

HOME PROPERTIES INC
Form 10-Q
May 06, 2011

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

(Mark One)

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

For the quarterly period ended **MARCH 31, 2011**

or

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

(State or other jurisdiction of incorporation or organization)

16-1455126

(I.R.S. Employer Identification No.)

850 Clinton Square, Rochester, New York
(Address of principal executive offices)

14604

(Zip Code)

(585) 546-4900

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock

Outstanding at April 30, 2011

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\$.01 par value

39,068,399

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EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
HOME PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2011 AND DECEMBER 31, 2010
(Dollars in thousands, except share and per share data)
(Unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
Real estate:		
Land	\$ 606,026	\$ 589,359
Construction in progress	91,299	119,992
Buildings, improvements and equipment	3,706,509	3,668,379
	4,403,834	4,377,730
Less: accumulated depreciation	(875,607)	(841,801)
Real estate, net	3,528,227	3,535,929
Cash and cash equivalents	10,887	10,782
Cash in escrows	35,475	34,070
Accounts receivable	12,702	12,540
Prepaid expenses	17,781	17,662
Deferred charges	14,511	15,079
Other assets	7,464	8,641
Total assets	\$ 3,627,047	\$ 3,634,703
LIABILITIES AND EQUITY		
Mortgage notes payable	\$ 2,404,670	\$ 2,424,214
Exchangeable senior notes	138,756	138,218
Line of credit	42,500	56,500
Accounts payable	15,948	20,935
Accrued interest payable	12,894	11,389
Accrued expenses and other liabilities	26,830	28,730
Security deposits	19,596	19,583
Total liabilities	2,661,194	2,699,569
Commitments and contingencies		
Equity:		
Common stock, \$.01 par value; 80,000,000 shares authorized; 38,925,105 and 37,949,229 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	389	379
Excess stock, \$.01 par value; 10,000,000 shares authorized; no shares issued or outstanding		
Additional paid-in capital	1,092,133	1,047,325

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Distributions in excess of accumulated earnings	(343,166)	(326,811)
Total common stockholders' equity	749,356	720,893
Noncontrolling interest	216,497	214,241
Total equity	965,853	935,134
Total liabilities and equity	\$ 3,627,047	\$ 3,634,703

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

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HOME PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(Dollars in thousands, except share and per share data)
(Unaudited)

	2011	2010
Revenues:		
Rental income	\$ 127,421	\$ 113,199
Property other income	13,924	12,610
Other income	53	58
Total revenues	141,398	125,867
Expenses:		
Operating and maintenance	58,279	56,028
General and administrative	6,236	5,557
Interest	33,031	30,185
Depreciation and amortization	34,479	30,113
Other expenses	10	
Total expenses	132,035	121,883
Income from continuing operations	9,363	3,984
Discontinued operations:		
Income (loss) from discontinued operations		(462)
Gain (loss) on disposition of property		(11)
Discontinued operations		(473)
Net income	9,363	3,511
Net income attributable to noncontrolling interest	(2,139)	(874)
Net income attributable to common stockholders	\$ 7,224	\$ 2,637
Basic earnings per share:		
Income from continuing operations	\$ 0.19	\$ 0.09
Discontinued operations		(0.01)
Net income attributable to common stockholders	\$ 0.19	\$ 0.08
Diluted earnings per share:		
Income from continuing operations	\$ 0.19	\$ 0.08

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Discontinued operations			(0.01)
Net income attributable to common stockholders	\$	0.19	\$ 0.07
Weighted average number of shares outstanding:			
Basic		38,004,185	34,970,442
Diluted		38,659,836	35,406,846
Dividends declared per share	\$	0.62	\$ 0.58

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

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HOME PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND THE YEAR ENDED DECEMBER 31, 2010
(Dollars in thousands, except share data)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Distributions in Excess of Accumulated Earnings	Noncontrolling Interest	Totals
Balance, January 1, 2010	34,655,428	\$ 347	\$ 922,078	\$ (261,313)	\$ 226,962	\$ 888,074
Comprehensive income:						
Net income				20,081	6,237	26,318
Issuance of common stock, net	2,827,856	28	123,728			123,756
Stock-based compensation	6,206		7,647			7,647
Repurchase of common stock	(68,265)	(1)	(3,273)			(3,274)
Conversion of UPREIT Units for common stock	528,004	5	10,229		(10,234)	0
Issuance of UPREIT Units associated with property acquisition					4,845	4,845
Adjustment of noncontrolling interest			(13,084)		13,084	0
Dividends and distributions paid				(85,579)	(26,653)	(112,232)
Balance, December 31, 2010	37,949,229	\$ 379	\$ 1,047,325	\$ (326,811)	\$ 214,241	\$ 935,134
Comprehensive income:						
Net income				7,224	2,139	9,363
Issuance of common stock, net	960,884	10	51,485			51,495
Stock-based compensation	3,989		1,642			1,642
Repurchase of common stock	(21,251)		(1,206)			(1,206)
Conversion of UPREIT Units for common stock	32,254		611		(611)	0
Adjustment of noncontrolling interest			(7,724)		7,724	0
Dividends and distributions paid				(23,579)	(6,996)	(30,575)
Balance, March 31, 2011	38,925,105	\$ 389	\$ 1,092,133	\$ (343,166)	\$ 216,497	\$ 965,853

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

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HOME PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(Dollars in thousands)
(Unaudited)

	2011	2010
Cash flows from operating activities:		
Net income	\$ 9,363	\$ 3,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,489	31,894
Amortization of senior note debt discount	538	508
Loss on disposition of property		11
Stock-based compensation	1,642	1,442
Changes in assets and liabilities:		
Cash in escrows, net	(1,038)	(746)
Other assets	(864)	(39)
Accounts payable and accrued liabilities	(1,594)	1,767
Total adjustments	34,173	34,837
Net cash provided by operating activities	43,536	38,348
Cash flows from investing activities:		
Additions to properties	(21,527)	(15,531)
Additions to construction in progress	(8,363)	(13,614)
Payments for sale of properties, net		(11)
Proceeds from note receivable	1,015	
Additions to cash in escrows, net	(366)	(243)
Net cash used in investing activities	(29,241)	(29,399)
Cash flows from financing activities:		
Proceeds from sale of common stock, net	51,495	60,280
Repurchase of common stock	(1,206)	(522)
Proceeds from mortgage notes payable		26,430
Payments of mortgage notes payable	(19,544)	(24,943)
Proceeds from line of credit	58,500	60,500
Payments on line of credit	(72,500)	(103,000)
Payments of deferred loan costs, net	(359)	(377)
Additions to cash in escrows, net	(1)	(1)
Dividends and distributions paid	(30,575)	(27,006)
Net cash used in financing activities	(14,190)	(8,639)

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Net increase in cash and cash equivalents	105	310
Cash and cash equivalents:		
Beginning of year	10,782	8,809
End of period	\$ 10,887	\$ 9,119
Supplemental disclosure of non-cash investing and financing activities:		
Exchange of UPREIT Units for common stock	\$ 611	\$ 3,586
Transfers of construction in progress to land and buildings, improvements and equipment	36,753	
Additions to properties included in accounts payable	1,745	1,652
The accompanying notes are an integral part of these consolidated financial statements.		

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HOME PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)
(Unaudited)

1. Unaudited Interim Financial Statements

The interim consolidated financial statements of Home Properties, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain disclosures that would accompany annual financial statements prepared in accordance with GAAP are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the consolidated financial statements for the interim periods have been included. The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2010.

2. Organization and Basis of Presentation

Organization

The Company was formed in November 1993, as a Maryland corporation and is engaged primarily in the ownership, management, acquisition, rehabilitation and development of residential apartment communities in selected Northeast and Mid-Atlantic regions of the United States. The Company conducts its business through Home Properties, L.P. (the Operating Partnership), a New York limited partnership. As of March 31, 2011, the Company owned and operated 115 apartment communities with 38,861 apartments.

The Company has elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended, commencing with the taxable year ended December 31, 1994. As a result, the Company generally is not subject to federal or state income taxation at the corporate level to the extent it distributes annually at least 90% of its REIT taxable income to its shareholders and satisfies certain other requirements. For the three months ended March 31, 2011 and 2010, the Company distributed in excess of 100% of its taxable income; accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its ownership of 77.6% of the limited partnership units in the Operating Partnership (UPREIT Units) at March 31, 2011 (77.1% at December 31, 2010). The remaining 22.4% is included as noncontrolling interest in these consolidated financial statements at March 31, 2011 (22.9% at December 31, 2010). The Company periodically adjusts the carrying value of noncontrolling interest to reflect its share of the book value of the Operating Partnership. Such adjustments are recorded to additional paid in capital as a reallocation of noncontrolling interest in the accompanying consolidated statements of equity. The Company owns a 1.0% general partner interest in the Operating Partnership and the remainder indirectly as a limited partner through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of Home Properties Trust, which is the limited partner. Home Properties Trust was formed in September 1997, as a Maryland real estate trust and as a qualified REIT subsidiary (QRS) and owns the Company's share of the limited partner interests in the Operating Partnership.

The accompanying consolidated financial statements include the accounts of Home Properties Resident Services, Inc. (HPRS). HPRS is a wholly owned subsidiary of the Company. All significant inter-company balances and transactions have been eliminated in these consolidated financial statements.

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HOME PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)
(Unaudited)

3. Recently Adopted Accounting Standards

During the quarter ended March 31, 2011, there were no new accounting pronouncements or updates to recently issued accounting pronouncements disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 that affect the Company's results of operations, financial condition, liquidity or disclosures.

4. Earnings Per Common Share

Basic earnings per share (EPS) is computed as net income attributable to common stockholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation including stock options (using the treasury stock method) and the conversion of any exchangeable senior notes. The exchange of an UPREIT Unit for common stock will have no effect on diluted EPS as unitholders and common stockholders effectively share equally in the net income of the Operating Partnership. Income from continuing operations and discontinued operations is the same for both the basic and diluted calculation.

The calculation of the basic and diluted earnings per share for the three months ended March 31, 2011 and 2010 is as follows:

	Three Months	
	2011	2010
Numerator:		
Income from continuing operations	\$ 9,363	\$ 3,984
Less: Income from continuing operations attributable to noncontrolling interest	(2,139)	(992)
Income from continuing operations attributable to common stockholders	\$ 7,224	\$ 2,992
Discontinued operations	\$	\$ (473)
Less: Discontinued operations attributable to noncontrolling interest		118
Discontinued operations attributable to common stockholders	\$	\$ (355)
Denominator:		
Basic weighted average number of common shares outstanding	38,004,185	34,970,442
Effect of dilutive stock options	527,750	342,907
Effect of phantom and restricted shares	127,901	93,497
Diluted weighted average number of common shares outstanding	38,659,836	35,406,846
Earnings per common share:		
Basic earnings per share:		
Income from continuing operations	\$ 0.19	\$ 0.09
Discontinued operations		(0.01)
Net income attributable to common stockholders	\$ 0.19	\$ 0.08

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Diluted earnings per share:				
Income from continuing operations	\$	0.19	\$	0.08
Discontinued operations				(0.01)
Net income attributable to common stockholders	\$	0.19	\$	0.07

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HOME PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)
(Unaudited)

4. Earnings Per Common Share (continued)

Unexercised stock options to purchase 445,511 and 1,410,388 shares of the Company's common stock for the three months ended March 31, 2011 and 2010, respectively, were not included in the computations of diluted EPS because the effects would be antidilutive. Also, in conjunction with the issuance of the exchangeable senior notes, there were 331,257 potential shares issuable under certain circumstances, of which all are considered antidilutive as of March 31, 2011 and 2010.

5. Notes Receivable

On September 22, 2010, the Company purchased two non-performing mortgage notes from a community bank for \$1,433 in an arm's length transaction. Both notes were in default. They were purchased at face value plus accrued interest and late fees and were secured by real property. One of the notes, originally purchased by the Company for \$1,015, was repaid in its entirety on January 28, 2011. The remaining note, purchased for \$418 is secured by vacant land. In accordance with authoritative guidance, the Company will recognize impairment to the extent the fair value of the collateral is less than the carrying amount of the investment in the note receivable. Interest income, if any, will be recognized on the cost recovery method. As of March 31, 2011, there was no impairment recognized and no interest income recorded on the remaining note. Interest income in the amount of \$35 received upon settlement of the first note was recorded during the first quarter of 2011. A note receivable of \$422 is included in other assets on the Consolidated Balance Sheet as of March 31, 2011.

6. Development

During 2008, the Company started construction on a project located in Alexandria, Virginia, consisting of four, four-story buildings with 421 units (Courts at Huntington Station). As of March 31, 2011, two buildings with 202 units were completed and there were 189 units rented and occupied. Construction on the second phase (two buildings with 219 units) is scheduled to be completed in the second quarter of 2011 and pre-leasing of units has commenced. The construction in progress for this development was \$53,559 as of March 31, 2011.

During the first quarter of 2011, the Company started construction on a project located in Fredericksburg, Virginia, consisting of eight, four-story buildings and a refurbished rail depot for a total of 314 apartment units (The Apartments at Cobblestone Square). Construction of the first apartment building, along with the rail depot renovation and amenities, is expected to be completed in late 2011 with initial occupancy anticipated to begin in the third quarter of 2011. The entire project is expected to be completed in the first half of 2012. The construction in progress for this development was \$15,287 as of March 31, 2011.

The Company has one project in pre-construction development. Ripley Street, located in Silver Spring, Maryland, is an 18-story high rise development with 379 apartment units. The project is on entitled land that the Company purchased from another developer and is in the final stages of the design process. The construction in progress for this development, consisting mostly of land value, was \$22,453 as of March 31, 2011.

The Company has one project in the pre-redevelopment phase. Falkland Chase, located in Silver Spring, Maryland, currently has 450 garden apartments constructed between 1936 and 1939. The Company is planning on redeveloping the North parcel consisting of 182 units, which will be renamed Falkland North. The Company is making progress on the design and obtaining the necessary approvals to redevelop this parcel into approximately 1,100 units. Construction is expected to start at the earliest during late 2012 or early 2013, with a total projected cost of \$315,000. The cost associated with this project was \$3,225 as of March 31, 2011 and is included in other assets.

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HOME PROPERTIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except share and per share data)
(Unaudited)

7. Exchangeable Senior Notes

In October 2006, the Company issued \$200,000 of exchangeable senior notes under an Indenture Agreement (the Indenture), with a coupon rate of 4.125% (Senior Notes). In the fourth quarter of 2008, the Company repurchased \$60,000 principal amount of the Senior Notes, leaving \$140,000 outstanding. The Senior Notes are exchangeable into cash equal to the principal amount of the notes and, at the Company s option, cash or common stock for the exchange value, to the extent that the market price of common stock exceeds the initial exchange price of \$73.34 per share, subject to adjustment. The exchange price is adjusted for payments of dividends in excess of the reference dividend per the Indenture of \$0.64 per share. The notes are not redeemable at the option of the Company for five years from their issue date, except to preserve the status of the Company as a REIT. Holders of the notes may require the Company to repurchase the notes upon the occurrence of certain designated events. In addition, prior to November 1, 2026, the holders may require the Company to repurchase the notes on November 1, 2011, 2016 and 2021 by providing notice within 2 to 20 business days prior to the repurchase dates. The notes will mature on November 1, 2026, unless previously redeemed, repurchased or exchanged in accordance with their terms prior to that date. The notes are structurally subordinated to the secured indebtedness of the Company. The Company is not subject to any financial covenants under the Indenture. In addition, the Indenture will not restrict the ability to pay distributions, incur debt or issue or repurchase securities.

The following table provides information about the Senior Notes as of March 31, 2011 and December 31, 2010:

	2011	2010
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