HOME PROPERTIES INC
Form 10-K
February 27, 2009

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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

For the transition period from ____________________ to ____________________

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)

(585) 546-4900
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to section 12(g) of the Act:

____

(Title of class)

(Title of class)

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No ¨

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

Indicate by 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.

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

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No þ

The aggregate market value of the shares of common stock held by non-affiliates (based on the closing sale price on the New York Stock Exchange) on June 30, 2008, was approximately $1,496,800,000.

As of February 20, 2009, there were 32,857,072 shares of common stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Stockholders to be held on May 5, 2009	Part III

HOME PROPERTIES, INC.

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

The Company conducts its business through Home Properties, L.P. (the "Operating Partnership"), a New York limited partnership and a management company – Home Properties Resident Services, Inc. ("HPRS"), which is a Maryland corporation. At December 31, 2008, the Company held 71.7% (70.8% at December 31, 2007) of the limited partnership units in the Operating Partnership ("UPREIT Units"). Formerly, a portion of the Company's business was also conducted by Home Properties Management, Inc. ("HP Management"), also a Maryland corporation, which was merged into HPRS on November 21, 2006.

Home Properties, through its affiliates described above, as of December 31, 2008, operated 112 communities with 38,280 apartment units. Of these, 37,130 units in 110 communities are owned outright (the "Owned Properties"), 868 units in one community are managed and partially owned by the Company as general partner, and 282 units in one community are managed for other owners (collectively, the "Managed Properties").

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

Market Area	Apts. Owned	Apts. Managed As General Partner	Apts. Fee Managed	Apt. Totals
Suburban Washington, D.C.	9,333	-	-	9,333
Baltimore, MD	7,814	-	282	8,096
Suburban New York City	7,708	-	-	7,708
Philadelphia, PA	6,195	-	-	6,195
Boston, MA	2,382	-	-	2,382
Chicago, IL	2,242	-	-	2,242
Southeast Florida	836	-	-	836
Portland, ME	620	-	-	620
Columbus, OH	-	868	-	868

Total Number of Units	37,130	868	282	38,280
Total Number of Communities	110	1	1	112

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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 Baltimore, Boston, New York City, Philadelphia, Southeast Florida and Washington, D.C. regions. We expect to maintain or grow portfolios in markets that profitably support our mission as economic conditions permit.

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

Structure

The Company was formed in November 1993 as a Maryland corporation and is the general partner of the Operating Partnership. On December 31, 2008, it held a 71.7% partnership interest in the Operating Partnership comprised of: 1) a 1.0% interest as sole general partner; and 2) a 70.7% limited partner interest through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of Home Properties Trust, which is the limited partner. The holders of the remaining 28.3% of the UPREIT Units are certain individuals and entities who received UPREIT Units as consideration for their interests in entities owning apartment communities purchased by the Operating Partnership, including certain officers and directors of the Company.

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

HPRS is, and HP Management was, prior to its merger into HPRS in November 2006, wholly owned by the Operating Partnership, and as a result, the accompanying consolidated financial statements include the accounts of both companies. HPRS is, and HP Management was, a taxable REIT subsidiary under the Tax Relief Extension Act of 1999. HP Management was formed in January 1994 and HPRS was formed in December 1995. Both companies managed for a fee certain of the commercial, residential and development activities of the Company and provided construction, development and redevelopment services for the Company. After the Company's sale and transfers of its affordable management properties and commercial management contracts, the amount of activity in HPRS and HP Management was minimal in 2006 and HP Management therefore was merged into HPRS.

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 1,150 employees and its executive offices are located at 850 Clinton Square, Rochester, New York 14604. Its telephone number is (585) 546-4900.

Operating Strategies

The Company will continue to focus on enhancing long-term investment returns by: (i) developing new apartments and acquiring apartment communities and repositioning those apartment communities for long-term growth at prices that provide a positive spread over the Company's long-term cost of capital; (ii) recycling assets by disposing of properties in low growth markets and those that have reached their potential or are less efficient to operate due to size or remote location; (iii) balancing its decentralized property management philosophy with the efficiencies of centralized support functions and accountability including rent optimization and volume purchasing; (iv) enhancing the quality of living for the Company's residents by improving the service and physical amenities available at each community every year; (v) adopting new technology so that the time and cost spent on administration can be minimized while the time spent attracting and serving residents can be maximized; (vi) continuing to utilize its written "Pledge" of customer satisfaction that is the foundation on which the Company has built its brand recognition; and (vii) focusing on reducing expenses while constantly improving the level of service to residents. Due to the economic crisis and constrictions in the credit markets which occurred in 2008, in the short term, the Company plans to conserve capital and does not anticipate acquiring new properties or adding any new development projects to its pipeline in 2009.

The Company has a strategy of acquiring and repositioning mature C to B- apartment properties. Since its 1994 IPO, the Company has acquired and repositioned 197 communities, containing more than 54,000 units. The rehabilitation and revitalization process requires a minimum 9% return on repositioning investments which is often greatly exceeded. The Company has increased the targeted return to 10% for 2009, reflecting caution in these recessionary times. In addition, it is expected that capital expenditures will decrease in 2009 as potential residents may not prefer an upgraded apartment at a higher monthly rent in this difficult economy. Fewer capital expenditures will enable the Company to preserve capital. Extensive experience and expertise in repositioning has helped the Company build significant internal design and construction management skills. The complete initial 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, new balconies and windows. At many properties, community centers and swimming pools are added or upgraded. Apartment interiors are renovated when residents move out, with the most significant investments made in upgrading kitchens and baths. Complete remodeling of dated kitchens and bathrooms typically include new appliances, flooring, counters, cabinets, lighting, tile, fixtures, sinks, bathtubs and toilets. It may include the removal of kitchen walls to open up the living area. Where feasible, in-unit washers and dryers are added. Repositioning efforts upgrade properties that were C to B- level when acquired to the B to B+ level, which over time significantly increases the property's rental income, net operating income and market value.

Acquisition and Sale Strategies

The Company's strategy is to grow primarily through acquisitions in the suburbs of major metropolitan markets that have significant barriers to new construction, limited new apartment supply, easy access to the Company's headquarters and enough apartments available for acquisition to achieve a critical mass. Targeted markets also possess other characteristics, including acquisition opportunities below replacement costs, a mature housing stock, high average single-family home prices, a favorable supply/demand relationship, stable or moderate job growth, reduced vulnerability to economic downturns and large prime renter populations including immigrants, young adults in their twenties and early thirties, and seniors over age 55. The Company currently expects that its growth will be focused primarily within suburban sub-markets of selected metropolitan areas within the Northeast, Mid-Atlantic and Southeast Florida 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, Southeast Florida, 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. In the current recessionary environment, the Company does not plan to close on any acquisitions in 2009 and has not included any purchases in its budget for 2009.

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During 2008, the Company acquired two communities with a total of 813 units for an aggregate consideration of $100.4 million, or an average of approximately $123,528 per apartment unit. The weighted average expected first year capitalization rate for the acquired communities was 6.8%. Capitalization rate ("cap rate") is defined as the rate of interest used to convert the first year expected net operating income ("NOI") less a 3.0% 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. One acquisition was in a Baltimore suburb; the other acquisition was in a suburb of Washington, D.C.

During 2008, the Company completed the sale of fifteen communities with a total of 1,227 units for an aggregate consideration of $124.5 million, at a weighted average expected first-year cap rate of 6.8%. The Company reinvested the net proceeds from those properties of approximately $103.7 million, which were expected to produce a weighted average unleveraged internal rate of return ("IRR") of 6.0%, with the purchase of properties expected to produce an unleveraged IRR of 8.5%. 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. Seven of the properties sold in 2008 were in the Company's Hudson Valley, New York region. The Company had owned properties in the region since 1996 and had largely completed upgrading and repositioning efforts. As a result, the Company saw limited future potential and decided to exit the region. With the sale on January 30, 2009 of two additional properties in the region, the Company completed its exit from the Hudson Valley region.

The Company has targeted additional communities for sale and will continue to evaluate the sale of other of its communities. Typically, a property will be targeted for sale if management is of the opinion that it has reached its potential or if it is located in a slower growth market or is less efficient to operate. A certain number of the properties may originally have been acquired through UPREIT transactions. Therefore, those sales will have to be matched with suitable acquisitions using a tax deferred exchange. The Company has anticipated closing on sales of $110 million in its budget for 2009.

Financing and Capital Strategies

The Company intends to continue to adhere to the following financing policies: (i) maintaining a ratio of debt-to-total market capitalization (total debt of the Company as a percentage of the value (using the Company's internally calculated Net Asset Value ("NAV" per share) of outstanding diluted common stock (including the common stock equivalents of the UPREIT Units) plus total debt) of approximately 55% or less; (ii) utilizing primarily fixed rate debt; (iii) varying debt maturities to avoid significant exposure to interest rate changes upon refinancing; and (iv) maintaining a line of credit so that it can respond quickly to acquisition opportunities. Due to the economic crisis and constrictions in the credit markets which occurred in 2008 and are assumed to continue all of 2009, the Company plans to conserve capital in various aspects of its operations, including limiting acquisitions, development and capital expenditures.

Specific to 2009, and in response to the constrictions in the credit market, the Company will be pursuing certain initiatives as follows: 1) The Company is evaluating alternatives to replace or extend the existing unsecured line of credit which matures September 1, 2009. The Company is working with its existing lead bank and discussions suggest that there is interest from banks to participate in the Company's facility. The Company anticipates it will be able to replace the entire $140 million. Pricing will be more expensive, and may move from interest at 0.75% over the one-month LIBOR under the existing agreement possibly to a spread closer to 3.00%. In addition, up-front and on-going fees could add another 75 basis points to pricing. 2) During 2008, the Company has increased the level of the value of unencumbered properties in relationship to the total property portfolio from 16% to 19%. This higher level adds flexibility in 2009 allowing the Company to place secured financing on unencumbered assets as required. 3) The Company benefits from its multifamily focus as the Government Sponsored Enterprises ("GSEs") Fannie Mae and Freddie Mac are still very active lending to apartment owners. Underwriting has become stricter, but the Company believes it will be able to refinance its debt maturities during this cycle of reduced liquidity. 4) The Company is in the fortunate position of having only $19 million of secured loans maturing in 2009. For 2010 and 2011, that number rises to $334 million and $302 million, respectively. The Company is currently negotiating with the GSEs on forward commitments to contractually provide for a pool of loans for approximately half of these maturities. The commitment would not fix rates today, but other criteria, including loan-to-value and debt service coverage requirements, would be agreed to in advance.

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On December 31, 2008, the Company's debt was approximately $2.3 billion and the debt-to-total market capitalization ratio was 55.8% based on the year-end closing price of the Company's common stock of $40.60. The weighted average interest rate on the Company's mortgage debt as of December 31, 2008 was 5.7% and the weighted average maturity was approximately five and one-half years. Debt maturities are staggered, ranging from July 2009, through November 2034. As of December 31, 2008, the Company had an unsecured line of credit facility from M&T Bank of $140 million. This facility is available for acquisition and other corporate purposes and bears an interest rate at 0.75% over the one-month LIBOR rate. As of December 31, 2008, the one-month LIBOR rate was 0.44% and there was $71 million outstanding on the line of credit.

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

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

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company can repurchase shares of its outstanding common stock and UPREIT Units. Shares or units may be repurchased through the open market or in privately-negotiated transactions. The Company's strategy is to opportunistically repurchase shares at a discount to its underlying NAV, thereby continuing to build value for long-term shareholders. At December 31, 2006, there was approval remaining to purchase 2,606,448 shares. During 2007, the Company repurchased 1,243,700 shares of its outstanding common stock at a cost of $58.3 million at a weighted average price of $46.86 per share. During the first quarter of 2008, the Company repurchased 1,071,588 shares of its outstanding common stock at a cost of $50.0 million at a weighted average price of $46.66 per share. On May 1, 2008, the Board granted authorization to repurchase up to an additional two million shares/units, resulting in a remaining authorization level of 2,291,160 shares as of December 31, 2008. The 2009 guidance assumes no additional share repurchases.

Competition

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

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

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

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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.

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Market Environment

The markets in which Home Properties operates could be characterized long-term as stable, with moderate levels of job growth. During 2008 and expected to continue through 2009, many regions of the United States are experiencing varying degrees of economic recession resulting in negative job growth for both the country as a whole and the Company's markets.

For 2007, the Company's markets experienced slightly stronger job growth of 1.0% compared to 0.9% for the country. With the recession of 2008, job losses became the norm. The Company's markets still compare favorably for 2008 with job losses of 1.2% compared to 2.1% for the country. In addition, the unemployment rate for the Company's markets of 5.9% trails the country average of 7.1%. The Northern VA/DC market stands out for the Company as it maintained slightly positive job growth of 0.4% for 2008. This market represents 25.1% of the total apartment unit count and produces 27.6% of the property NOI. These two favorable comparisons help explain why the Company's markets help the Company outperform many peers in a tough economic environment.

The information on the "Market Demographics and Multifamily Supply and Demand" tables on Pages 11 and 12 were compiled by the Company from the sources indicated on the tables. The methods used include estimates and, while the Company feels that the estimates are reasonable, there can be no assurance that the estimates are accurate. There can also be no assurance that the historical information included on the table will be consistent with future trends.

New construction in the Company's markets is low relative to the existing multifamily housing stock and compared to other regions of the country. In 2008, Home Properties' markets represented 27.5% of the total estimated existing U.S. multifamily housing stock, but only 18.0% of the country's estimated net new supply of multifamily housing units.

An analysis of future multifamily supply compared to projected 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 12 reflects current estimated net new multifamily supply as a percentage of new multifamily demand for the Company's markets and the United States. In 2008, net new multifamily supply as a percent of net new multifamily demand in Home Properties' markets was approximately a negative 32.1%, compared to a national average of negative 32.8%. In 2007, these same percentages were more favorable for the Company at 57% compared to 111% for the country.

In 2007, the Company's markets experienced better metrics in comparison to the country. In 2008, with demand down due to job losses which has reduced household formations, both the Company's markets and the country are softening with new supply in excess of estimated demand.

The third to the last column in the Multifamily Supply and Demand table on Page 12 shows the estimated net new multifamily supply as a percent of existing multifamily housing stock. In the Company's markets, net new supply only represents 0.3% of the existing multifamily housing stock. This compares favorably to the national average net new multifamily supply estimates at 0.5% of the multifamily housing stock.

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Market Demographics

MSA Market Area	% of Owned Units	2008 Number of Households	December Job Growth Trailing 12 Months % Change	December Job Growth Trailing 12 Months Actual	December Unemployment Rate	2008 Median Home Value	2008 Multifamily Units as a % of Total Housing Units Stock (4)	2008 Multifamily Housing Stock (5)
Northern VA/DC	25.1%	2,023,718	0.4%	11,800	4.7%	408,196	30.9%	660,243
Baltimore, MD	21.0%	1,036,471	(0.9%)	(12,600)	5.8%	280,537	22.1%	245,967
Suburban New York City (1)	20.8%	6,845,444	(1.4%)	(120,300)	6.6%	424,928	44.9%	3,296,936
Eastern PA (2)	16.7%	2,532,134	(1.3%)	(40,900)	6.6%	213,940	19.3%	523,250
Boston, MA	6.4%	1,720,283	(0.8%)	(19,700)	5.8%	385,742	33.3%	601,730
Chicago, IL	6.0%	3,447,680	(1.3%)	(59,100)	7.1%	249,232	32.4%	1,197,742
Southeast Florida (3)	2.3%	2,072,456	(2.8%)	(69,500)	7.1%	288,438	42.0%	1,000,140
Portland, ME	1.7%	213,364	(1.8%)	(3,600)	5.5%	221,438	17.0%	43,172
Home Properties Markets	100.0%	19,891,550	(1.2%)	(313,900)	5.9%	335,539	35.3%	7,569,180
United States		114,694,201	(2.1%)	(2,928,000)	7.1%	178,626	21.6%	27,502,521

(1) Suburban New York City is defined for this report as New York-Northern New Jersey-Long Island, NY-NJ-PA MSA.
(2) Eastern Pennsylvania is defined for this report as Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA & Allentown-Bethlehem-Easton PA-NJ MSA.
(3) Southeast Florida is defined for this report as Miami-Fort Lauderdale-Miami Beach, FL MSA.
(4) Based on Claritas 2008 estimates calculated from the 2000 U.S. Census figures.
(5) 2008 Multifamily Housing Stock is from Claritas estimates based on the 2000 U.S. Census.

Sources: Bureau of Labor Statistics (BLS); Claritas, Inc.; US Census Bureau - Manufacturing & Construction Div.
Data collected is data available as of February 10, 2009 and in some cases may be preliminary.
BLS is the principal fact-finding agency for the Federal Government in the broad field of labor economics and statistics.
Claritas, Inc. is a leading provider of precision marketing solutions and related products/services.
U.S. Census Bureau's parent federal agency is the U.S. Dept. of Commerce, which promotes American business and trade.

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Multifamily Supply and Demand

MSA Market Area	Estimated 2008 New Supply of Multifamily (6)	Estimated 2008 Multifamily Obsolescence (7)	Estimated 2008 Net New Multifamily Supply (8)	Estimated 2008 New Multifamily Household Demand (9)	Estimated Net New Multifamily Supply as a % of New Multifamily Demand	Estimated Net New Multifamily Supply as a % of Multifamily Stock	Expected Excess Demand (10)	Expected Excess Revenue Growth (11)
Northern VA/DC	4,450	3,301	1,149	2,432	47.2%	0.2%	1,283	0.2%
Baltimore, MD	2,315	1,230	1,085	(1,857)	(58.4%)	0.4%	(2,942)	(1.2%)
Suburban New York City (1)	38,010	16,485	21,525	(36,028)	(59.7%)	0.7%	(57,553)	(1.7%)
Eastern PA (2)	3,393	2,616	777	(5,265)	(14.8%)	0.1%	(6,042)	(1.2%)
Boston, MA	3,507	3,009	498	(4,376)	(11.4%)	0.1%	(4,874)	(0.8%)
Chicago, IL	7,158	5,989	1,169	(12,772)	(9.2%)	0.1%	(13,941)	(1.2%)
Southeast Florida	3,943	5,001	(1,058)	(19,470)	5.4%	(0.1%)	(18,412)	(1.8%)
Portland, ME	44	216	(172)	(408)	42.2%	(0.4%)	(236)	(0.5%)
Home Properties Markets	62,820	37,847	24,973	(77,744)	(32.1%)	0.3%	(102,717)	(1.4%)
United States	276,006	137,513	138,493	(421,843)	(32.8%)	0.5%	(560,336)	(2.0%)

(1)-(5) see footnotes prior page

(6) Estimated 2008 New Supply of Multifamily = Multifamily permits (2008 figures U.S. Census Bureau, Mfg. & Constr. Div., 5+ permits only) adjusted by the average % of permits resulting in a construction start (estimated at 95%).

(7) Estimated 2008 Multifamily Obsolescence = 0.5% of Estimated 2008 Multifamily Housing Stock.

(8) Estimated 2008 Net New Multifamily Supply = Estimated 2008 New Supply of Multifamily - Estimated 2008 Multifamily Obsolescence.

(9) Estimated 2008 New Multifamily Household Demand = Trailing 12 month job growth (Nonfarm, not seasonally adjusted payroll employment figures) (12/31/2007-12/31/2008) multiplied by the expected % of new household formations resulting from new jobs (66.7%) and the % of multifamily households in each market (based on Claritas estimates).

(10) Expected Excess Demand = Estimated 2008 New Multifamily Household Demand - Estimated 2008 Net New Multifamily Supply.

(11) Expected Excess Revenue Growth = Expected Excess Demand divided by 2008 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.

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Environmental Matters

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

Available Information

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports required by Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are electronically filed with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549-2521. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains a Web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Company Web Site

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

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

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

Item 1A. Risk Factors

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

The following risks apply to Home Properties, the Operating Partnership, and HPRS, in addition to other risks and factors set forth elsewhere in this Form 10-K.

Real Estate Investment Risks

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

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

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

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

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

Acquisitions may fail to meet expectations.

For 2009, we do not plan to acquire any properties unless the current economic situation improves. Long term, however, we do intend to continue to acquire apartment communities. There are risks that acquisitions will fail to meet our expectations. Our estimates of future income, expenses and the costs of improvements or redevelopment that are necessary to allow us to operate an acquired property as originally intended may prove to be inaccurate.

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

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

Current economic conditions may make it difficult for us to execute our planned dispositions on favorable terms.

We have included in our operating plan for 2009 that we will strategically dispose of properties having an approximate value of $110 million. We have already closed on $68 million in 2009. The uncertainty in the credit markets could negatively impact our ability to make additional dispositions or may adversely affect the price we receive since buyers may experience increased borrowing costs or an inability to obtain financing.

Our business is subject to competition.

Long term, we plan to continue to acquire additional multifamily residential properties in the Northeast, Mid-Atlantic and Southeast Florida regions of the United States. There are a number of multifamily developers and other real estate companies that compete with us in seeking properties for acquisition, prospective residents and land for development. Most of our Properties are in developed areas where there are other properties of the same type. Competition from other properties may affect our ability to attract and retain residents, to increase rental rates and to minimize expenses of operation. Competition for the acquisition of properties could increase prices for the types of properties we would like to pursue and adversely affect our financial performance.

Repositioning and development risks could affect our profitability.

A key component of our strategy is to acquire properties and to reposition them for long-term growth. In addition, we have developed and are in the process of developing new apartment units. We plan to continue to 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;
- development 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 project may be less than anticipated; and
- the operating expenses at a completed development may be higher than anticipated.

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

As a requirement relating to some of our financing, or, in some instances, relating to zoning or other municipal approvals, we have committed to make some of the apartments in a community available to households whose income does not exceed certain thresholds and/or to limit rent increases. As of December 31, 2008, approximately 9% of our apartment units were under some form of such limitations. These commitments typically expire after a period of time, and may limit our ability to raise rents aggressively and, in consequence, can also limit increases in the value of the communities subject to these restrictions.

Real Estate Financing Risks

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

As of December 31, 2008, we had approximately $2.11 billion of mortgage debt, a significant portion of which is subject to balloon payments. We do not expect to have cash flows from operations to make all of these balloon payments. The fixed rate mortgage debt has the following maturation schedule:

2009	$ 18.8 million
2010	334.5 million
2011	301.5 million
2012	168.0 million
Thereafter	1,289.5 million

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

Our ability to refinance these obligations could be negatively impacted by the severe disruptions in the credit and capital markets that occurred in 2008 and early 2009. If we can refinance some or all of the debt, the terms of such refinancing might not be as favorable as the terms of the existing indebtedness. If we cannot refinance or extend the maturity of some of the debt, the properties that are mortgaged could be foreclosed upon. This could adversely affect our cash flow and, consequently, the amount available for distribution to our stockholders. In order to finance the repurchase of the exchangeable notes, we might be forced to sell some of the properties at otherwise unacceptable prices or to issue equity at prices that would dilute the interests of our current stockholders.

The Company in part relies on its line of credit to meet its short-term liquidity requirements and the line expires on September 1, 2009.

As of December 31, 2008, the Company had an unsecured line of credit of $140 million with an outstanding balance of $71 million. That line of credit expires on September 1, 2009 at which time the remaining balance will be due and payable. The Company is in the process of negotiating a new line of credit with the current lender. The disruptions in the credit market may adversely affect our ability to negotiate a new line of credit. If we are successful in negotiating a new line of credit, the terms might not be as favorable as the existing line. If we are unable to negotiate a new line of credit, we may be forced to postpone capital expenditures necessary for the maintenance of our properties and/or may have to dispose of one or more properties on terms that would otherwise not be acceptable to us. We might also have to reduce the dividend paid to our stockholders or consider paying a portion of the dividend in the Company's common stock.

Rising interest rate could adversely affect operations and cash flow.

As of December 31, 2008, approximately 95% 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.

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

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

Federal Income Tax Risks

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

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

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

In order to continue to qualify as a REIT, we currently are required each year to distribute to our stockholders at least 90% of our taxable income (excluding net capital gains). In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which certain distributions made by us with respect to the calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income for that year, and any undistributed taxable income from prior periods. We intend to make distributions to our stockholders to comply with the 90% distribution requirement and to avoid the nondeductible excise tax and will rely for this purpose on distributions from the Operating Partnership. However, differences in timing between taxable income and cash available for distribution could require us to borrow funds or to issue additional equity to enable us to meet the 90% distribution requirement (and, therefore, to maintain our REIT qualification) and to avoid the nondeductible excise tax. The Operating Partnership is required to pay (or reimburse us, as its general partner, for) certain taxes and other liabilities and expenses that we incur, including any taxes that we must pay in the event we were to fail to qualify as a REIT. In addition, because we are unable to retain earnings (resulting from REIT distribution requirements), we will generally be required to refinance debt that matures with additional debt or equity. There can be no assurance that any of these sources of funds, if available at all, would be available to meet our distribution and tax obligations. On December 10, 2008 the IRS issued Revenue Procedure 2008-68 that temporarily (for 2009) permits publicly traded REITs to satisfy this tax requirement by offering their shareholders the election to receive the dividend in the form of cash or stock. The aggregate amount of cash is allowed to be as low as 10%. We are not presently planning on taking advantage of this revenue procedure, but it is available if conditions warrant and cash is not otherwise available.

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

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

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

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

Other Risks

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

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

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

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

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

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

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Potential conflicts of interest could affect some directors' decisions.

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

The future sale of shares may negatively impact our stock price.

Sales of substantial amounts of shares of common stock in the public market or the perception that such sales might occur could adversely affect the market price of the common stock. As of December 31, 2008, the Operating Partnership has issued and outstanding approximately 12.8 million UPREIT Units held by persons other than us or the Trust. The UPREIT Units may be exchanged on a one-for-one basis for shares of Common Stock under certain circumstances. In addition, Home Properties has granted options to purchase shares of stock to certain directors, officers and employees of Home Properties, of which, as of December 31, 2008, 2.9 million options remained outstanding and unexercised.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2008, the Owned Properties consisted of 110 multifamily residential communities containing 37,130 apartment units. In 2008, Home Properties acquired 813 apartment units in two communities for a total purchase price of $100.4 million. Also in 2008, the Company sold fifteen communities in six transactions with a total of 1,227 units for total consideration of $124.5 million.

The Owned Properties are generally located in established markets in suburban neighborhoods and are well maintained and well leased. Average physical occupancy at the Owned Properties was 94.9% for 2008. Occupancy is defined as total possible rental income, net of vacancy; as a percentage of total possible rental income. Total possible rental income is determined by valuing occupied units at contract rates and vacant units at market rents. The Owned Properties are typically two- and three-story garden style apartment buildings in landscaped settings and a majority are of brick or other masonry construction. The Company believes that its strategic focus on appealing to middle income residents and the quality of the services it provides to such residents results in lower resident turnover. Average turnover at the Owned Properties was approximately 42% for 2008, which is significantly below the national average of approximately 55% for garden style apartments.

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

Certain of the Owned Properties collateralize mortgage loans. See Schedule III contained herein (pages 99 to 101).

The table on the following pages illustrates certain of the important characteristics of the Owned Properties as of December 31, 2008.

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Communities Wholly Owned and Managed by Home Properties

Regional Area		# Of Apts	Age In Years	Year Acq/Dev	Average Apt Size (Sq Ft)	(2) 2008 % Resident Tumover	(3) 2008 Average % Occupancy	(3) 2007 Average % Occupancy	2008 Avg Mo Rent Rate per Apt	2007 Avg Mo Rent Rate per Apt	12/31/2008 Total Cost (000)
	Core Communities (1)										
FL - Southeast	The Hamptons	668	19	2004	1,052	46%	95%	95%	$ 1,035	$ 1,035	$ 67,529
FL - Southeast	Vinings at Hampton Village	168	19	2004	1,207	51%	94%	96%	1,143	1,129	17,258
IL - Chicago	Blackhawk Apartments	371	47	2000	793	51%	96%	96%	889	862	24,410
IL - Chicago	Courtyards Village	224	37	2001	674	49%	97%	98%	828	796	17,424
IL - Chicago	Cypress Place	192	38	2000	852	44%	97%	98%	951	918	14,814
IL - Chicago	The Colony	783	35	1999	704	49%	97%	98%	896	854	56,304
IL - Chicago	The New Colonies	672	34	1998	657	53%	96%	96%	723	711	35,526
MA - Boston	Gardencrest Apartments	696	60	2002	847	36%	96%	96%	1,478	1,419	112,132
MA - Boston											