ASSOCIATED ESTATES REALTY CORP
Form 8-K
November 26, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): March 19, 2008

ASSOCIATED ESTATES REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Commission File Number 1-12486

Ohio	34-1747603
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1 AEC PARKWAY, RICHMOND HEIGHTS, OHIO 44143-1467

(Address of principal executive offices)

(216) 261-5000
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 8.01 Other Events

During the quarter ended March 31, 2008, the Company disposed of ten Affordable Housing properties and four Same Community properties. Also, during the quarter ended June 30, 2008, the Company disposed of one Affordable Housing property. These properties had been consolidated in the results of operations of the Company since they were acquired.

This Form 8-K is being filed to reflect the impact of the reclassification as discontinued operations of the consolidated properties sold in March and April 2008, pursuant to the requirements of Statement of Financial Accounting Standards ("SFAS"), 144 "Accounting for the Impairment or Disposal of Long Lived Assets" for the three years ended December 31, 2007, 2006 and 2005, including Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data.

In compliance with SFAS 144, the Company has reported revenues, expenses and the gain on the disposition from these properties as income from discontinued operations for each period presented in its quarterly reports filed during 2008 (including the comparable periods of the prior year). Under generally accepted accounting principals in the United States of America ("GAAP"), the same reclassification to discontinued operations as required by SFAS 144 subsequent to the sale of the properties is required for previously issued annual financial statements for each of the years shown in the Company's last annual report on Form 10-K, if those financials are included or incorporated by reference in subsequent filings with the SEC made under the Securities Act of 1933, as amended, even though those financial statements relate to periods prior to the date of the sale. This reclassification has no effect on the Company's reported net income available to common shareholders.

This Report on Form 8-K updates Items 6, 7 and 8 of the Company's Form 10-K for the year ended December 31, 2007, to reflect the properties sold during 2008 as discontinued operations, as appropriate. All other items of the Form 10-K remain unchanged. No attempt has been made to update matters in the Form 10-K except to the extent expressly provided above. Readers should refer to the Company's quarterly reports on Form 10-Q for information related to periods subsequent to December 31, 2007.

Item 6. Selected Financial Data

The following tables set forth selected financial and other data for us on a consolidated basis. The historical financial information contained in the tables has been derived from and should be read in conjunction with (i) our Consolidated Financial Statements and Notes thereto and (ii) Management's Discussion and Analysis of Financial Condition and Results of Operations both included elsewhere herein.

	2007	2006	2005	2004	2003
Operating Data:					
Revenue					
Property revenue	$ 118,579	$ 107,418	$ 99,526	$ 92,600	$ 91,038
Management and service operations:					
Fees, reimbursements and other	10,914	11,689	11,723	13,400	14,310
Painting services	2,218	1,078	1,094	6,147	2,827
Total revenue	131,711	120,185	112,343	112,147	108,175
Total expenses	(107,946)	(99,335)	(93,337)	(90,294)	(90,467)
Interest income	429	650	627	304	144
Interest expense	(40,385)	(47,065)	(35,535)	(32,332)	(32,373)
(Loss) income before gain on disposition of investment, equity in net loss of joint ventures, gain on sale of partnership interest, minority interest, and income from discontinued operations	(16,191)	(25,565)	(15,902)	(10,175)	(14,521)
Gain on disposition of investment	-	-	150	-	-
Equity in net loss of joint ventures	(258)	(462)	(644)	(923)	(1,157)
Gain on sale of partnership interest	-	-	-	-	1,314
Minority interest in operating partnership	(53)	(61)	(63)	(63)	(75)
(Loss) income from continuing operations	(16,502)	(26,088)	(16,459)	(11,161)	(14,439)
Income from discontinued operations:					
Operating income (loss)	5,803	(984)	4,129	4,803	3,526
Gain on disposition of properties	20,864	54,093	48,536	9,682	-
Income from discontinued operations	26,667	53,109	52,665	14,485	3,526
Net income (loss)	10,165	27,021	36,206	3,324	(10,913)
Preferred share dividends	(4,924)	(5,046)	(5,130)	(5,805)	(5,484)
Original issuance costs related to redemption of preferred shares	(172)	-	(2,163)	-	-
Net income (loss) applicable to common shares	$ 5,069	$ 21,975	$ 28,913	$ (2,481)	$ (16,397)
Earnings per common share - Basic and Diluted:					
(Loss) income from continuing operations applicable to common shares	$ (1.28)	$ (1.83)	$ (1.24)	$ (0.87)	$ (1.03)
Income from discontinued operations	1.58	3.12	2.75	0.74	0.18
Net income (loss) applicable to common shares	$ 0.30	$ 1.29	$ 1.51	$ (0.13)	$ (0.85)
Weighted average number of common shares outstanding	16,871	17,023	19,162	19,519	19,401
Dividends declared per common share	$ 0.68	$ 0.68	$ 0.68	$ 0.68	$ 0.68

	2007	2006	2005	2004	2003
Cash flow data:					
Cash flow provided by operations	$ 28,962	$ 17,912	$ 24,376	$ 32,935	$ 30,758
Cash flow (used for) provided by investing activity	(38,610)	73,935	4,421	(12,745)	(11,509)
Cash flow (used for) provided by financing activity	(18,813)	(101,570)	(50,798)	37,332	15,937
Balance Sheet Data at December 31:					
Real estate assets, net	$ 659,586	$ 591,520	$ 645,937	$ 665,268	$ 661,585
Total assets	686,796	648,829	719,242	762,917	704,793
Total debt	556,695	498,634	573,570	557,279	543,496
Total shareholders' equity	89,786	112,051	108,980	163,590	121,428
Other Data:					
Net operating income (a) (c)	$ 64,475	$ 57,710	$ 53,918	$ 53,726	$ 49,726
Total properties (at end of period) - includes joint ventures	64	66	74	76	78
Total multifamily units (at end of period) - includes joint ventures	14,450	15,355	17,395	17,854	18,313
Average monthly net collected rent per unit	$ 815	$ 750	$ 689	$ 671	$ 657
Physical occupancy (b)	94.5 %	94.5 %	92.9 %	91.7 %	92.7 %

(a) We evaluate the performance of our reportable segments based on net operating income ("NOI"). NOI is determined by deducting property operating and maintenance expenses, direct property management and service company expenses and painting service expense from total revenue. We consider NOI to be an appropriate supplemental measure of our performance because it reflects the operating performance of our real estate portfolio and management and service companies at the property and management and service company level and is used to assess regional property and management and service company level performance. NOI should not be considered (i) as an alternative to net income determined in accordance with accounting principles generally accepted in the United States ("GAAP"), (ii) as an indicator of financial performance, (iii) as cash flow from operating activities (determined in accordance with GAAP) or (iv) as a measure of liquidity; nor is it necessarily indicative of sufficient cash flow to fund all of our needs. Other real estate companies may define NOI in a different manner.

(b) Physical occupancy represents the actual number of units leased divided by the total number of units available at the end of the period.

(c) Reconciliation of NOI to net income (loss):

	Year Ended December 31,				
(In thousands)	2007	2006	2005	2004	2003
Net operating income	$ 64,475	$ 57,710	$ 53,918	$ 53,726	$ 49,276
Depreciation and amortization	(30,383)	(27,020)	(26,913)	(24,102)	(25,484)
General and administrative expense	(10,327)	(9,840)	(7,999)	(7,771)	(6,084)
Interest income	429	650	627	304	144
Interest expense	(40,385)	(47,065)	(35,535)	(32,332)	(32,373)
Gain on disposition of investment	-	-	150	-	-
Equity in net loss of joint ventures	(258)	(462)	(644)	(923)	(1,157)
Gain on sale of partnership interest	-	-	-	-	1,314
Minority interest in operating partnership	(53)	(61)	(63)	(63)	(75)
Income from discontinued operations:					
Operating income (loss)	5,803	(984)	4,129	4,803	3,526
Gain on disposition of properties	20,864	54,093	48,536	9,682	-
Income from discontinued operations	26,667	53,109	52,665	14,485	3,526
Net income (loss)	$ 10,165	$ 27,021	$ 36,206	$ 3,324	$ (10,913)

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Part II, Item 8 of the Form 10-K for the year ending December 31, 2007. This discussion may contain forward-looking statements based on current judgments and current knowledge of management, which are subject to certain risks, trends and uncertainties that could cause actual results to vary from those projected, including but not limited to, expectations regarding our 2008 performance, which is based on certain assumptions. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements which speak only as of the dates of the document. These forward-looking statements are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "expects", "projects", "believes", "plans", "anticipates", and similar expressions are intended to identify forward-looking statements. Investors are cautioned that our forward-looking statements involve risks and uncertainty, which could cause actual results to differ from estimates or projections contained in these forward-looking statements. For a discussion of these risks and uncertainties, see "Risk Factors" in Item 1A.

Overview. We are engaged primarily in the operation of multifamily residential units that we own. We also provide asset and property management services to third party owners of multifamily residential units for which we are paid fees. Our primary source of cash and revenue from operations is rents from the leasing of owned apartment units. Approximately 90.0% of our consolidated revenue was generated from the leasing of these owned units for the year ended December 31, 2007, and approximately 94.5% of the property revenue generated by these owned properties was related to the Market-Rate properties. During the third quarter of 2007, we announced our plan to exit the Affordable Housing business. As of December 31, 2007, we have reduced our management of properties to only three, one of which is an Affordable Housing property. The owned Affordable Housing properties were all sold during March and April of 2008 and the joint venture affordable housing property is under contract for sale.

We consider property NOI to be an important indicator of our overall performance. Property NOI (property operating revenue less property operating and maintenance expenses) is a measure of the profitability of our properties, which has the largest impact of all of our sources of income and expense on our financial condition and operating results. See Note 19 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K for additional information regarding property NOI and total NOI, in addition to a reconciliation of total NOI to consolidated net income in accordance with accounting principals generally accepted in the United States of America ("GAAP").

Our three reportable segments are based upon types of property and services and consist of our Market-Rate properties (94.5% of total property revenue), properties we acquired or developed within the prior year and properties that have been sold or are classified as held for sale, which segment is referred to as Acquisition/Disposition, and our Management and Service Operations.

Our Same Community Market-Rate portfolio consists of 46 properties containing 11,025 units and accounted for 94.5% of total property revenue in 2007 and 93.8% of our property NOI. During 2007 our net collected rents for the Market-Rate portfolio increased 4.0%. This growth was due to an increase of 4.5% for our Midwest portfolio and 3.0% for our Mid-Atlantic/Southeast portfolio. The growth rate in our Midwest portfolio is similar to the growth we recognized in 2006, while the growth rate for our Mid-Atlantic/Southeast portfolio was much less than the 11.6% growth rate we recognized in 2006. We anticipate that for 2008 the net collected rents for the Same Community Market-Rate portfolio will grow at approximately 3.0% to 3.3%.

In 2008, we will continue to evaluate potential property acquisitions in higher growth markets that we have identified. However, recent limited transactional activity in these markets may hinder our ability to find suitable replacement properties that satisfy our investment criteria. We may also consider selling assets in any market, including the Mid-Atlantic and Southeast markets, where market conditions are such that the reinvestment of cash proceeds derived from a sale are expected to provide a significantly greater return on equity and an increase in cash flow.

We are also focused on reducing overall interest rate charges on our borrowings which, at December 31, 2007, had a weighted average rate of 6.7%. We plan to accomplish this goal by using a portion of any sale proceeds to pay off debt or refinance existing debt with new debt at lower interest rates.

In order to increase property NOI, we plan to continue to focus our efforts on improving revenue, controlling costs and realizing operational efficiencies at the property level, both regionally and portfolio-wide. In 2007, we updated all of our property websites to offer prospective tenants virtual property tours, and the ability to check availability and reserve an apartment unit online. In 2008, we plan to offer online leasing and a resident portal feature that gives residents the ability to pay rent, sign up for utilities, request maintenance services and create their own personal web home page. Also in 2007, we introduced a product standardization initiative designed to reduce costs in certain areas and in 2008, we plan to expand this program into other areas to provide additional savings.

2008 Expectations:

Portfolio performance - We expect to increase our Market-Rate property NOI by approximately 3.3% to 3.7% in 2008, driven by property revenue increases of 3.0% to 3.3%. However, these expectations may be adversely impacted if the economy suffers a broad and prolonged recessionary period.

Property acquisitions and sales - We plan to acquire approximately $100.0 million of properties, while disposing of approximately $100.0 million of properties. Included in these dispositions are the 11 Affordable Housing properties, which contributed income of approximately $0.20 per common share from property operations and $0.09 per common share relating to the settlement of a lawsuit in 2007 pertaining to the collection of past due rents. These properties are expected to be disposed of during the first half of 2008.

Defeasance and other prepayment costs - We expect to incur approximately $2.0 million in costs to defease/prepay or refinance debt during 2008.

Federal Income Taxes. We have elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, commencing with our taxable year ending December 31, 1993. REITs are subject to a number of organizational and operational requirements including a requirement that 90.0% of the income that would otherwise be considered as taxable income be distributed to shareholders. Providing we continue to qualify as a REIT, we will generally not be subject to federal income tax on net income. However, our Service Companies are subject to federal income tax.

A REIT is precluded from owning more than 10.0% of the outstanding voting securities of any one issuer, other than a wholly owned subsidiary or another REIT, and more than 10.0% of the value of all securities of any one issuer. As an exception to this prohibition, a REIT is allowed to own up to 100% of the securities of a Taxable REIT Subsidiary ("TRS") that can provide non-customary services to REIT tenants and others without disqualifying the rents that a REIT receives from its tenants. However, no more than 20.0% of the value of a REIT's total assets can be represented by securities of one or more TRS's. The amount of intercompany interest and other expenses between a TRS and a REIT are subject to arms length allocations. We have elected TRS status for all of our Service Companies.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Liquidity. Significant sources and uses of cash in the past three years are summarized as follows:

Significant Cash Sources (Uses):

	Year Ended December 31,		
(In thousands)	2007	2006	2005
Net cash provided by operating activities	$ 28,962	$ 17,912	$ 24,376
Fixed assets:			
Property acquisitions, net	(70,547)	(256)	(65,320)
Property disposition proceeds, net	46,478	87,038	78,739
Recurring and non-recurring capital expenditures	(12,300)	(12,526)	(8,998)
Debt:			
(Decrease) increase in mortgage notes	(3,939)	(74,937)	27,007
Increase (decrease) in revolver or line of credit borrowings	20,000	-	(10,000)
Issuance of unsecured trust preferred securities	-	-	25,780
Cash dividends and operating partnership distributions paid	(16,554)	(16,872)	(18,742)
Purchase of preferred and/or treasury shares	(16,861)	(10,258)	(73,677)

Our primary sources of liquidity are cash flow provided by operations, short-term borrowings on the revolver and proceeds from property sales. The increase in cash provided by operations in 2007 compared to 2006 was primarily due to an increase in property revenues provided mainly by the two properties acquired in June 2007 and a reduction in defeasance and other prepayment costs incurred in 2007 compared to 2006. This increase in cash flow was partially offset by changes in accounts payable and accounts receivable resulting from the timing of cash payments.

The decrease in cash provided by operations in 2006 compared to 2005 was primarily due to the payment of $14.4 million of defeasance and other prepayment costs, which were funded by property sales and secured borrowings. Excluding these costs, cash flow from operations would have increased $7.9 million primarily due to changes in accounts payable and accounts receivable resulting from the timing of cash payments.

During 2007, cash on hand, funds received from the sale of properties and funds borrowed on the revolver were primarily used to acquire two operating properties and repurchase our common and preferred shares pursuant to our stock repurchase plan.

Revolving Credit Facility. In April 2007, we obtained a $100.0 million unsecured revolving credit facility which is being used for the refinancing of existing debt, the acquisition of properties and general corporate purposes. The revolver provides for, without limitation, a maximum debt limitation and other financial covenants related to net worth, leverage, fixed charge coverage, unencumbered interest coverage, and dividend payments. We terminated our $17.0 million and $14.0 million secured lines of credit simultaneously with obtaining the revolver. At December 31, 2007, there were borrowings of $20.0 million outstanding on the revolver. We are currently in negotiation with our lenders to increase this credit facility.

Shelf Availability. We have a shelf registration statement on file with the Securities and Exchange Commission relating to a possible offering, from time to time, of debt securities, preferred shares, depositary shares, common shares and common share warrants. The remaining availability under the shelf registration at December 31, 2007, is $214.7 million. However, it is unlikely that we could issue debt securities under this shelf registration without first making major modifications to the shelf registration debt covenants.

Liquidity: Normal Business Operations. We anticipate that we will meet our business operations and liquidity requirements for the upcoming year generally through net cash provided by operations. We believe that if net cash provided by operations is below projections, other sources, such as the revolver, secured and unsecured borrowings, and property sales proceeds are or can be made available and should be sufficient to meet our business operations and liquidity requirements.

Liquidity: Non-Operational Activities. Sources of cash available for paying down debt, acquiring properties or buying back our shares are expected to be provided primarily by property sale proceeds, refinancings and from the revolver.

Long-Term Contractual Obligations. The following table summarizes our long-term contractual obligations at December 31, 2007, as defined by Item 303(a) 5 of Regulation S-K of the Securities and Exchange Act of 1934.

(In thousands) Contractual Obligations	Total	Payments Due In 2008	2009-2010	2011-2012	2013 and Later Years
Debt payable - principal	$ 556,695	$ 34,635	$ 174,891	$ 144,642	$ 202,527
Debt payable - interest	199,828	37,079	63,600	41,176	57,973
Operating leases	877	144	146	75	512
Purchase obligations	83,485	83,112	373	-	-
Total	$ 840,885	$ 154,970	$ 239,010	$ 185,893	$ 261,012

Debt Payable-Principal. Debt payable-principal includes principal payments on all property specific mortgages, the revolving credit facility and unsecured debt. For detailed information about our debt, see Note 6 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Debt Payable-Interest. Debt payable-interest includes accrued interest at December 31, 2007 and interest payments as required based upon the terms of the debt in existence at December 31, 2007. Interest related to floating rate debt is calculated based on applicable rates as of December 31, 2007.

Operating Leases. We lease certain equipment and facilities under operating leases. For detailed information about our lease obligations, see Note 10 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Purchase Obligations. Purchase obligations represent agreements to purchase goods or services and contracts for the acquisition of properties that are legally binding and enforceable and that specify all significant terms of the agreement. Our purchase obligations include, but are not limited to, vendor contracts for property operations entered into in the normal course of operations, such as for landscaping, snow removal, elevator maintenance, security, trash removal and electronically generated services. Obligations included in the above table represent agreements dated December 31, 2007, or earlier.

Dividends. On December 10, 2007, we declared a dividend of $0.17 per common share, which was paid on February 1, 2008, to shareholders of record on January 15, 2008. We anticipate that we will continue paying quarterly dividends and that we will sustain our current dividend rate of $0.17 per quarter. Additionally, on January 29, 2008, we declared a quarterly dividend of $0.54375 per Depositary Share on our Class B Cumulative Redeemable Preferred Shares, which will be paid on March 14, 2008, to shareholders of record on February 29, 2008.

Capital Expenditures. We anticipate incurring approximately $14.0 million in capital expendi-tures for 2008. This includes replacement of worn carpet and appliances, parking lots, roofs and similar items in accordance with our current property expenditure plan, as well as commitments for investment/revenue enhancing and non-recurring expenditures. These commitments are expected to be funded largely with cash provided by operating activities and proceeds from property sales.

Financing and Other Commitments. The following table identifies our total debt outstanding and weighted average interest rates as of December 31, 2007 and 2006:

(Dollar amounts in thousands)		Balance Outstanding December 31, 2007	Weighted Average Interest Rate		Balance Outstanding December 31, 2006	Weighted Average Interest Rate
FIXED RATE DEBT						
Mortgages payable - CMBS	$	200,168	7.7%	$	303,945	7.7%
Mortgages payable - other		275,747	5.8%		132,209	6.1%
Unsecured borrowings		25,780	7.9%		25,780	7.9%
Total fixed rate debt		501,695	6.7%		461,934	7.3%
VARIABLE RATE DEBT						
Mortgages payable		35,000	6.2%		36,700	6.6%
Revolver / lines of credit borrowings		20,000	6.7%		-	0.0%
Total variable rate debt		55,000	6.4%		36,700	6.6%
TOTAL DEBT	$	556,695	6.7%	$	498,634	7.2%

The following table provides information on loans defeased/prepaid and loans obtained during 2007:

(Dollar amounts in thousands)	Loans prepaid/defeased				Loans obtained			
Property		Amount	Rate			Amount	Rate	
Chestnut Ridge	$	14,632	7.5%		$	19,000	6.2%	(a)
Residence at White River		8,284	7.5%			9,221	5.4%	
Spring Valley Apartments		11,008	7.5%			10,817	5.4%	
Georgetown Park Apartments		19,379	7.9%			16,000	6.2%	(a)
Muirwood Village at Bennell		3,773	7.9%			-	N/A	
Waterstone Apartments		15,729	7.5%			16,500	5.8%	
Lake Forest		5,764	7.9%			-	N/A	
The Landings at the Preserve		6,740	7.9%			-	N/A	
Residence at Barrington		15,152	7.9%			19,500	5.8%	
The Alexander at Ghent		-	N/A			24,500	5.8%	
Cambridge at Buckhead		11,800	7.1%	(a)		-	N/A	
Aspen Lakes		3,900	7.1%	(a)		-	N/A	
	$	116,161	7.6%	(b)	$	115,538	5.8%	(b)

(a) Denotes variable rate loan. Variable rates on loans obtained are as of December 31, 2007.

(b) Represents weighted average interest rate for the loans listed.

At December 31, 2007, we had 25 unencumbered properties, 11 of which are Affordable Housing properties. These 25 properties had net income of $8.8 million for the year ended December 31, 2007, and a net book value of $156.1 million at December 31, 2007. Twelve of these unencumbered properties are scheduled for disposition during the first half of 2008. On March 19, 2008, we completed the sale of ten Affordable Housing properties and on April 25, 2008, we completed the sale of the eleventh Affordable Housing property.

We own six of the Affordable Housing unencumbered properties pursuant to ground lease agreements which, upon expiration of the applicable lease, require reversion of the land and building to the ground lessor. These ground leases expire at various dates from 2021 to 2036. Total revenue derived from these properties was $6.8 million, $5.2 million and $4.9 million for the years ended December 31, 2007, 2006 and 2005, respectively. Furthermore, at the end of the term of each ground lease, any remaining replacement reserves applicable to four of those properties revert to the ground lessor. Such replacement reserves included in restricted cash were $558,000 and $565,000 at December 31, 2007 and 2006, respectively. With respect to such leases, we paid ground rent of $33,000 for each the years ended December 31, 2007, 2006 and 2005. In connection with the above referenced March 19, 2008 sale, we acquired the ground lessor's interest in the six Affordable Housing properties.

One of the unencumbered properties is subject to a right of reverter. This provision requires that the land and real estate assets revert at expiration back to the original grantor from whom we acquired this property or its successors and assignees, which is in September 2037. The net book value of this property was $678,000 at December 31, 2007. This property generated revenue of $1.0 million, $997,000, and $934,000 for the years ended December 31, 2007, 2006 and 2005, respectively, and net income of $299,000, $318,000, and $344,000 for 2007, 2006, and 2005 respectively.

We lease certain equipment and facilities under operating leases. Future minimum lease payments under all noncancellable-operating leases in which we are the lessee, principally for ground leases, are included in the previous table of contractual obligations.

Off-Balance Sheet Investments and Financing Commitments. We have an investment in a joint venture that owns an Affordable Housing property. The operation of this property is similar to the operations of our wholly owned portfolio. Joint venture investments enable us to exercise influence over the operations of such properties and share in their profits, while earning additional fee income. We account for our investment in the unconsolidated joint venture under the equity method of accounting as we exercise significant influence, but do not control this entity and are not required to consolidate it in accordance with FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" or under EITF 04-05, "Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights". This investment was initially recorded at cost as investment in joint ventures and subsequently adjusted for equity in earnings and cash contributions and distributions. This joint venture property had negative cash flow during 2007 and is expected to have negative cash flow during 2008 as a result of operating expenses exceeding tenant rents and the housing assistance payments from HUD. The joint venture partnership that owns this property has entered into a contract to sell it. Our proportionate share of the debt on this property at December 31, 2007, was $2.1 million.

For summarized financial information for this joint venture, see Note 7 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Operating Partnership. As provided in the AERC HP Investors Limited Partnership Agreement ("DownREIT Partnership"), we, as general partner, have guaranteed the obligation of the DownREIT Partnership to redeem OP units held by the limited partners. The DownREIT Partnership was formed in 1998. Under the terms of the DownREIT Partnership Agreement, the DownREIT Partnership is obligated to redeem OP units for our common shares or cash, at our discretion, at a price per OP unit equal to the 20 day trailing price of our common shares for the immediate 20 day period preceding a limited partner's redemption notice. During 2007, we redeemed 942 OP units. As of December 31, 2007, there were 78,335 OP units remaining having a carrying value of $1.8 million, and 443,697 of the original 522,032 OP units had been redeemed. These transactions had the effect of increasing our interest in the DownREIT Partnership from 85.0% to 97.4%. For additional information regarding the OP units, see Note 1 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Acquisitions and Development. On June 29, 2007, we acquired our joint venture partner s 51.0% interest in Idlewylde Apartments, an 843-unit Market-Rate property located in Atlanta, Georgia. We previously owned a 49.0% interest in this partnership and had accounted for this investment under the equity method of accounting. We paid our partner $21.6 million in cash and assumed responsibility for the entire mortgage debt encumbering the property. Commencing June 29, 2007, the results of operations, financial condition (including the existing $42.0 million non-recourse mortgage loan), and cash flows of this property are included in our consolidated financial statements.

On June 8, 2007, we acquired a 268-unit Market-Rate property located in Norfolk, Virginia for a purchase price of $48.3 million. The purchase was funded primarily by 1031 proceeds from the disposition of a Market-Rate property, which we sold on May 30, 2007, and with borrowings from our revolving credit facility.

On May 25, 2007, we acquired the land on which one of our Affordable Housing properties is located for a purchase price of $897,000. We had been leasing this land pursuant to a ground lease which was scheduled to mature in 2021.

We intend to continue to evaluate potential property acquisitions in higher growth markets that we previously identified. Any future property acquisitions or developments would be financed with the most appropriate sources of capital, which may include the assumption of mortgage indebtedness, bank and other institutional borrowings, the exchange of properties, undistributed earnings, secured or unsecured debt financings, or the issuance of shares or units exchangeable into common shares.

Dispositions. On March 19, 2008, we completed the sale of ten of our eleven formerly wholly owned Affordable Housing properties located in Northeast Ohio. In connection with this sale, we acquired the ground lessor's interest in six of those properties. Also on March 19, 2008, we completed the sale of four Same Community properties located in Toledo, Ohio. On April 25, 2008, we completed the sale of our last remaining wholly owned Affordable Housing property. The following is a summary of the disposition transactions completed for the years ended December 31, 2007 and 2006, respectively.

During 2007, we sold three Market-Rate properties for net cash proceeds of $46.9 million. These proceeds were used to partially fund the acquisition of one property, fund capital expenditures and for general corporate purposes. The operating results of these properties, along with the gains of $20.9 million that we recognized, are included in "Income from discontinued operations".

During 2006, we sold eight properties (seven Market-Rate properties and one Affordable Housing property) for net cash proceeds of $87.0 million. These proceeds were used primarily to defease/prepay debt, repurchase $10.2 million of our common shares and partially fund capital expenditures. The operating results of these properties, along with the gains of $54.1 million that we recognized, are included in "Income from discontinued operations".

Management and Service Operations. Revenues from our management and service operations will be significantly reduced in 2008 as a result of our exit from the affordable housing business. At the end of 2007, the management contracts related to 29 affordable housing properties were terminated. As of December 31, 2007, we managed one affordable housing property for an affiliated third party, two market rate properties for third party owners, and the joint venture affordable housing property. Additionally, we asset managed one residential property and one commercial property. We expect revenues generated by third party management operations to decrease by $2.1 million due to our decision to exit this business. Net income received from this business in 2007 was approximately $500,000, and during 2008 we expect to offset this loss of net income with cost savings that we have identified.

RESULTS OF OPERATIONS FOR 2007 COMPARED WITH 2006 AND 2006 COMPARED WITH 2005

In the following discussion of the comparison of the year ended December 31, 2007 to the year ended December 31, 2006 and the year ended December 31, 2006 to the year ended December 31, 2005, Market-Rate properties refers to the Same Community Market-Rate property portfolio. Market-Rate properties represent 50 wholly owned properties.

During the 2007 to 2006 comparison period, operating income increased $2.9 million primarily as a result of increased property revenue. Interest expense decreased $6.7 million when comparing 2007 to 2006, primarily due to decreased debt defeasement/prepayment costs. Losses from continuing operations decreased by $9.6 million during the 2007 to 2006 comparison period. During the 2006 to 2005 comparison period, operating income increased $1.8 million primarily as a result of increased property revenue. Interest expense during the 2006 to 2005 comparison period increased, primarily due to debt defeasement/prepayment costs, resulting in an increase in the loss from continuing operations.

The following chart is intended to reflect the amount and percentage change in line items that are relevant to the changes in overall operating performance when comparing the years ended December 31, 2007 to 2006 and 2006 to 2005:

	Increase (decrease) when comparing the years ended December 31,					
(Dollar amounts in thousands)		2007 to 2006			2006 to 2005	
Property revenue	$	11,161	10.4%	$	7,892	7.9%
Property operating and maintenance expense items:						
Personnel		1,622	13.2%		885	7.7%
Real estate taxes and insurance		846	5.2%		1,198	8.0%
Other operating expenses						