,295	40,222
PA - Philadelphia	Home Properties of Devon	631	49	2000	913	40%	94%	94%	1,233	1,148	81,516
PA - Philadelphia	New Orleans Park	442	41	1997	696	44%	95%	95%	898	867	32,027

Table of Contents

Property Information

Region		# Of Apts	Age In Years	Year Acq/Dev	Average Apt Size (Sq Ft)	(2) 2012 Resident Turnover %	(3) 2012 Average Occupancy %	(3) 2011 Average Occupancy %	(4) 2012 Avg Mo Rent Rate per Apt $	(4) 2011 Avg Mo Rent Rate per Apt $	12/31/2012 Total Cost (000) $
PA - Philadelphia	Racquet Club East	466	41	1998	910	37%	95%	95%	1,113	1,061	43,439
PA - Philadelphia	Racquet Club South	103	43	1999	860	41%	95%	95%	945	909	7,811
PA - Philadelphia	Ridley Brook	244	50	1999	796	37%	96%	94%	967	939	17,511
PA - Philadelphia	Sherry Lake	298	47	1998	813	38%	96%	96%	1,271	1,205	32,421
PA - Philadelphia	The Brooke at Peachtree Village	146	26	2005	1,261	30%	97%	96%	1,186	1,138	21,331
PA - Philadelphia	The Landings	384	39	1996	912	37%	96%	96%	1,068	1,012	34,772
PA - Philadelphia	Trexler Park	250	38	2000	919	47%	95%	95%	1,118	1,065	27,231
PA - Philadelphia	Trexler Park West	216	4	2008	1,032	55%	96%	96%	1,372	1,299	26,144
PA - Philadelphia	William Henry	363	41	2000	939	46%	95%	94%	1,194	1,131	46,508
VA - Suburban DC	1200 East West	247	2	2010	839	29%	96%	96%	1,885	1,747	84,598
VA - Suburban DC	Braddock Lee	255	57	1998	749	25%	98%	98%	1,396	1,334	23,025
VA - Suburban DC	Cider Mill	864	34	2002	840	33%	96%	95%	1,192	1,151	103,648
VA - Suburban DC	Cinnamon Run	511	52	2005	966	32%	94%	95%	1,276	1,243	78,441
VA - Suburban DC	East Meadow	150	41	2000	943	36%	97%	98%	1,415	1,354	18,333
VA - Suburban DC	Elmwood Terrace	504	39	2000	910	45%	95%	95%	969	926	35,605
VA - Suburban DC	Falkland Chase	450	75	2003	760	40%	96%	96%	1,440	1,402	69,362
VA - Suburban DC	Mount Vernon Square	1,387	38	2006	847	39%	95%	94%	1,289	1,245	163,727

VA - Suburban DC	Park Shirlington	294	57	1998	840	27%	97%	97%	1,380	1,320	25,539
VA - Suburban DC	Peppertree Farm	879	58	2005	1,020	29%	94%	93%	1,245	1,211	120,511
VA - Suburban DC	Seminary Hill	296	52	1999	901	31%	97%	98%	1,367	1,299	25,168
VA - Suburban DC	Seminary Towers	544	48	1999	911	35%	96%	96%	1,440	1,361	51,028
VA - Suburban DC	Tamarron	132	25	1999	955	30%	96%	95%	1,588	1,537	15,113
VA - Suburban DC	The Apts at Wellington Trace	240	10	2004	1,085	52%	97%	98%	1,394	1,323	32,225
VA - Suburban DC	The Courts at Fair Oaks	364	22	2010	798	43%	96%	96%	1,500	1,439	76,047
VA - Suburban DC	The Manor - MD	435	43	2001	908	28%	96%	95%	1,321	1,282	52,033
VA - Suburban DC	The Manor - VA	198	38	1999	819	44%	97%	98%	1,106	1,037	14,754
VA - Suburban DC	The Sycamores	185	34	2002	858	38%	97%	96%	1,449	1,371	25,646
VA - Suburban DC	Village at Potomac Falls	247	13	2010	940	40%	96%	96%	1,391	1,286	40,254
VA - Suburban DC	Virginia Village	344	45	2001	1,003	38%	97%	98%	1,411	1,334	45,244
VA - Suburban DC	West Springfield	244	34	2002	957	39%	96%	97%	1,556	1,475	41,691
VA - Suburban DC	Westchester West	345	40	2008	985	29%	94%	93%	1,337	1,300	53,088
VA - Suburban DC	Woodleaf	228	27	2004	709	41%	96%	94%	1,284	1,248	25,058
	Core Total/Weighted Avg	36,214	40		858	39%	96%	95%	$ 1,239	$ 1,189	$ 4,232,596
	Redevelopment Communities										
VA - Suburban DC	Arbor Park of Alexandria	851	44	2000	1,038	50%	80%	87%	$ 1,462	$ 1,345	$ 118,744

Table of Contents

Property Information

Region		# Of Apts	Age In Years	Year Acq/Dev	Average Apt Size (Sq Ft)	(2) 2012 Resident Turnover %	(3) 2012 Average Occupancy %	(3) 2011 Average Occupancy %	(4) 2012 Avg Mo Rent Rate per Apt $	(4) 2011 Avg Mo Rent Rate per Apt $	12/31/2012 Total Cost (000) $
	2011 Acquisition Communities (5)										
IL - Chicago	The Gates of Deer Grove	204	38	2011	844	53%	95%	94%	$ 1,042	$ 992	$ 20,902
MA - Boston	The Commons at Haynes Farm	302	21	2011	881	40%	96%	94%	1,288	1,222	43,853
MD - Baltimore	The Apts at Cambridge Court	544	13	2011	900	48%	93%	92%	1,349	1,283	92,238
PA - Philadelphia	Waterview	203	44	2011	776	53%	93%	92%	1,060	1,035	28,157
VA - Suburban DC	Hunters Glen	108	28	2011	822	44%	96%	96%	976	909	8,005
VA - Suburban DC	Newport Village	937	44	2011	1,051	35%	95%	92%	1,553	1,514	209,429
VA - Suburban DC	Somerset Park	108	6	2011	967	44%	97%	95%	1,451	1,388	20,394
VA - Suburban DC	The Courts at Dulles	411	12	2011	991	47%	95%	94%	1,544	1,482	93,796
	2011 Total/Weighted Avg	2,817	26		948	43%	94%	93%	$ 1,385	$ 1,333	$ 516,774
	2012 Acquisition Communities (5)										
MD - Baltimore	Howard Crossing	1,350	44	2012	805	42%	91%	n/a	$ 1,098	n/a	$ 187,425
VA - Suburban DC	The Manor East	164	48	2012	841	46%	94%	n/a	1,057	n/a	17,485
VA - Suburban DC	Woodway at Trinity Centre	504	15	2012	868	56%	96%	n/a	1,374	n/a	96,571
	2012 Construction Communities (6)										
VA - Suburban DC	Courts at Huntington Station	421	1	2011	996	29%	88%	n/a	$ 1,994	n/a	$ 121,893
VA - Suburban DC	The Apts at Cobblestone Square	314		2012	923	14%	84%	n/a	1,270	n/a	48,691

2012 Total/Weighted Avg	2,753	22	861	40%	90%	n/a	$ 1,379	n/a	$ 472,065
Property Total/Weighted Avg	42,635	38	868	39%	95%	95%	$ 1,259	$ 1,201	$ 5,340,179

(1) Core Communities represents the 36,214 apartment units owned consistently throughout 2012 and 2011.

(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, 2012 and 2011.

(4) Avg Mo Rent Rate per Apt takes into account resident concessions.

(5) For communities acquired during 2012 and 2011, Average % Occupancy is the average physical occupancy from the date of acquisition.

(6) Courts at Huntington Station construction was completed in 2011 and The Apts at Cobblestone Square was completed in 2012.

Table of Contents

Property Development

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

Completed developments

- During 2012, the Company completed construction at The Apartments at Cobblestone Square located in Fredericksburg, Virginia, consisting of eight, four-story buildings and a refurbished rail depot, for a total of 314 apartment units. The total cost for this community was $48.6 million. Initial occupancy commenced in the fourth quarter of 2011 and stabilization was achieved as of September 2012.

Current construction projects

- Eleven55 Ripley, a 379 unit high rise development consisting of two buildings, a 21 story high-rise and a 5 story mid-rise, is located in Silver Spring, Maryland. Construction commenced in the fourth quarter of 2011, and is expected to continue through 2014 with initial occupancy in the third quarter of 2013 for a total projected cost of $111 million.

- The Courts at Spring Mill Station, a 385 unit development consisting of two buildings, being built in a combination donut/podium style, is located in Conshohocken, Pennsylvania. Construction commenced in the second quarter of 2012, and is expected to continue through 2014 with initial occupancy in the first quarter of 2014. The total projected cost for this development is $89 million.

Redevelopment

- The Company has one project under redevelopment. Arbor Park, located in Alexandria, Virginia, has 851 garden apartments in fifty-two buildings built in 1967. The Company plans to extensively renovate all of the units over several years on a building by building basis. As of December 31, 2012, there were five buildings with 90 units under renovation and twenty-six buildings with 391 units completed and 290 units occupied. As of December 31, 2012, rents in the renovated units were averaging $1,742 compared to $1,397 for the existing non-renovated units. As of December 31, 2012, the Company has incurred costs of $14 million for the renovation which is included in buildings, improvements and equipment. The entire project is expected to be completed in 2014 for a projected cost of $30 million.

Pre-redevelopment

- Falkland Chase, located in Silver Spring, Maryland, currently has 450 garden apartments constructed between 1936 and 1939. The Company has obtained the necessary approvals to redevelop the North parcel which will allow for an increase of units from 182 to approximately 1,185 units. Active construction for this project has not commenced.

Table of Contents

Supplemental Property Information

At December 31, 2012, none of the Company s properties have an individual net book value equal to or greater than 10% of the total assets of the Company or would have accounted for 10% or more of the Company s aggregate gross revenues for 2012. 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 2012.

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. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

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

Market Information, Holders and Dividends

The common stock has been traded on the 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
2012			
Fourth Quarter	$ 63.00	$ 56.85	$ 0.66
Third Quarter	$ 66.98	$ 60.93	$ 0.66
Second Quarter	$ 64.20	$ 58.35	$ 0.66
First Quarter	$ 61.25	$ 54.42	$ 0.66
2011			
Fourth Quarter	$ 61.00	$ 52.11	$ 0.62
Third Quarter	$ 67.27	$ 53.89	$ 0.62
Second Quarter	$ 63.72	$ 58.51	$ 0.62
First Quarter	$ 59.00	$ 52.57	$ 0.62

As of February 14, 2013, the Company had approximately 2,915 shareholders of record; 51,535,219 common shares (plus 10,433,628 UPREIT Units convertible into 10,433,628 common shares) were outstanding, and the closing price of the Company s common stock on the NYSE was $61.88. It is the Company s policy to pay dividends. The Company has historically paid dividends on a quarterly basis in the months of February or March, May, August and November.

On February 2, 2013, the Board declared a dividend of $0.70 per share for the quarter ended December 31, 2012. The dividend is payable February 26, 2013 to shareholders of record on February 14, 2013.

Table of Contents

Performance Graph

The following graph compares the cumulative return on the Company s common stock during the five year period ended December 31, 2012 to the cumulative return of the NAREIT All Equity REIT Index (NAREIT Equity) and the Standard and Poor s 500 Index (S&P 500) for the same period. Management believes that the NAREIT Equity is an appropriate industry index and the S&P 500 is a broad equity market index for purposes of this graph. The total return on the Company s common stock assumes that dividends were reinvested quarterly at the same price as provided under the Company s Dividend Reinvestment and Direct Stock Purchase Plan. All comparisons are based on a $100.00 investment on December 31, 2007 and the reinvestment of all dividends during the comparison period. Data for the NAREIT Equity and S&P 500 were provided to the Company by NAREIT. Stockholders should note that past performance does not predict future results.

	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
HME	$ 100.00	$ 95.83	$ 121.85	$ 148.55	$ 160.78	$ 178.75
NAREIT Equity	$ 100.00	$ 62.27	$ 79.70	$ 101.98	$ 110.42	$ 132.18
S&P 500	$ 100.00	$ 63.00	$ 79.68	$ 91.68	$ 93.61	$ 108.59

Certain of our filings with the SEC may incorporate information by reference future filings, 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.

Table of Contents

Issuer Purchases of Equity Securities

The Company has a stock repurchase program, approved by its Board of Directors (the Board), under which it may repurchase shares of its common stock or UPREIT Units (the Company Program). The shares and 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 specific target stock price or a specific timetable for share repurchase. At December 31, 2012, the Company had authorization to repurchase 2,291,160 shares of common stock and UPREIT Units under the Company Program. During the three months ended December 31, 2012, the Company did not repurchase any shares under the Company Program. The last year where the Company repurchased any shares under that program was 2008.

Participants in the Company s Stock Benefit Plan can use common stock of the Company that they already own to pay: 1) all or a portion of the exercise price payable to the Company upon the exercise of an option; and, 2) the taxes associated with option exercises and the vesting of restricted stock awards. In such event, the common stock used to pay the exercise price or taxes is returned to authorized but unissued status, and for purposes of this table is deemed to have been repurchased by the Company, but does not represent repurchases under the Company Program.

The following table summarizes the total number of shares (units) repurchased by the Company during the quarter ended December 31, 2012:

Period	Total shares/units Purchased (1)	Average price per share/unit	Maximum shares/units available under the Company Program
Balance October 1, 2012:			2,291,160
October 2012		$	2,291,160
November 2012			2,291,160
December 2012	977	59.70	2,291,160
Balance December 31, 2012:	977	$ 59.70	2,291,160

(1) The Company repurchased 977 shares of common stock through share repurchases by the transfer agent in the open market in connection with the Company s 401(k) Savings Plan employee deferral and Company matching elections.

Table of Contents

Item 6. Selected Financial Data

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 in this Form 10-K (amounts in thousands, except share, per share and unit data).

	2012	2011	2010	2009	2008
Revenues:					
Rental income	$ 591,933	$ 515,780	$ 457,819	$ 441,645	$ 431,849
Other income (1)	52,415	45,776	40,970	39,705	40,122
Total revenues	644,348	561,556	498,789	481,350	471,971
Expenses:					
Operating and maintenance	235,040	217,069	203,421	199,881	196,338
General and administrative	34,174	29,145	25,138	24,476	25,489
Interest	125,809	127,618	120,652	118,052	114,481
Depreciation and amortization	165,642	140,713	122,772	114,725	106,540
Other expenses (2)	2,741	3,225	2,871		
Total expenses	563,406	517,770	474,854	457,134	442,848
Income from operations before gain on early extinguishment of debt	80,942	43,786	23,935	24,216	29,123
Gain on early extinguishment of debt					11,304
Income from continuing operations	80,942	43,786	23,935	24,216	40,427
Discontinued operations:					
Income (loss) from discontinued operations	2,148	3,878	2,396	(1,452)	1,218
Gain (loss) on disposition of property	80,532		(13)	24,314	51,560
Discontinued operations	82,680	3,878	2,383	22,862	52,778
Net income	163,622	47,664	26,318	47,078	93,205
Net income attributable to noncontrolling interest	(28,320)	(9,808)	(6,237)	(12,659)	(27,124)
Net income attributable to common stockholders	$ 135,302	$ 37,856	$ 20,081	$ 34,419	$ 66,081
Basic earnings per share data:					
Income from continuing operations	$ 1.34	$ 0.83	$ 0.50	$ 0.53	$ 0.90
Discontinued operations	1.38	0.07	0.05	0.51	1.17
Net income attributable to common stockholders	$ 2.72	$ 0.90	$ 0.55	$ 1.04	$ 2.07
Diluted earnings per share data:					
Income from continuing operations	$ 1.33	$ 0.82	$ 0.49	$ 0.53	$ 0.88
Discontinued operations	1.36	0.07	0.05	0.51	1.16
Net income attributable to common stockholders	$ 2.69	$ 0.89	$ 0.54	$ 1.04	$ 2.04
Cash dividends declared per common share	$ 2.64	$ 2.48	$ 2.32	$ 2.68	$ 2.65
Balance Sheet Data:					
Real estate, before accumulated depreciation	$ 5,455,226	$ 5,042,324	$ 4,377,730	$ 3,915,979	$ 3,872,390
Total assets	4,451,492	4,153,206	3,634,703	3,268,034	3,317,094
Total debt	2,777,527	2,663,336	2,618,932	2,302,281	2,317,500
Common stockholders equity	1,320,968	1,153,668	720,893	661,112	650,778
Other Data:					

Net cash provided by operating activities	$ 267,580	$ 197,705	$ 160,019	$ 149,624	$ 160,081
Net cash used in investing activities	(366,003)	(664,343)	(334,539)	(47,565)	(80,584)
Net cash provided by (used in) financing activities	111,218	464,153	176,493	(99,817)	(79,039)
Funds From Operations Diluted, as adjusted by the Company (3)	251,658	189,723	151,134	146,171	161,318
Weighted average number of shares/units outstanding:					
Shares Basic	49,744,636	41,860,139	36,682,191	33,040,839	31,991,817
Shares Diluted	50,382,636	42,545,082	37,169,886	33,172,116	32,332,688
Shares/units Basic	60,364,689	52,926,968	48,201,751	45,274,376	45,200,405
Shares/units Diluted	61,002,689	53,611,911	48,689,446	45,405,653	45,541,276
Total communities owned at end of year	121	124	116	105	110
Total apartment units owned at end of year	42,635	41,951	38,861	35,797	37,130

Table of Contents

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(1) Other income includes property other income and corporate other income.

(2) Other expenses are comprised of acquisition related costs for closed deals that until 2009 were capitalized under authoritative guidance.

(3) Pursuant to the updated guidance for Funds From Operations (FFO) provided 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, impairment write-downs of depreciable real estate, 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 (FFO as adjusted). 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 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 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.

32

Table of Contents

(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 stockholders from the Company s audited financial statements prepared in accordance with GAAP (in thousands, except per share/unit data):

	2012	2011	2010	2009	2008(a)
Net income attributable to common stockholders	$ 135,302	$ 37,856	$ 20,081	$ 34,419	$ 66,081
Real property depreciation and amortization	166,411	142,059	124,803	118,480	114,260
Real property impairment charges					4,000
Noncontrolling interest	28,320	9,808	6,237	12,659	27,124
Loss (gain) on disposition of property	(80,532)		13	(24,314)	(51,560)
FFO Basic and Diluted, as defined by NAREIT	249,501	189,723	151,134	141,244	159,905
Loss from early extinguishment of debt in connection with sale of real estate	2,157			4,927	1,413
FFO Basic and Diluted, as adjusted by the Company	$ 251,658	$ 189,723	$ 151,134	$ 146,171	$ 161,318
Weighted average common shares/units outstanding(b):					
Basic	60,364.7	52,927.0	48,201.8	45,274.4	45,200.4
Diluted	61,002.7	53,611.9	48,689.4	45,405.7	45,541.3
FFO Diluted, as adjusted by the Company per share/unit	$ 4.13	$ 3.54	$ 3.10	$ 3.22	$ 3.54

(a) FFO, and FFO as adjusted, for the year ended December 31, 2008 were revised from previously reported amounts to exclude impairment of depreciable real estate assets in accordance with NAREIT SFO Alert dated October 31, 2011.

(b) Basic includes common stock outstanding plus UPREIT Units which can be converted into shares of common stock. Diluted includes additional common stock equivalents.

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.

Table of Contents

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 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 56. 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 and Mid-Atlantic markets of the United States. As of December 31, 2012, the Company owned and operated 121 apartment communities with 42,635 apartments.

Executive Summary

The Company operated during 2012 in a recovering economic environment, where the Company s markets and the country as a whole experienced job growth of 1.1% and 1.4%, respectively. This is slightly more than the job growth in the Company s markets of 0.7% in 2011. An increase in job growth leads to household formations, which creates an increase in demand for rental housing. In addition, the credit crisis of the past recession has made it more difficult for apartment residents who may have considered purchasing a home to qualify for a mortgage. After years of home ownership being the number one reason our residents gave for moving out of our apartment communities, it dropped starting in 2007, such that it is the number five reason in 2012. The combination of steady job growth and reduced flexibility for residents to purchase homes has created an environment supporting higher rental income growth and occupancy rates.

The Company owned 107 communities with 36,214 apartment units throughout 2011 and 2012 where comparable operating results are available for the years presented (the 2012 Core Properties). Physical occupancies at the 2012 Core Properties increased slightly, by 10 basis points, from 95.5% to 95.6%. Including bad debt in the calculation to arrive at economic occupancy , this metric increased by 30 basis points to 94.6% for 2012 from 94.3% in 2011. The level of bad debt improved to 101 basis points in 2012 compared to 117 basis points in 2011. For 2013, we are projecting bad debt to be approximately 90 basis points of rent potential.

Table of Contents

Executive Summary (continued)

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 the first week of February, 2013, our ATR was 6.2%, lower than the same time period a year ago when ATR was 6.7%. Average physical occupancy for the quarter ended December 31, 2012 was at a high level of occupancy at 95.5%, with a continuation of low resident turnover of 38.9%, only 50 basis points higher than 2011. For 2013, we are projecting physical occupancy to be 30 basis points higher than 2012, as a result of a slightly less aggressive approach to rent increases combined with the continuation of limited alternatives for our residents.

Total 2012 Core Properties rental revenue growth for 2012 was projected to be 4.6%, consisting of an increase of 4.7% in rental rate growth with economic occupancy to decrease 0.1%. Actual results were positive 4.2% in rental rate growth and 0.3% increase in economic occupancy, resulting in 4.6% total rental revenue growth, or equal to guidance.

The guidance for 2013 Core Properties (apartment units owned throughout 2012 and 2013, the 2013 Core Properties) total revenue growth is 4.0% at the midpoint of guidance. Rental rates are projected to increase 3.8%, including above-average rental increases at certain communities resulting from continued efforts to upgrade the properties. Economic occupancies are expected to increase 0.4% for the year, such that rental revenues are projected to increase 4.3%. Property other income is expected to decrease slightly at 0.3% year over year, decreasing the 4.3% rental revenue increase to 4.0% total revenue growth. Expenses for 2013 Core Properties are projected to increase 3.5% at the midpoint of guidance. The Company has experienced four straight years of negative expense growth which will be very difficult to duplicate in 2013. Some of the line items where we expect above average increases include: natural gas heating costs up 4.3%; personnel costs (specifically from health care) up 4.8%; real estate taxes up 4.7%; property insurance up over 18%; and snow removal up more than double. The Company s markets experienced extreme mild winters in 2012 which are not expected to repeat in 2013. This affects heating costs, snow removal, personnel costs and insurance.

These revenue and expense projections result in 2013 Core Properties NOI growth of 4.0% at the mid-point of 2013 guidance. Markets where the Company expects NOI results above the average include: Washington 5.5%, Philadelphia 5.3% and Boston 4.5%. Markets with below average expectations include: Florida 3.5%, Baltimore 3.1%, New York City Metro area 1.4% and Chicago 0.3%. Certain historical demographic information for these markets may be found in the tables on pages 10 and 11 of this report.

Of the two items comprising NOI, revenue and operating expenses, the operating expense component is likely to be more volatile. It is difficult to predict the weather, which can have a significant effect, and there is growing concern about real estate tax rates.

The Company has anticipated acquisitions in the range of $200 million to $300 million in its budget for 2013. The Company is committed to a disciplined approach to acquisitions, and following two very successful years in acquisitions we will be prudent in underwriting. If cap rates stabilize, interest rates continue to be historically low, and NOI growth rates improve, we may take a more aggressive approach. The Company expects to dispose of between $200 million and $300 million of properties for 2013. After many years of being a net acquirer, for 2013 the Company is looking to create a better balance, with an equal range targeted of acquisitions and dispositions. Property sale proceeds add another significant source of capital, reducing reliance on debt and equity sources.

During 2013, the Company will target leverage in a range from 40% to 42% 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 the same to slightly less than at the end of 2012.

Table of Contents

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

C*omparison of year ended December 31, 2012 to year ended December 31, 2011.*

The Company owned 107 communities with 36,214 apartment units throughout 2011 and 2012 where comparable operating results are available for the years presented (the 2012 Core Properties). For the year ended December 31, 2012, the 2012 Core Properties showed an increase in total revenues of 4.5% and a net operating income increase of 8.1% over the 2011 period. Property level operating expenses decreased 1.1%. Average physical occupancy for the 2012 Core Properties was 95.6%, up from 95.5% in 2011, with average monthly rental rates of $1,239 per apartment unit, an increase of 4.2% over the 2011 period.

A summary of the 2012 Core Properties NOI is as follows:

	2012	2011	$ Variance	% Variance
Rent	$ 509,476	$ 487,214	$ 22,262	4.6%
Utility recovery revenue	20,471	20,753	(282)	(1.4)%
Rent including recoveries	529,947	507,967	21,980	4.3%
Other income	24,482	22,355	2,127	9.5%
Total revenue	554,429	530,322	24,107	4.5%
Operating and maintenance	(202,819)	(205,128)	2,309	1.1%
Net operating income	$ 351,610	$ 325,194	$ 26,416	8.1%

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. For a reconciliation of NOI to income from continuing operations, please refer to Note 15 to Consolidated Financial Statements, under Part IV, Item 15 of this Form 10-K.

During 2012, the Company acquired three apartment communities with 2,018 units and placed into service another 263 units at two development communities (the 2012 Acquisition Communities). In addition, the Company experienced full year results for the eight apartment communities with 2,817 units acquired and 472 units placed into service at two development communities during 2011 (the 2011 Acquisition Communities). The Company has one property with 851 units undergoing significant renovations beginning in 2011 such that the operating results are not comparable to 2012 due to units being taken out of service during the redevelopment period (the Redevelopment Property). The inclusion of these acquired and developed communities generally accounted for the significant changes in operating results for the year ended December 31, 2012.

Table of Contents

Results of Operations (continued)

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

	2012	2011	$ Variance	% Variance
Rent	$ 591,933	$ 515,780	$ 76,153	14.8%
Utility recovery revenue	23,983	21,865	2,118	9.7%
Rent including recoveries	615,916	537,645	78,271	14.6%
Other income	28,122	23,756	4,366	18.4%
Total revenue	644,038	561,401	82,637	14.7%
Operating and maintenance	(235,040)	(217,069)	(17,971)	(8.3)%
Net operating income	$ 408,998	$ 344,332	$ 64,666	18.8%

During 2012, the Company disposed of six properties in six transactions with a total of 1,596 units, which had partial results for 2012 and full year results for 2011 (the 2012 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, 2012, income from continuing operations increased by $37,156 when compared to the year ended December 31, 2011. The increase was primarily attributable to the following factors: an increase in rental income of $76,153, an increase in property other income of $6,484, a decrease in interest expense of $1,809, and a decrease in other expenses of $484. These changes were partially offset by increases in operating and maintenance expense of $17,971, general and administrative expense of $5,029, and depreciation and amortization of $24,929. Each of the items are described in more detail below.

Of the $76,153 increase in rental income, $32,721 is attributable to the 2011 Acquisition Communities, $21,043 is attributable to the 2012 Acquisition Communities and $127 is attributable to the Redevelopment Property. The balance, an increase of $22,262, relates to a 4.6% increase from the 2012 Core Properties as the result of a 0.3% increase in economic occupancy from 94.3% to 94.6% and a 4.2% increase in weighted average rental rates from $1,189 to $1,239 per apartment unit.

Of the $2,118 increase in utility recovery revenue, $1,898 is attributable to the 2011 Acquisition Communities, $548 is attributable to the 2012 Acquisition Communities, partially offset by a $46 reduction for the Redevelopment Property. The balance, a decrease of $282, relates to a 1.4% decrease from the 2012 Core Properties which is due primarily to warmer than normal temperatures in 2012 compared to cooler temperatures in the spring of 2011, leading to decreased energy consumption and lower heat billed through to residents, partially offset by increases in water & sewer cost increases, also billed 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, increased by $4,366. Of this increase, $1,325 is attributable to the 2011 Acquisition Communities, $927 is attributable to the 2012 Acquisition Communities and $2,127 is attributable to the 2012 Core Properties resulting primarily from an increase of $1,195 in cable revenue as a result of enhanced contracts with cable providers which offer services in addition to the basic cable offering in 2011. The remaining Core Properties increase of $932 primarily relates to a higher level of pet fee income, facility rental income, lower bad debt expense and incentive rebates. These increases were offset by a $13 reduction for the Redevelopment Property.

Of the $17,971 increase in operating and maintenance expenses, $12,905 is attributable to the 2011 Acquisition Communities, $7,499 is attributable to the 2012 Acquisition Communities, partially offset by a $124 decrease for the Redevelopment Property. The balance for the 2012 Core Properties, a $2,309 decrease in operating expenses or 1.1%, is primarily a result of decreases in electricity, natural gas heating costs, repairs & maintenance, personnel expense, snow removal and property management G&A. These decreases were partially offset by increases in water & sewer costs, property insurance and real estate taxes.

Table of Contents

Results of Operations (continued)

The breakdown of operating and maintenance costs for the 2012 Core Properties by line item is listed below:

	2012	2011	$ Variance	% Variance
Electricity	$ 7,142	$ 7,720	$ 578	7.5%
Gas	13,465	15,780	2,315	14.7%
Water & sewer	17,000	16,473	(527)	(3.2)%
Repairs & maintenance	30,450	31,009	559	1.8%
Personnel expense	46,295	47,177	882	1.9%
Advertising	4,373	4,276	(97)	(2.3)%
Legal & professional	2,002	1,866	(136)	(7.3)%
Office & telephone	6,042	5,720	(322)	(5.6)%
Property insurance	6,340	5,024	(1,316)	(26.2)%
Real estate taxes	51,377	49,677	(1,700)	(3.4)%
Snow	378	1,537	1,159	75.4%
Trash	3,023	3,078	55	1.8%
Property management G&A	14,932	15,791	859	5.4%
Total	$ 202,819	$ 205,128	$ 2,309	1.1%

Electricity costs were down $578, or 7.5%, from a year ago primarily as a result of reduced commodity rates and energy conservation efforts.

Natural gas heating costs were down $2,315, or 14.7%, from a year ago due to a combination of lower commodity rates and decreased consumption resulting from a significantly warmer spring heating season in 2012 as compared to 2011. For 2012, the Company s natural gas weighted average cost, including transportation of $3.00 per decatherm, was $8.34 per decatherm, compared to $8.90 per decatherm for the 2011 period, a 6.3% decrease.

As of the middle of January, 2013, the Company has fixed-price contracts covering 99.5% of its natural gas exposure for the balance of the 2012/2013 heating season. Risk is further diversified by staggering contract term expirations. For the balance of the 2012/2013 heating season, the Company estimates the average price per decatherm will be approximately $5.05, excluding transportation, which has historically approximated $3.00 per decatherm. For the 2013/2014 heating season, the Company has fixed-priced contracts covering approximately 99.1% of its natural gas exposure for an estimated weighted average cost for fixed and floating rate contracts of $4.68 per decatherm, excluding transportation.

Water & sewer costs were up $527, or 3.2%, from a year ago and are attributable to general rate increases being assessed by local municipalities. The water & sewer recovery program enabled the Company to recapture much of these rate increases from our residents.

Repairs & maintenance expenses were down $559, or 1.8%, primarily due to accounting for involuntary conversions related to fires and floods and the associated insurance claims at certain properties. Without the impact of these insurance recoveries, the recurring repairs & maintenance expenses decreased $8, which reflects the diligent efforts of property management to control costs through the renegotiation of service contracts permitted by the competitive economic environment, coupled with a higher level of apartment upgrades in 2012 compared to 2011, which result

in lower repairs expenditures. The Company has provided guidance for 2013 which anticipates a 1.3% increase in repairs and maintenance.

Personnel expenses were down $882, or 1.9%, primarily due to $734 lower health and workers compensation insurance costs in 2012 as compared to 2011, which reflects the ongoing efforts towards the proactive settlement of prior year claims earlier in their life cycle and the positive impacts of the Company s safety in the workplace initiatives. Without the impacts of the insurance savings, personnel costs decreased $148, or 0.3% reflecting the $559 lower incentive compensation for property management personnel, partially offset by the annual wage increase of 2.6%.

Table of Contents

Results of Operations (continued)

Legal & professional expenses were up $136, or 7.3%, primarily due to legal costs incurred in connection with successful tax assessment challenges.

Office & telephone expenses were up $322, or 5.6%, primarily due to $249 non-recurring refunds of certain resident fees from prior years. Without the impact of this non-recurring expense, office & telephone expense increased $73, or 1.3%.

Property insurance costs increased by $1,316, or 26.2%, primarily due to the non-recurring impact in 2011 of $2,082 in favorable close outs of significant prior year general liability claims compared to $338 of close-outs in 2012. Both property and general liability losses in 2012 were lower by $111, or 7.3%, and $36, or 2.0% respectively, due to continued emphasis on preventing losses at the communities through safety training programs and the Company s continued focus on settling claims earlier in their life cycle. Without the impact of the major items above, recurring property and general liability insurance costs were up $281, or 6.0%.

On October 29, 2012 Hurricane Sandy hit the Mid-Atlantic and Northeast regions of the United States, causing wide-spread flooding and wind damage. Numerous communities owned by the Company were directly affected by this storm. The most severe damage occurred at properties in New Jersey and on Long Island. Property losses, estimated to be $2,225, are covered under various property and flood insurance policies. The Company s estimated net expense included in the 2012 results, after insurance reimbursement, is less than $100.

Real estate taxes were up $1,700, or 3.4%, primarily due to tax increases being offset by $1,306 in refunds received in 2012 from successful tax assessment appeals compared to $1,678 of refunds in the 2011 period. After removing the effects of the non-recurring refunds, real estate taxes were up $1,327, or 2.6%, reflecting increased assessments and typical rate increases in our markets.

Snow removal costs were down $1,159, or 75.4%, as most of our Northeast and Mid-Atlantic properties experienced the mildest winter on record in 2012.

Property management general & administrative costs decreased $859, or 5.4%. Despite increases in the number of apartment communities and units, the Company has been able to offset costs of growth due to its scalable operating platform, including efficiencies enabled by key application software investments.

The operating expense ratio (the ratio of operating and maintenance expense compared to rental and property other income) for the 2012 Core Properties was 36.6% and 38.7% for 2012 and 2011, respectively. The 2.1% favorable improvement in 2012 is due in part to deliberate cost savings and safety initiatives implemented at the communities, a decrease in natural gas heating costs and rental income growth. In general, the Company s operating expense ratio is higher than that experienced by apartment owners 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 2012 by $5,029, or 17.3%, from $29,145 in 2011 to $34,174 in 2012. G&A as a percentage of total revenues (including discontinued operations) was 5.0% for 2011 as compared to 5.2% for 2012, indicating that the G&A growth is consistent with revenue growth. The 2012 costs include $1,580 in connection with the departure of an executive and represent acceleration of previously granted stock-based compensation as well as future payments for salary continuation. Stock-based compensation expenses were up $3,565, or 42.5%, in 2012, of which $2,937 is due to the new three year performance restricted stock unit grants issued in 2012. The remaining $628 stock-based compensation increase is primarily due to the impact of executives at, or near retirement age, resulting in the current year restricted stock awards and stock option grants being expensed over a one-year shorter time period in 2012 as compared to 2011. These increases were partially offset by $116 lower 2012 spending in other general and administrative areas.

Interest expense decreased by $1,809, or 1.4%, in 2012 primarily as a result of paying off $39,000 in maturing loans on several Core Properties over the past year and the redemption of the $140,000 Senior Notes. In addition, all 2011 Acquisition Communities were acquired without secured mortgage debt and only one 2012 Acquisition Community with assumed secured mortgage debt of $7,284. These decreases were partially offset by $450,000 of unsecured term and senior notes at a lower average interest rate than the Senior Notes and maturing loans.

Table of Contents

Results of Operations (continued)

Depreciation and amortization expense increased $24,929, or 17.7%, due to a full year of depreciation expense for the 2011 Acquisition Communities, incremental depreciation on the capital expenditures for additions and improvements to the Core Properties of $129,045 and $113,779 in 2012 and 2011, respectively, as well as a partial year of depreciation expense for the 2012 Acquisition Communities.

Other expenses of $2,741 in 2012 and $3,225 in 2011 are property acquisition costs from the Acquisition Communities. These costs, which are primarily transfer taxes and title fees, represent 0.92% and 0.64% of the total purchase price of the 2012 and 2011 Acquisition Communities, respectively.

Net income increased $115,958 in 2012 primarily due to a gain on disposition of property of $80,532, an increase of $37,156 due to a partial year impact of the operating results of the 2012 Acquisition Communities and the full year results of the 2011 Acquisition Communities plus improved operating results from the 2012 Core Properties. This is partially offset by $1,730 lower income from discontinued operation in 2012 compared to 2011.

C*omparison of year ended December 31, 2011 to year ended December 31, 2010.*

The Company owned 97 communities with 33,354 apartment units throughout 2010 and 2011 where comparable operating results are available for the years presented (the 2011 Core Properties). For the year ended December 31, 2011, the 2011 Core Properties showed an increase in total revenues of 4.3% and a net operating income increase of 7.7% over the 2010 period. Property level operating expenses decreased 0.7%. Average physical occupancy for the 2011 Core Properties was 95.5%, up from 95.2% in 2010, with average monthly rental rates of $1,184 per apartment unit, an increase of 3.7% over the 2010 period.

A summary of the 2011 Core Properties NOI is as follows:

	2011	2010	$ Variance	% Variance
Rent	$ 446,628	$ 428,955	$ 17,673	4.1%
Utility recovery revenue	20,090	18,803	1,287	6.8%
Rent including recoveries	466,718	447,758	18,960	4.2%
Other income	20,832	19,875	957	4.8%
Total revenue	487,550	467,633	19,917	4.3%
Operating and maintenance	(189,311)	(190,610)	1,298	0.7%
Net operating income	$ 298,239	$ 277,024	$ 21,215	7.7%

The inclusion of the 2011 Acquisition Communities generally accounted for the significant changes in operating results for the year ended December 31, 2011.

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

	2011	2010	$ Variance	% Variance
Rent	$ 515,780	$ 457,819	$ 57,961	12.7%
Utility recovery revenue	21,865	19,775	2,090	10.6%
Rent including recoveries	537,645	477,594	60,051	12.6%
Other income	23,756	21,089	2,667	12.6%
Total revenue	561,401	498,683	62,718	12.6%
Operating and maintenance	(217,069)	(203,421)	(13,648)	(6.7)%
Net operating income	$ 344,332	$ 295,262	$ 49,070	16.6%

Table of Contents

Results of Operations (continued)

During 2010, the Company sold its general partnership interest in one investment where the Company was the managing general partner that had been determined to be a Variable Interest Entity (VIE) as defined by authoritative guidance. During 2012, the Company disposed of six properties in six transactions with a total of 1,596 units, which had full year results for 2011 and 2010 (the 2012 Disposed Communities). The results of these disposed properties and general partnership interest have been reflected in discontinued operations and are not included in the tables above.

For the year ended December 31, 2011, income from continuing operations increased by $19,851 when compared to the year ended December 31, 2010. The increase was primarily attributable to the following factors: an increase in rental income of $57,961, and an increase in property other income of $4,757. These changes were partially offset by increases in operating and maintenance expense of $13,648, general and administrative expense of $4,007, interest expense of $6,966, depreciation and amortization of $17,941 and other expenses of $354. Each of the items are described in more detail below.

Of the $57,961 increase in rental income, $26,311 is attributable to the 2010 Acquisition Communities, $14,871 is attributable to the 2011 Acquisition Communities, partially offset by an $894 reduction for the Redevelopment Property. The balance, an increase of $17,673, relates to a 4.1% increase from the 2011 Core Properties as the result of a 0.4% increase in economic occupancy from 93.9% to 94.3% and a 3.7% increase in weighted average rental rates from $1,141 to $1,184 per apartment unit.

Of the $2,090 increase in utility recovery revenue, $505 is attributable to the 2010 Acquisition Communities, $563 is attributable to the 2011 Acquisition Communities, partially offset by a $265 reduction for the Redevelopment Property. The balance, an increase of $1,287, relates to a 6.8% increase from the 2011 Core Properties as the result of the increase in economic occupancy and comparable increase in water and sewer expense.

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 by $2,667. Of this increase, $1,019 is attributable to the 2010 Acquisition Communities, $663 is attributable to the 2011 Acquisition Communities and $28 for the Redevelopment Property and $957 is attributable to the 2011 Core Properties.

Of the $13,648 increase in operating and maintenance expenses, $9,543 is attributable to the 2010 Acquisition Communities, $6,052 is attributable to the 2011 Acquisition Communities, partially offset by a $649 decrease for the Redevelopment Property. The balance for the 2011 Core Properties, a $1,298 decrease in operating expenses or 0.7%, is primarily a result of decreases in electricity, natural gas heating costs, personnel expense, property insurance, snow removal and trash hauling. These decreases were partially offset by increases in water & sewer costs, repairs & maintenance, legal & professional, real estate taxes and property management G&A.

Table of Contents

Results of Operations (continued)

The breakdown of operating and maintenance costs for the 2011 Core Properties by line item is listed below:

	2011	2010	$ Variance	% Variance
Electricity	$ 7,033	$ 7,222	$ 189	2.6%
Gas	15,239	15,637	398	2.5%
Water & sewer	15,560	14,522	(1,038)	(7.1)%
Repairs & maintenance	28,778	27,176	(1,602)	(5.9)%
Personnel expense	42,986	44,285	1,299	2.9%
Advertising	3,738	3,797	59	1.6%
Legal & professional	1,753	1,515	(238)	(15.7)%
Office & telephone	5,242	5,364	122	2.3%
Property insurance	4,158	5,924	1,766	29.8%
Real estate taxes	45,907	45,592	(315)	(0.7)%
Snow	1,447	2,045	598	29.2%
Trash	2,868	3,128	260	8.3%
Property management G&A	14,602	14,403	(199)	(1.4)%
Total	$ 189,311	$ 190,610	$ 1,299	0.7%

Electricity costs were down $189, or 2.6% from a year ago primarily as a result of energy conservation efforts including a compact fluorescent bulb replacement program and the installation of motion sensors and timers in common areas.

Natural gas heating costs were down $398, or 2.5% from a year ago due to a combination of lower commodity rates offset by increased consumption resulting from a colder spring heating season in 2011 as compared to 2010. For 2011, the Company s natural gas weighted average cost, including transportation of $3.00 per decatherm, was $8.91 per decatherm, compared to $9.37 per decatherm for the 2010 period, a 4.9% decrease.

Water & sewer costs were up $1,038, or 7.1%, from a year ago and are attributable to general rate increases being assessed by local municipalities. The water & sewer recovery program enabled the Company to recapture much of these rate increases from our residents.

Repairs & maintenance expenses were up $1,602, or 5.9%, primarily due to insurance claim recoveries of $782 in 2010 compared to insurance claim expenses of $248 in 2011. Without the impacts of these insurance claim recoveries and expenses, the recurring repairs & maintenance costs increased $572, or 2.0% from a year ago. The increase reflects normal increases in supplies and contract services partially offset by the favorable impact of lower resident turnover of 38.1% in 2011 as compared to 38.7% in 2010, which resulted in less spending on apartment turnover costs.

Personnel expenses were down $1,299, or 2.9%, primarily due to a reduction in workers compensation costs which reflects the ongoing efforts towards the proactive settlement of prior year claims earlier in their life cycle and the positive impacts of the Company s safety in the workplace initiatives.

Table of Contents

Results of Operations (continued)

Advertising expenses were down $59, or 1.6%, in 2011 and is reflective of the resident marketing program which places less emphasis and spending on print media and more focus on internet-based methods and resident programs which have resulted in a 1% increase in traffic in 2011 as compared to 2010.

Legal & professional expenses were up $238, or 15.7%, primarily due to legal costs incurred in connection with successful tax assessment challenges.

Property insurance costs decreased by $1,766, or 29.8%, primarily due to positive trends in general liability claims, which are reflective of the increased emphasis on preventing losses at the communities through safety training programs and the Company s continued focus on settling claims earlier in their life cycle.

Real estate taxes were up $315, or 0.7%, primarily due to tax increases being offset by $1,678 in refunds received in 2011 from successful tax assessment appeals compared to $737 in the 2010 period. After removing the effects of the non-recurring refunds, real estate taxes were up $1,256, or 2.7%.

Snow removal costs were down $598, or 29.2%, as most of our Mid-Atlantic region properties suffered from record storms in the first quarter 2010 which were not repeated in 2011.

Trash removal costs were down $260, or 8.3%, as a result of effective rebidding with trash haulers that took effect in late 2010.

Property management general & administrative costs increased $199, or 1.4%, which reflects annual wage increases of 2.4% that were partially offset by staff reductions as a result of efficiencies enabled through key application software investments.

The operating expense ratio (the ratio of operating and maintenance expense compared to rental and property other income) for the 2011 Core Properties was 38.7% and 40.8% for 2011 and 2010, respectively. The 2.1% favorable improvement in 2011 is due in part to deliberate cost savings and safety initiatives implemented at the communities which resulted in lower insurance costs coupled with rental income growth. In general, the Company s operating expense ratio is higher than that experienced by apartment owners 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 2011 by $4,007, or 15.9%, from $25,138 in 2010 to $29,145 in 2011. G&A as a percentage of total revenues (including discontinued operations) was 4.9% for 2010 as compared to 5.0% for 2011, indicating that the G&A growth is consistent with revenue growth. The 2011 incentive bonus is up $1,791, or 68.7%, as compared to 2010, reflecting the Company s

favorable operating performance versus its peers. Stock based compensation expenses were up $1,813 in 2011 as compared to 2010, primarily due to the impact of employees nearing retirement age vesting over one less year in 2011 as compared to 2010. These increases were partially offset by $400 savings realized in 2011 for director costs as we had four fewer directors beginning in May 2011 due to retirement.

Interest expense increased by $6,966, or 5.8%, in 2011 primarily as a result of interest expense on the new debt of several 2011 Core Properties, which were refinanced during 2010 at approximately $200,000 higher principal than the maturing loans and full year impact of 2010 Acquisition Communities which included $156,000 of assumed debt. All 2011 Acquisition Communities were acquired without secured mortgage debt. These increases were partially offset by lower interest on the unsecured line of credit due to a lower outstanding balance and a lower interest rate in 2011 compared to 2010 and an overall savings in 2011 from the redemption of the Exchangeable Senior Notes and the subsequent unsecured term loan and unsecured senior notes at a lower average interest rate.

Depreciation and amortization expense increased $17,941, or 14.6%, due to a full year of depreciation expense for the 2010 Acquisition Communities, incremental depreciation on the capital expenditures for additions and improvements to the Core Properties of $98,420 and $83,245 in 2011 and 2010, respectively, as well as a partial year of depreciation expense for the 2011 Acquisition Communities.

Table of Contents

Results of Operations (continued)

Other expenses of $3,225 in 2011 and $2,871 in 2010 are property acquisition costs from the Acquisition Communities. These costs, which are primarily transfer taxes and title fees, represent 0.64% and 0.85% of the total purchase price of the 2011 and 2010 Acquisition Communities, respectively.

Included in discontinued operations for 2011 are the operating results of the 2012 Disposed Communities. Included in discontinued operations for 2010 are the operating results of the 2012 Disposed Communities and the VIE. For purposes of the discontinued operations presentation, the Company 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 $13 loss on disposition of property reported for 2010 are residual items relating to the 2009 Disposed Communities.

Net income increased $21,346 in 2011 primarily due to a partial year impact of the operating results of 2011 Acquisition Communities and the full year results of the 2010 Acquisition Communities plus improved operating results from the 2011 Core Properties.

Liquidity and Capital Resources

General

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.

To the extent that the Company does not satisfy its short-term liquidity requirements through net cash flows provided by operating activities and its existing bank line of credit, it intends to satisfy such requirements through proceeds from the sale of properties, from the issuance of unsecured senior notes and from the issuance of its common stock through its equity offering programs, described below.

In 2000, the Company obtained an investment grade rating from Fitch, Inc. The rating in effect at December 31, 2012 is a corporate credit rating of BBB (Triple B), which was reaffirmed on June 27, 2012.

For 2013, plans include increasing the level of the value of unencumbered properties to over 40% 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, 2012 and issuing shares under the current or future ATM programs.

Cash Flow Summary

The Company s cash flow activities are summarized as follows (in millions):

	Year Ended December 31,		
	2012	**2011**	**2010**
Net cash provided by operating activities	$ 268	$ 198	$ 160
Net cash used in investing activities	(366)	(664)	(335)
Net cash provided by financing activities	111	464	176

Table of Contents

Liquidity and Capital Resources (continued)

The Company s net cash flow from operating activities was $268 million in 2012 compared to $198 million in 2011. The $70 million increase was primarily a result of $65 million higher NOI in 2012 partially offset by $5 million higher general and administrative costs in 2012 as compared to 2011, with the increases primarily attributable to the 2012 and 2011 Acquisition Communities.

The Company s net cash flow from operating activities was $198 million in 2011 compared to $160 million in 2010. The $38 million increase was primarily a result of $49 million higher NOI in 2011 partially offset by $6 million higher interest expense and $4 million higher general and administrative costs in 2011 as compared to 2010, with the increases primarily attributable to the 2011 and 2010 Acquisition Communities.

Cash used in investing activities was $366 million during 2012 compared to $664 million in 2011. The $298 million decrease in investing between periods is primarily due to the $290 million used for acquisition of three properties in 2012 as compared to $499 million for the eight properties acquired in 2011. Cash outflows for capital improvements were $153 million in 2012 compared to $127 million in 2011. In addition, the Company spent $12 million on redevelopment in 2012. The investments in both periods reflects management s strategy to continually reposition and perform selective rehabilitation in markets that are able to support rent increases, with the year-over-year increase reflective of the demand in the market for upgraded apartments. Cash outflows for additions to construction in progress were $62 million in 2012 as compared to $32 million in 2011. Cash outflows for the purchase of land for development was $13 million in 2011.

Cash used in investing activities was $335 million in 2010. Cash outflows for acquisitions were $186 million, capital improvements were $98 million and additions to construction in progress were $46 million in 2010.

Net cash provided by financing activities totaled $111 million for 2012, primarily as a result of net proceeds from the unsecured line of credit of $160 million, the sale of common stock under the ATM offering of $145 million, $50 million issued in unsecured notes and proceeds from stock option exercises of $17 million. Total proceeds were partially offset by payments on mortgages of $103 million and distributions paid to stockholders and UPREIT Unitholders of $159 million.

Net cash provided by financing activities totaled $464 million for 2011, primarily as a result of the $400 million issuance of unsecured notes, the sale of common stock under the public offering of $337 million and the ATM offering of $190 million and proceeds from stock option exercises of $21 million being partially offset by payments on mortgages of $163 million, distributions paid to stockholders and UPREIT Unitholders of $131 million, repurchase of senior notes of $130 million, net payments under the unsecured line of credit of $54 million and payments of $5 million for mortgage borrowing costs.

Net cash provided by financing activities totaled $176 million in 2010. Cash flows from the sale of common stock under the ATM offering of $108 million, net proceeds from mortgage financing of $172 million, proceeds from stock option exercises of $11 million and net borrowing under the unsecured line of credit of $3 million were partially offset by distributions paid to stockholders and UPREIT Unitholders of $112 million and payments of $6 million for mortgage borrowing costs.

Unsecured Line of Credit

As of December 31, 2012, the Company had a $275 million unsecured line of credit agreement with M&T Bank and U.S. Bank National Association, as joint lead banks, and nine other participating commercial banks, with an initial maturity date of December 8, 2015 and a one-year extension, at the Company s option. The Company had $162.5 million outstanding under the credit facility on December 31, 2012. 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, 2012, the Company had outstanding letters of credit of $16.4 million resulting in the amount available on the credit facility of $96.1 million. Borrowings under the line of credit bear interest at a variable rate based on LIBOR, plus a spread from 1.00% to 2.00% based on the Company s leverage ratio. As of December 31, 2012, based on the Company s leverage ratio, the LIBOR margin was 1.30%, and the one-month LIBOR was 0.25%; resulting in an effective rate of 1.55% for the Company.

Table of Contents

Liquidity and Capital Resources (continued)

Unsecured Term Loans

On October 28, 2011, the Company entered into an unsecured term loan agreement with M&T Bank that had a total limit of $140 million. On November 1, 2011, the Company borrowed $135 million on this facility which was used to fund the repurchase of the exchangeable senior notes. The term loan was repaid on December 9, 2011 with proceeds of the $250 million term loan described below. The loan bore interest at 2.41% (2.1% above the one-month LIBOR) and had covenants that aligned with the unsecured line of credit facility.

On December 9, 2011, the Company entered into a $250 million five-year unsecured term loan with M&T Bank as lead bank, and ten other participating lenders. The term loan generated net proceeds of $248 million, after fees and closing costs, which were used to pay off the $135 million unsecured term loan, purchase an unencumbered property and acquire land for future development. The loan bears monthly interest at a variable rate based on LIBOR, plus a spread from 1.00% to 2.00% based on the Company s leverage ratio. On July 19, 2012, the Company entered into interest rate swap agreements with major financial institutions that effectively convert the variable LIBOR portion of this loan to a fixed rate of 0.685%. As of December 31, 2012, based on the Company s leverage ratio, the spread was 1.30%, and the swapped one-month LIBOR was 0.685%; resulting in an effective rate of 1.99% for the Company, as described in Note 11 to Consolidated Financial Statements. The loan has covenants that align with the unsecured line of credit facility.

Unsecured Demand Note

On June 27, 2012, the Company entered into a loan agreement with M&T Bank with a maximum principal amount of $100 million and monthly interest at a variable rate based on LIBOR, plus a spread from 1.00% to 2.00% based on the Company s leverage ratio. The Company borrowed the maximum amount of $100 million. Proceeds from this demand note were utilized to partially fund the purchase of a 1,350 unit apartment community on June 28, 2012. During the fourth quarter, 2012, the Company repaid the $100 million note in full.

Unsecured Senior Notes

On December 19, 2011, the Company issued $150 million of unsecured senior notes. The notes were offered in a private placement in two series: Series A: $90 million with a seven-year term due December 19, 2018 at a fixed interest rate of 4.46% (Series A); and, Series B: $60 million with a ten-year term due December 19, 2021 at a fixed interest rate of 5.00% (Series B). The net proceeds of $89 million and $60 million for Series A and Series B, respectively, after fees and closing costs, were used to purchase an unencumbered property and pay off a maturing mortgage note. The notes require semiannual interest payments on June 19 and December 19 of each year until maturity and are subject to various covenants and maintenance of certain financial ratios. Although the covenants of the notes do not duplicate all the covenants of the unsecured line of credit facility, any covenants applicable to both the notes and the line are identical.

On June 27, 2012, the Company issued a private placement note in the amount of $50 million with a seven-year term, a fixed rate of 4.16% and a June 27, 2019 due date. The proceeds from this note were used to partially fund the purchase of a 1,350 unit apartment community on June 28,

2012. The note requires semiannual interest payments on June 27 and December 27 of each year until maturity and is subject to various covenants and maintenance of certain financial ratios. Although the covenants of the note do not duplicate all the covenants of the unsecured line of credit facility, any covenants applicable to both the note and the line are identical.

Exchangeable Senior Notes

On November 1, 2011, the Company repurchased at face value $135 million principal amount of exchangeable senior notes (Senior Notes), plus accrued interest of $2.8 million, that were presented by the holders for repurchase in accordance with the October 2006 Senior Notes Indenture Agreement (the Indenture). On December 21, 2011 the remaining outstanding balance of $5 million principal amount of the Senior Notes was repurchased by the Company, at face value plus accrued interest at the Company s option in accordance with the Indenture. There were no outstanding Senior Notes as of December 31, 2012 or 2011.

Table of Contents

Liquidity and Capital Resources (continued)

Indebtedness

As of December 31, 2012, the weighted average interest rate on the Company s total indebtedness of $2.8 billion was 4.55% with staggered maturities averaging approximately five years. Approximately 87% 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 from 33% at the end of 2011, to 39% as of December 31, 2012. 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, and/or for the issuance of additional unsecured senior notes. It also permits the Company to place secured financing on unencumbered assets if desired.

UPREIT Units

The Company believes that the issuance of UPREIT Units for property acquisitions will continue to be a potential source of capital for the Company. During 2010, the Company issued $4.8 million in 98,728 UPREIT Units as consideration for one acquired property. During 2011 and 2012, there were no UPREIT Units issued for property acquisitions.

Universal Shelf Registration

On March 3, 2010, 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. Sales of common stock under the Company s ATM and public equity offerings as described below were made under this registration statement. A new Form S-3 universal shelf registration statement is expected to be filed, and immediately effective, with the SEC shortly before the expiration of the current registration statement on March 2, 2013.

At-the-Market Equity Offering Programs

On December 3, 2009, the Company initiated an At-the-Market (ATM) equity offering program through which it was authorized to 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. From December 2009 through completion of the offering in May 2010, the Company issued 3.2 million shares of common stock at an average price per share of $47.19, for aggregate gross proceeds of $150 million and aggregate net proceeds of $147 million after deducting commissions and other transaction costs of approximately $3 million.

On September 17, 2010, the Company initiated its second ATM equity offering program through which it was authorized to sell up to 3.6 million shares of common stock from time to time in ATM offerings or negotiated transactions. There were no shares issued from this program during 2010. During 2011 through completion of the offering in May 2012, the Company issued 3.6 million shares of common stock at an average price per share of $60.71, for aggregate gross proceeds of $219 million and aggregate net proceeds of $214 million after deducting commissions and other transaction costs of approximately $5 million.

On May 14, 2012, the Company filed a prospectus supplement with respect to another ATM equity offering program, with similar terms and conditions as the September 2010 program, through which it is authorized to sell up to 4.4 million shares of common stock, from time to time in ATM offerings or negotiated transactions. As of December 31, 2012, the Company issued 1,970,824 shares of common stock at an average price per share of $62.64, for aggregate gross proceeds of $123 million and aggregate net proceeds of $121 million after deducting commissions and other transaction costs of approximately $2 million. Approximately 2.4 million shares remain available under this program as of December 31, 2012.

Table of Contents

Liquidity and Capital Resources (continued)

At-the-Market Equity Offering Programs (continued)

The Company used the net proceeds from the ATM offerings primarily for general corporate purposes including acquisitions, development and redevelopment of apartment communities.

Public Equity Offering

On September 20, 2011, the Company publicly offered 6 million shares of its common stock at a price of $58.50 per share, for net proceeds of approximately $337 million after underwriting discounts, commissions and offering expenses. All of the 6 million shares offered were purchased and subsequently delivered on September 23, 2011. The Company used the net proceeds from the offering primarily for acquisitions, development and redevelopment of apartment communities.

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 can meet share demand under the DRIP through stock repurchases by the transfer agent in the open market on the Company s behalf or new stock 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 2011 or 2012.

Stock Repurchase Program

In 1997, 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 and 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. There were no repurchases under the Company Program during 2012 and 2011. The remaining authorization level as of December 31, 2012 is 2.3 million shares. The Company will continue to monitor stock prices relative to the NAV to determine the current best use of capital among our major uses of capital: stock buybacks, debt paydown to increase the unencumbered pool, acquisitions, rehabilitation and/or redevelopment of owned properties and development of new properties.

Table of Contents

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 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. 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 financial position and results of operations to those of companies in similar businesses.

The Company s significant accounting policies are described in Notes 2 and 3 to Consolidated Financial Statements. These policies were followed in preparing the Consolidated Financial Statements for the year ended December 31, 2012 and are consistent with the year ended December 31, 2011.

The Company has identified the following significant accounting policies as critical accounting policies. These critical accounting policies are those that have the most impact on the reporting of our financial condition and those requiring significant judgments and estimates. With respect to these critical accounting policies, management believes that the application of judgments and estimates is consistently applied and produces financial information that fairly presents the results of operations for all periods presented.

Acquisition of Investments in Real Estate

The Company accounts for its acquisitions of investments in real estate in accordance with the authoritative guidance for the initial measurement, which requires the assets and liabilities acquired to be recognized using fair value. Typical assets and liabilities acquired include land, building, and personal property and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases and value of resident relationships, based in each case on their fair values. In making estimates of fair value for purposes of the initial accounting of the purchased real estate, the Company utilizes a number of sources, including our own analysis of recently acquired and existing comparable properties in our portfolio and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

Cost Capitalization

The Company capitalizes the payroll and associated costs of employees directly responsible for the supervision and construction of major capital and rehabilitation projects. These costs are reflected on the balance sheet as an increase to depreciable property.

For development properties, the Company uses its professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. Costs directly related to the development of properties are capitalized. The Company capitalizes interest, real estate taxes and insurance; and payroll and associated costs for those individuals directly responsible for and who spend all their time on development activities. Determination of when a development project commences and capitalization begins, and when a development project is substantially complete and capitalization must end involves a degree of judgment. We begin the capitalization of costs during the pre-construction period which we define as activities that are necessary to the development of the property. We consider a development property as substantially complete after major construction has ended and the property is available for occupancy. For properties that are built in phases, we end capitalization on the portion of a property that is considered substantially complete, and we capitalize only those costs associated with the portion under construction. These costs are reflected on the balance sheet as construction in progress.

Table of Contents

Critical Accounting Policies (continued)

Depreciation of Investments in Real Estate

The Company depreciates the building component of its investment in real estate over a 40-year estimated useful life, building improvements over a 3-year to 20-year estimated useful life and the furniture, fixtures and equipment over a 5-year to 10-year estimated useful life, all of which are judgmental determinations. These assessments have a direct impact on the Company s net income.

Impairment of Long-Lived Assets

Management reviews its long-lived assets used in operations for impairment when, in accordance with the authoritative guidance for the accounting for the impairment or disposal of long-lived assets, there is an event or change in circumstances that indicates an impairment in value. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions and legal and environmental concerns, as well as the Company s ability to hold and its intent with regard to each asset. Future events could occur which could cause the Company to conclude that impairment indicators exist and an impairment charge is warranted.

Fair Value of Financial Instruments Not Carried at Fair Value

For purposes of disclosure, the Company calculates the fair value of its mortgage notes payable, unsecured term loan, unsecured senior notes and unsecured line of credit facility using a discounted future cash flow technique that incorporates observable market-based inputs, including a market interest yield curve with adjustments for duration, loan to value, and risk profile. As the valuation of financial instruments requires the Company to make estimates and judgments in the calculation of the fair value of these instruments, the actual fair value of these financial instruments for disclosure purposes may differ materially if these estimates do not prove to be accurate.

Fair Value of Financial Instruments Carried at Fair Value

The fair value of interest rate swaps are determined using the market standard of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rate forward curves derived from observable market interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. As the valuation of financial instruments requires the Company to make estimates and judgments in the calculation of the fair value of these instruments, the actual fair value of the interest rate swaps may differ materially if these estimates do not prove to be accurate.

Derivative Instruments and Hedging Activities

Derivative instruments and hedging activities require the Company to make judgments on the nature of its derivatives and their effectiveness as hedges. These judgments determine if the changes in fair value of the derivative instruments are reported as a component of net income or as comprehensive income and equity. While the Company believes its judgments are reasonable, a change in a derivative s effectiveness as a hedge could materially affect expenses, net income and equity.

Recent Accounting Pronouncements

There were no new accounting pronouncements issued or effective during the fiscal year which have had or are expected to have a material impact on the Consolidated Financial Statements. See Note 3 to the Consolidated Financial Statements for further detail on applicable accounting pronouncements that were adopted in 2012 or will be effective for 2013.

Table of Contents

Derivative Instruments and Hedging Activities

The Company follows authoritative guidance for disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

Contractual Obligations and Other Commitments

The primary obligations of the Company relate to its borrowings under the unsecured line of credit, unsecured notes and mortgage notes. The Company s line of credit matures in December 2015 (not including a one-year extension, at the option of the Company), and had $162.5 million in loans and letters of credit totaling $16.4 million, outstanding at December 31, 2012. The $450 million in unsecured notes have maturities ranging from four to nine years. The $2.2 billion in mortgage notes have varying maturities ranging from two months to eighteen years. The principal and interest payments on the borrowings for the years subsequent to December 31, 2012, are set forth in the table below.

Table of Contents

Contractual Obligations and Other Commitments (continued)

The Company leases its corporate office space from a former 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. 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 2013. 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 (1)	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**
Mortgage notes, principal (2)	$ 2,165,027	$ 224,607	$ 106,377	$ 276,400	$ 345,791	$ 276,684	$ 935,168
Mortgage notes, interest (3)	492,045	103,870	93,613	85,507	63,690	53,878	91,487
Unsecured notes, principal (2)	450,000				250,000		200,000
Unsecured notes, interest (3) (5)	84,141	14,125	14,125	14,125	13,795	9,094	18,877
Line of credit, principal (2) (4)	162,500			162,500			
Line of credit, interest (3)	7,398	2,519	2,519	2,360			
Operating leases	7,459	1,860	1,840	1,844	1,621	294	
Purchase obligations	4,778	4,574	105	66	33		
Total	$ 3,373,348	$ 351,555	$ 218,579	$ 542,802	$ 674,930	$ 339,950	$ 1,245,532

(1) 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.

(2) Amounts include principal payments only. The Company will pay interest on outstanding indebtedness based on the rates and terms summarized in Note 6, 7 and 9 to Consolidated Financial Statements.

(3) Amounts include interest expected to be incurred on the Company s secured and unsecured debt based on obligations outstanding at December 31, 2012. For floating rate debt, the current rate in effect for the most recent payment through December 31, 2012 is assumed to be in effect through the respective maturity date of each instrument.

(4) The payment in 2015 reflects the line of credit agreement as described in Note 9 to Consolidated Financial Statements, and does not include the one-year extension at the Company s option.

(5) For $250,000 unsecured notes subject to interest rate swaps, the swapped rates are assumed as more fully described in Note 11 to Consolidated Financial Statements.

The Company has a secondary guarantee through 2015 on certain low income housing tax credits to limited partners in a partnership in which it previously was a general partner totaling approximately $3 million. With respect to the guarantee of the low income housing tax credits, the new unrelated general partner assumed operating deficit guarantee and primary tax credit guarantee positions, as more fully described in Note 17 to Consolidated Financial Statements. The Company believes the property s operations conform to the applicable requirements and does not anticipate any payment on the guarantee; therefore, the secondary guarantee is excluded from the table above.

Table of Contents

Off-Balance Sheet Arrangements

As of December 31, 2012, the Company did not have any off-balance sheet transactions, arrangements, or obligations, including contingent obligations, other than those disclosed under contractual obligations.

Contingencies

The Company is not a party to any legal proceedings which are expected to have a material adverse effect on the Company s liquidity, financial position or results of operations. 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 liability and property insurance. Various claims of employment and resident discrimination are also periodically brought, most of which also are covered by insurance. 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.

Environmental Issues

Phase I environmental site assessments have been completed on substantially all of the Properties. As of December 31, 2012, there were no recorded amounts resulting from environmental liabilities as there were no known obligations with respect thereto. Furthermore, no condition is known to exist that would give rise to a material liability for site restoration or other costs that may be incurred with respect to the sale or disposal of a property.

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

Effective January 1, 2012, 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 $848 per apartment unit compared to $800 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 construction, development, rehabilitation 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 and bath cabinets, new roofs, site improvements and various exterior building improvements. Non-recurring, revenue generating capital improvements include community centers, new windows, and kitchen and bath apartment upgrades. Revenue generating capital improvements are expected to 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.

Table of Contents

Capital Improvements (continued)

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	$ 1,624	9	$ 180	$ 13	$ 193
Blinds, shades	135	3	45	5	50
Carpets, cleaning	760	4	190	142	332
Computers, equipment, misc.(4)	120	6	20	2	22
Contract repairs				250	250
Exterior painting (5)	84	3	28		28
Flooring	250	9	28	24	52
Furnace, air (HVAC)	854	24	36	24	60
Hot water heater	293	7	42		42
Interior painting				178	178
Kitchen, bath cabinets upgrade	1,200	15	80		80
Landscaping site				120	120
New roof	880	24	37		37
Parking lot site	750	15	50		50
Pool, exercise facility	147	15	10	38	48
Windows major	1,663	20	83		83
Miscellaneous (6)	326	17	19		19
Total	$ 9,086		$ 848	$ 796	$ 1,644

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(1) Estimated weighted average actual physical useful life of the expenditure capitalized.

(2) This amount is not necessarily incurred each and every year. Some years will be higher, or lower depending on the timing of certain longer life expenditures.

(3) These expenses are included in the Operating and Maintenance line item of the Consolidated Statement of Operations. Maintenance labor costs are not included in the $796 per unit estimate. All personnel costs for site supervision, leasing agents, and maintenance staff are combined and disclosed in the Company s Core Properties expense detail schedule.

(4) Includes computers, office equipment, furniture, and maintenance vehicles.

(5) The level of exterior painting may be lower than other similar titled presentations as the Company s portfolio has a significant amount of brick exteriors. In addition, the other exposed surfaces are most often covered in aluminum or vinyl.

(6) Includes items such as balconies, siding, and concrete sidewalks.

Table of Contents

Capital Improvements (continued)

The breakdown of costs above reflects the Company s unique strategies to improve every property every year regardless of age, and to purchase older properties and rehabilitate and reposition them to enhance internal rates of return. These strategies result in higher costs of capital expenditures and maintenance costs which permit the Company to realize higher revenue growth, higher net operating income growth and a higher rate of property appreciation.

The Company estimates that approximately $848 and $800 per unit was spent on recurring capital expenditures in 2012 and 2011, respectively. The table below summarizes the breakdown of capital improvements by major categories between recurring and non-recurring, revenue generating capital improvements as follows:

	For the year ended December 31, 2012						2011	
	Recurring Cap Ex	(a) Per Unit	Non-recurring Cap Ex	(a) Per Unit	Total Capital Improvements	(a) Per Unit	Total Capital Improvements	(a) Per Unit
New buildings	$	$	$ 1,352	$ 34	$ 1,352	$ 34	$ 986	$ 27
Major bldg improvements	5,221	130	22,085	550	27,306	680	15,814	427
Roof replacements	1,486	37	2,739	68	4,225	105	3,678	99
Site improvements	2,410	60	15,860	395	18,270	455	15,600	422
Apartment upgrades	5,020	125	49,209	1,225	54,229	1,350	44,148	1,193
Appliances	7,229	180	726	18	7,955	198	6,770	183
Carpeting, flooring	8,755	218	6,494	162	15,249	380	12,896	349
HVAC, mechanicals	3,132	78	11,766	293	14,898	371	13,743	371
Miscellaneous	803	20	3,841	96	4,644	116	3,717	100
Totals	$ 34,056	$ 848	$ 114,072	$ 2,841	$ 148,128	$ 3,689	$ 117,352	$ 3,171

(a) Calculated using the weighted average number of units owned, including 36,214 core units, 2011 acquisition units of 2,817, and 2012 acquisition units of 1,129 for 2012; and 36,214 core units and 2011 acquisition units of 784 for 2011.

The schedule below summarizes the breakdown of total capital improvements between core and non-core:

	For the year ended December 31, 2012						2011	
	Recurring Cap Ex	(b) Per Unit	Non-recurring Cap Ex	(b) Per Unit	Total Capital Improvements	(b) Per Unit	Total Capital Improvements	(b) Per Unit
Core Communities	$ 30,710	$ 848	$ 98,335	$ 2,715	$ 129,045	$ 3,563	$ 113,779	$ 3,142
2012 Acquisition Communities	957	848	3,482	3,084	4,439	3,932		
2011 Acquisition Communities	2,389	848	12,255	4,350	14,644	5,198	3,573	4,557
Subtotal	34,056	848	114,072	2,841	148,128	3,689	117,352	3,171
2012 Disposed Communities	1,125	848	717	540	1,842	1,388	3,611	2,263

Corporate office (1)					2,803		2,245	
Totals	$ 35,181	$ 848	$ 114,789	$ 2,767	$ 152,773	$ 3,615	$ 123,208	$ 3,134

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(1) No distinction is made between recurring and non-recurring expenditures for corporate office. Corporate office expenditures include principally computer hardware, software, office furniture, fixtures and leasehold improvements. Corporate office expenditures are excluded from per unit figures.

(b) Calculated using the weighted average number of units owned, including 36,214 core units, 2011 acquisition units of 2,817, 2012 acquisition units of 1,129, and 2012 disposed units of 1,327 for 2012; and 36,214 core units, 2011 acquisition units of 784, and 2012 disposed units of 1,596 for 2011.

Table of Contents

Inflation

Substantially all of the leases at the communities are for a term of one year or less, which enables the Company to seek increased rents upon renewal of existing leases or commencement of new leases. These short-term leases minimize the potential adverse effect of inflation on rental income, although residents may leave without penalty at the end of their lease terms and may do so if rents are increased significantly.

Forward-Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended. Some examples of forward-looking statements include statements related to acquisitions (including any related pro forma financial information), future capital expenditures, potential development and redevelopment opportunities, projected costs and rental rates for development and redevelopment projects, financing sources and availability, and the effects of environmental and other regulations. Although management believes that the expectations reflected in those forward-looking statements are based upon reasonable assumptions, it can give no assurance that expectations will be achieved. Factors that may cause actual results to differ include general economic and local real estate conditions, the weather and other conditions that might affect operating expenses, the timely completion of repositioning activities and development within anticipated budgets, the actual pace of future development, acquisitions and sales, and continued access to capital to fund growth. For this purpose, any statements contained in this Form 10-K that are not statements of historical fact should be considered to be forward-looking statements. Some of the words used to identify forward-looking statements include believes , anticipates , plans , expects , seeks , estimates , intends , and any other similar expressions. Readers should exercise caution in interpreting a relying on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond the Company s control and could materially affect the Company s actual results, performance or achievements.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company s primary market risk exposure is interest rate risk. The Company s debt is summarized as follows:

	December 31, 2012				December 31, 2011			
	Amount (Millions)	Weighted-Average Maturity Years	Weighted-Average Interest Rate	Percentage of Total	Amount (Millions)	Weighted-Average Maturity Years	Weighted-Average Interest Rate	Percentage of Total
Fixed rate secured debt	$ 1,967	4.94	5.30%	70.8%	$ 2,059	5.84	5.34%	77.3%
Variable rate secured debt	198	5.48	2.77%	7.1%	202	6.44	2.98%	7.6%
Fixed rate unsecured debt	450(a)	5.30	3.12%	16.2%	150	8.17	4.68%	5.6%
Variable rate unsecured debt	163	2.94	1.55%	5.9%	252(b)	4.93	1.61%	9.5%
Total	$ 2,778	4.92	4.55%	100.0%	$ 2,663	5.93	4.77%	100.0%

(a) Includes $250 million of variable rate debt that the one-month LIBOR was swapped to a fixed rate of 0.685% at December 31, 2012.

(b) Includes debt in (a) which was not swapped to a fixed rate at December 31, 2011.

The Company uses a combination of fixed and variable rate secured and unsecured debt. The Company intends to use net cash flow provided by operating activities and its existing bank line of credit to repay indebtedness and fund capital expenditures. On occasion, the Company may use its unsecured line of credit in connection with a property acquisition with the intention to refinance at a later date. The Company believes that increases in interest expense as a result of inflation would not significantly impact the Company s distributable cash flow.

On July 19, 2012, the Company entered into interest rate swap agreements that effectively convert the one-month LIBOR portion of a $250 million five-year variable rate unsecured term loan, due on December 8, 2016, from a variable rate of one-month LIBOR plus a spread of 1.00% to 2.00% based on the Company s leverage ratio to a fixed rate of 0.685% plus the applicable spread. The Company is exposed to credit risk in the event of non-performance by the counterparties to the swaps. The Company minimizes this risk exposure by limiting counterparties to major banks and investment brokers who meet established credit and capital guidelines.

At December 31, 2012 and December 31, 2011, the fair value of the Company s total debt, including the unsecured notes payable and line of credit, amounted to a liability of $2.97 billion and $2.83 billion, respectively, compared to its carrying amount of $2.78 billion and $2.66 billion, respectively. The Company estimates that a 100 basis point increase in market interest rates at December 31, 2012 would have changed the fair

value of the Company s total debt to a liability of $2.85 billion and would result in $3.6 million higher interest expense on the variable rate debt on an annualized basis.

The Company intends to continuously monitor and actively manage interest costs on its variable rate debt portfolio and may enter into swap positions based upon market fluctuations. Accordingly, the cost of obtaining such interest rate protection agreements in relation to the Company s access to capital markets will continue to be evaluated. The Company has not, and does not plan to, enter into any derivative financial instruments for trading or speculative purposes. In addition, the Company believes that it has the ability to obtain funds through additional debt and equity offerings and the issuance of UPREIT Units. As of December 31, 2012, the Company had no other material exposure to market risk.

Additional disclosure about market risk is incorporated herein by reference to the discussion under the heading Results of Operations in Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data are listed under Item 15(a) and filed as part of this report on the pages indicated.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted by the Company under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the officers who certify the Company s financial reports and to the other members of senior management and the Board.

The principal executive officer and principal financial officer evaluated, as of December 31, 2012, the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) and have determined that such disclosure controls and procedures are effective.

Management s Annual Report on Internal Control Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company s internal control over financial reporting is a process designed under the supervision of the Company s principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with the United States of America generally accepted accounting principles.

Under the supervision and with the participation of management, including the Company s principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under that framework, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2012. In addition, management has not identified any material weaknesses in the Company s internal controls.

Attestation Report of the Registered Public Accounting Firm

The effectiveness of the Company s internal control over financial reporting as of December 31, 2012, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

There were no changes in the internal controls over financial reporting that occurred during the fourth quarter of the year ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

PART III

Items 10, 11, 12, 13 and 14. Directors, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Certain Relationships and Related Transactions, and Director Independence; and Principal Accounting Fees and Services

The information required by Items 10, 11, 12, 13 and 14 is incorporated herein by reference to the Company s Proxy Statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on April 30, 2013. The proxy statement will be filed within 120 days after the end of the Company s last fiscal year.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1 and (a) 2. Financial Statements and Schedules

The financial statements and schedules listed below are filed as part of this annual report on the pages indicated.

HOME PROPERTIES, INC.

Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	61
Consolidated Balance Sheets as of December 31, 2012 and 2011	62
Consolidated Statements of Operations for the Years Ended December 31, 2012, 2011 and 2010	63
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010	64
Consolidated Statements of Equity for the Years Ended December 31, 2012, 2011 and 2010	65
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010	66
Notes to Consolidated Financial Statements	67
Schedule II: Valuation and Qualifying Accounts	99
Schedule III: Real Estate and Accumulated Depreciation	100

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(a) 3. Exhibits

See Exhibit Index. 105

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Home Properties, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) present fairly, in all material respects, the financial position of Home Properties, Inc. and its subsidiaries (the Company) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
February 22, 2013

61

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2012 and 2011

(Dollars in thousands, except per share data)

	2012	2011
ASSETS		
Real estate:		
Land	$ 791,604	$ 721,542
Construction in progress	83,241	64,201
Buildings, improvements and equipment	4,580,381	4,256,581
	5,455,226	5,042,324
Less: accumulated depreciation	(1,108,840)	(983,759)
Real estate, net	4,346,386	4,058,565
Cash and cash equivalents	21,092	8,297
Cash in escrows	26,971	32,604
Accounts receivable, net	13,406	12,142
Prepaid expenses	19,504	15,994
Deferred charges, net	13,429	16,322
Other assets	10,704	9,282
Total assets	$ 4,451,492	$ 4,153,206
LIABILITIES AND EQUITY		
Mortgage notes payable	$ 2,165,027	$ 2,260,836
Unsecured notes payable	450,000	400,000
Unsecured line of credit	162,500	2,500
Accounts payable	22,691	20,953
Accrued interest payable	9,974	10,286
Accrued expenses and other liabilities	33,887	29,474
Security deposits	19,146	19,513
Total liabilities	2,863,225	2,743,562
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding		
Common stock, $0.01 par value; 80,000,000 shares authorized; 51,508,142 and 48,321,305 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively	515	483
Excess stock, $0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding		
Additional paid-in capital	1,709,919	1,545,563
Distributions in excess of accumulated earnings	(388,397)	(392,378)
Accumulated other comprehensive income (loss)	(1,069)	
Total common stockholders equity	1,320,968	1,153,668
Noncontrolling interest	267,299	255,976
Total equity	1,588,267	1,409,644
Total liabilities and equity	$ 4,451,492	$ 4,153,206

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Dollars in thousands, except per share data)

	2012	2011	2010
Revenues:			
Rental income	$ 591,933	$ 515,780	$ 457,819
Property other income	52,105	45,621	40,864
Other income	310	155	106
Total revenues	644,348	561,556	498,789
Expenses:			
Operating and maintenance	235,040	217,069	203,421
General and administrative	34,174	29,145	25,138
Interest	125,809	127,618	120,652
Depreciation and amortization	165,642	140,713	122,772
Other expenses	2,741	3,225	2,871
Total expenses	563,406	517,770	474,854
Income from continuing operations	80,942	43,786	23,935
Discontinued operations:			
Income from discontinued operations	2,148	3,878	2,396
Gain (loss) on disposition of property	80,532		(13)
Discontinued operations	82,680	3,878	2,383
Net income	163,622	47,664	26,318
Net income attributable to noncontrolling interest	(28,320)	(9,808)	(6,237)
Net income attributable to common stockholders	$ 135,302	$ 37,856	$ 20,081
Basic earnings per share data:			
Income from continuing operations	$ 1.34	$ 0.83	$ 0.50
Discontinued operations	1.38	0.07	0.05
Net income attributable to common stockholders	$ 2.72	$ 0.90	$ 0.55
Diluted earnings per share data:			
Income from continuing operations	$ 1.33	$ 0.82	$ 0.49
Discontinued operations	1.36	0.07	0.05
Net income attributable to common stockholders	$ 2.69	$ 0.89	$ 0.54
Weighted average number of shares outstanding:			
Basic	49,744,636	41,860,139	36,682,191
Diluted	50,382,636	42,545,082	37,169,886

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Dollars in thousands)

	2012	2011	2010
Net income	$ 163,622	$ 47,664	$ 26,318
Other comprehensive income (loss):			
Unrealized gain (loss) on interest rate swap agreements	(1,296)		
Other comprehensive income (loss)	(1,296)		
Comprehensive income	162,326	47,664	26,318
Net income attributable to noncontrolling interest	(28,320)	(9,808)	(6,237)
Other comprehensive (income) loss attributable to noncontrolling interest	227		
Comprehensive income attributable to common stockholders	$ 134,233	$ 37,856	$ 20,081

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Dollars in thousands)

	Common Stock		Additional Paid-In Capital	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
	Shares	Amount					
Balance, December 31, 2009	34,655,428	$ 347	$ 922,078	$ (261,313)	$ 0	$ 226,962	$ 888,074
Net income				20,081		6,237	26,318
Issuance of common stock, net	2,827,856	28	123,728				123,756
Stock-based compensation	6,206		7,647				7,647
Repurchase of common stock	(68,265						