HOME PROPERTIES INC
Form 10-K
March 13, 2006

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005
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	16-1455126
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

850 CLINTON SQUARE
ROCHESTER, NEW YORK 14604
(Address of principal executive offices)

Registrant's telephone number, including area code: (585) 546-4900
Securities registered pursuant to Section 12(b) of the Act:

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

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

____
(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 X 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 X

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

YES X NO

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.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.

YES X NO

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

Large accelerated filer / X / Accelerated filer / / Non-accelerated filer / /

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

YES NO X

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, 2005, was approximately $1,365,193,884.

As of February 21, 2006, there were 31,209,603 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 4, 2006	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 1943. 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, included in the section entitled "Overview" on page 30 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 in select Northeast, Mid-Atlantic, Midwest and Southeast Florida markets 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 in which the Company held a 65.2% partnership interest as of December 31, 2005 (67.7% at December 31, 2004) (such interest has been calculated as the percentage of outstanding common shares divided by the total outstanding common shares and limited partnership units in the Operating Partnership ("UPREIT Units") outstanding) and two management companies (together, the "Management Companies") - Home Properties Management, Inc. ("HP Management") and Home Properties Resident Services, Inc. ("HPRS"), both of which are Maryland corporations.

Home Properties, through its affiliates described above, as of December 31, 2005, operated 158 communities with 47,001 apartment units. Of these, 43,432 units in 153 communities are owned outright (the "Owned Properties"), 868 units in one community are managed and partially owned by the Company as general partner, and 2,701 units in four communities 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 Manag
Suburban New York City	8,432	-	-
Suburban Washington, D.C.	8,192	-	1,387
Philadelphia, PA	5,948	-	-
Baltimore, MD	5,842	-	1,314
Detroit, MI	5,046	-	-
Upstate New York	4,567	-	-
Chicago, IL	2,242	-	-
Boston, MA	1,252	-	-
Southeast FL	836	-	-
Portland, ME	643	-	-
Dover, DE	432	-	-
Columbus, OH	-	868	-
Total # of Units	43,432	868	2,701
Total Number of Communities	153	1	4

The Company's mission is to maximize long-term shareholder value by acquiring, repositioning, 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, predominantly B class, typically with 150 units or more located in selected suburban markets of metropolitan areas with substantial barriers to new development. The suburban areas we have targeted for growth are around Baltimore, Boston, New York City, Philadelphia, Southeast Florida and Washington, D.C. We expect to maintain or grow portfolios in markets that profitably support our mission as economic conditions permit.

The Company's 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 blended cost of capital; (iii) 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 (iv) 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, 2005, it owned a 66.8% interest in the Operating Partnership (such interest has been calculated as the percentage of outstanding common and preferred shares owned by the Company divided by the total outstanding common shares, preferred shares, and UPREIT Units outstanding) - one percent as sole general partner and the remainder as a limited partner through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of the limited partner, Home Properties Trust. A portion of the limited partner interests held by Home Properties Trust as of December 31, 2005 consisted of all of the Series F Limited Partnership Units (2,400,000 units, or 4.8% of the total). Those preferred interests in the Operating Partnership have rights and preferences that mirror the rights and preferences of the holders of the related series of preferred shares in the Company. The remaining units (30,681,246 or 61.0% of the total) held by Home Properties Trust have basically the same rights as the other holders of the other UPREIT Units. Those other holders 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.

The Management Companies are wholly owned subsidiaries of the Company, and as a result the accompanying consolidated financial statements include the accounts of the Management Companies. Both of the Management Companies are Maryland corporations and are taxable REIT subsidiaries under the Tax Relief Extension Act of 1999. HP Management was formed in January 1994 and HPRS was formed in December 1995. The Management 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. With the transfers of the affordable management properties and commercial management contracts, the amount of activity in the Management Companies was minimal in 2005.

In September 1997, Home Properties Trust ("QRS") was formed as a Maryland real estate trust and as a qualified REIT subsidiary, with 100% of its shares being owned by the Company. The QRS has been admitted as a limited partner of the Operating Partnership and the Company transferred all but one percent of its interest in the Operating Partnership to the QRS. Effective December 30, 2002, the Company transferred 100% of its ownership in the QRS to a newly formed entity, Home Properties I, LLC. Home Properties I, LLC is a wholly owned subsidiary of the Company.

The Company currently has approximately 1,500 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 the investment returns of its properties by: (i) acquiring apartment communities and repositioning those properties for long-term growth at prices that provide a positive spread over the Company's long-term blended 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 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.

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, 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 and stable or moderate job growth. The Company currently expects that its growth will be focused within suburban sub-markets of select 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. Continued geographic specialization is expected to have a greater impact on operating efficiencies versus widespread accumulation of properties. The Company will continue to pursue the acquisition of individual properties as well as multi-property portfolios. It may also consider strategic investments in other apartment companies, as well as strategic alliances, such as joint ventures. The Company has anticipated closing on acquisitions of $150 million in its budget for 2006.

During 2005, the Company acquired seven communities with a total of 2,430 units for an aggregate consideration of approximately $283.4 million, or an average of approximately $116,900 per apartment unit. The weighted average expected first year capitalization rate for the acquired communities was 6.0%. 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. The acquisitions were concentrated in Suburban New York City and Washington, D.C.

During 2005, the Company completed the sale of four communities with a total of 816 units for an aggregate consideration of approximately $142.6 million, at a weighted average expected first-year cap rate of 4.0%. One property was sold to a condominium converter and the other properties sold were either in slower growth markets or less efficient to operate due to their remote locations and/or smaller size. The Company recycled the proceeds from those properties that were expected to produce a weighted average unleveraged internal rate of return ("IRR") of 5.5% with the purchase of properties expected to produce an unleveraged IRR of 8.1%. 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. Several of the properties sold were originally acquired through transactions where the sellers received UPREIT Units as consideration to provide them with the opportunity to defer tax obligations. We refer to these transactions as "UPREIT transactions." Generally, in UPREIT transactions, the Company has made certain commitments to the sellers regarding the Company's sale of the property. As a result, Section 1031 exchanges were used to defer taxable gains of the UPREIT investor.

The Company will continue to contemplate the sale of certain of its communities. In November 2005, the Company announced its intention to sell its Detroit portfolio to focus on its target core markets. The Company has currently identified twenty-one communities (nineteen in Detroit) for sale during 2006. The total estimated fair market value of these communities is in excess of $250 million. It is management's opinion that these communities have reached their potential. A certain number of these properties were originally acquired through UPREIT transactions. Therefore, those sales will have to be matched with suitable acquisitions of approximately $75 million using a tax deferred exchange. The Company has anticipated closing on sales of $250 million in its budget for 2006.

Financing and Capital Strategies

The Company intends 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 market value 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.

On December 31, 2005, the Company's debt was approximately $1.8 billion and the debt-to-total market capitalization ratio was 48.7% based on the year-end closing price of the Company's stock of $40.80. This measurement would be 44.1% using the closing stock price on February 21, 2006 of $49.21. The weighted average interest rate on the Company's mortgage debt as of December 31, 2005 was 5.9% and the weighted average maturity was approximately seven years. Debt maturities are staggered, ranging from May 2006, through January 2042. As of December 31, 2005, 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 .75% over the one-month LIBOR rate. As of December 31, 2005, the one-month LIBOR rate was 4.4% and there was $82 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 2005, the Company issued $55.6 million of UPREIT Units as consideration for three acquired properties. During 2004, the Company issued $12.1 million worth of UPREIT Units as consideration for two acquired properties. It is difficult to predict the level of demand from sellers for this type of transaction. The Company also intends to continue to pursue other equity transactions to raise capital with limited transaction costs.

The Company's Board of Directors have approved a stock repurchase program under which the Company may 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 net asset value, thereby continuing to build value for long-term shareholders. At December 31, 2003, there was approval remaining to purchase 3,135,800 shares. During 2004, the Company repurchased 1,135,800 shares of its outstanding common stock at a cost of $47.4 million at a weighted average price of $41.72 per share.

During 2005, the Company repurchased 2,779,805 shares of its outstanding common stock at a cost of $111.7 million at a weighted average price of $40.20 per share. From January 1, 2006 through January 5, 2006, the Company repurchased 107,800 additional shares at a cost of $4.5 million. On each of February 16, 2005 and November 4, 2005, the Board of Directors approved a 2,000,000-share increase in the stock repurchase program, resulting in a remaining authorization level of 3,112,395 shares as of February 21, 2006.

Competition

The Company competes with other multifamily owners and operators, other real estate companies, pension funds and private investors in seeking properties for acquisition. The Company's properties are primarily in developed areas where there are other properties of the same type which directly compete for residents. The Company, however, believes that its focus on service and resident satisfaction gives it a competitive advantage. The Company also believes that the moderate level of new construction of multifamily properties in its markets in 2005, generally requiring higher rental rates, will not have a material adverse effect on its turnover rates, occupancies or ability to increase rents and minimize operating expenses. During the past few years, the Company has encountered competition as it seeks to acquire attractive properties in broader geographic areas. Given the perceived depth of available opportunities, this increased level of competition has not prevented the Company from being able to meet its long-term growth expectations.

Market Environment

Except for the recent recession in parts of 2001 through mid-2004, the markets in which Home Properties operates could be characterized as stable, with moderate levels of job growth. For 2005, there continues to be the trend of slightly lower job growth in the Company's markets of 1.1% compared to 1.5% for the country.

The information on the Market Demographics and Multifamily Supply and Demand tables on Pages 9 and 10 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. Most of the existing housing stock in the Company's markets was built before 1980. Zoning restrictions, a scarcity of land and high construction costs make new development difficult to justify in many of the Company's markets. In 2005, Home Properties' markets represented 30.0% of the total estimated existing U.S. multifamily housing stock, but only 21.8% 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 10 reflects current estimated net new multifamily supply as a percentage of new multifamily demand for the Company's markets and the United States. In 2005, net new multifamily supply as a percent of net new multifamily demand in Home Properties' markets was approximately 71%, compared to a national average of 81%. Home Properties' markets seem to be tightening and compare favorably to the country as a whole on a measurement of supply/demand equilibrium.

The third to the last column in the Multifamily Supply and Demand table on page 10 shows the net new multifamily supply as percent of existing multifamily housing stock. In the Company's markets, net new supply only represents 0.6% of the existing multifamily housing stock. This compares to the national average net new multifamily supply estimates at 0.9% of the multifamily housing stock.

MSA Market Area	% of Home Properties Owned Units	2005 Number of Households	Market Demographics December Job Growth Trailing 12 Months % Change	December Job Growth Trailing 12 Months Actual	December Unemployment Rate	M V
Suburban New York City (2)	19.4%	6,829,141	0.8%	64,300	4.8%	3
Northern VA/DC	18.9%	1,966,150	2.8%	81,600	2.9%	2
Eastern PA (1)	14.7%	2,502,438	1.1%	33,700	4.3%	1
Baltimore, MD	13.4%	1,017,661	1.5%	19,200	3.8%	2
Detroit, MI	11.6%	1,730,567	(0.6%)	(13,300)	6.8%	1
Chicago, IL	5.1%	3,398,018	1.1%	50,000	5.4%	2
Rochester, NY	3.9%	402,406	(1.0%)	(5,000)	4.8%	1
Buffalo, NY	3.8%	467,256	(0.1%)	(700)	5.3%	1
Boston, MA	2.9%	1,714,334	0.5%	12,500	4.2%	3
Syracuse, NY	2.9%	257,676	1.1%	3,600	4.9%	1
Southeast Florida (3)	1.9%	2,032,724	2.4%	55,500	3.3%	1
Portland, ME	1.5%	210,551	0.6%	1,200	3.3%	1
Home Properties Markets	100.0%	22,528,922	1.1%	302,600	4.5%	2
United States		111,006,738	1.5%	1,969,000	4.6%	14

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

(2) Suburban New York City is defined for this report as New York-Northern New Jersey-Long Island, NY-NJ-PA MSA.

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

(4) Based on Claritas 2005 estimates calculated from the 2000 U.S. Census figures.

(5) 2005 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 15, 2006 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.

MSA Market Area	Estimated 2005 New Supply of Multifamily(6)	Estimated 2005 Multifamily Obsolescence(7)	Estimated 2005 Net New Multifamily Supply(8)	Estimated 2005 New Multifamily Household Demand(9)	Estimated Net New Multifamily Supply as a % of New Multifamily Demand
			Multifamily Supply and Demand		
Suburban					
New York City(2)	30,518	16,271	14,247	19,214	74.1%
Northern VA/DC	9,652	3,198	6,454	16,872	38.3%
Eastern PA (1)	4,729	2,589	2,140	4,361	49.1%
Baltimore, MD	2,623	1,199	1,424	2,805	50.8%
Detroit, MI	2,207	1,638	569	(1,588)	(35.8%)
Chicago, IL	11,941	5,805	6,136	10,805	56.8%
Rochester, NY	22	431	(409)	(664)	61.6%
Buffalo, NY	193	456	(263)	(84)	313.1%
Boston, MA	7,319	2,962	4,357	2,760	157.9%
Syracuse, NY	122	282	(160)	475	(33.7%)
Southeast Florida	20,316	4,784	15,532	15,437	100.6%
Portland, ME	333	216	117	138	84.8%
HP Markets	89,975	39,831	50,144	70,531	71.1%
United States	363,349	132,676	230,673	286,304	80.6%

(1)-(5) see footnotes prior page

(6) Estimated 2005 New Supply of Multifamily = Multifamily permits (2005 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 2005 Multifamily Obsolescence = 0.5% of Estimated 2005 multifamily housing stock.

(8) Estimated 2005 Net New Multifamily Supply = Estimated 2005 New Supply of Multifamily - Estimated 2005 multifamily obsolescence.

(9) Estimated 2005 New Multifamily Household Demand = Trailing 12 month job growth (Nonfarm, not seasonally adjusted payroll employment figures) (12/31/04-12/31/05) 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 2005 New Multifamily Household Demand - Estimated 2005 Net New Multifamily Supply.

(11) Expected Excess Revenue Growth = Expected Excess Demand divided by 2005 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.

Regulation

Many laws and governmental regulations are applicable to the Properties and changes in the laws and regulations, or their interpretation by agencies and the courts, occur frequently. Under the Americans with Disabilities Act of 1990 (the "ADA"), all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. In addition, the Fair Housing Amendments Act of 1988 (the "FHAA") requires apartment communities first occupied after March 13, 1990 to be accessible to the handicapped. Non-compliance with the ADA or the FHAA could result in the imposition of fines or an award of damages to private litigants. Management believes that the Properties are substantially in compliance with present ADA and FHAA requirements.

Under various laws and regulations relating to the protection of the environment, an owner of real estate may be held liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in its property. These laws often impose liability without regard to whether the owner was responsible for, or even knew of, the presence of such substances. The presence of such substances may adversely affect the owner's ability to rent or sell the property or use the property as collateral. Independent environmental consultants have conducted "Phase I" environmental site assessments (which involve visual inspection but not soil or groundwater analysis) on substantially all of the Owned Properties. Phase I assessments did not reveal any environmental liability that would have a material adverse effect on the Company. In addition, the Company is not aware of any environmental liability that management believes would have a material adverse effect on the Company. 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.

Under the Federal Fair Housing Act and state fair housing laws, discrimination on the basis of certain protected classes is prohibited. Violation of these laws can result in significant damage awards to victims. The Company has a strong policy against any kind of discriminatory behavior and trains its employees to avoid discrimination or the appearance of discrimination. There is no assurance, however, that an employee will not violate the Company's policy against discrimination and thus violate fair housing laws. This could subject the Company to legal actions and the possible imposition of damage awards.

Company Web Site and Access to Filed Reports

The Company maintains an Internet Web site at www.homeproperties.com. The Company provides access to its reports filed with the Securities and Exchange Commission ("SEC") 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/Financials/SEC Filings." In addition, paper copies of annual and periodic reports filed with the SEC may be obtained by contacting the Corporate Secretary, Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604. The address is also included within the SEC filings or under "Investors/Shareholder Services/Contact Information," on the Company's Web site.

Current copies of the Company's 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 website under the heading "Investors/Corporate Governance/Highlights." Copies of the Corporate Governance Guidelines and the Committee Charters are also available at no charge to stockholders upon request addressed to the Corporate Secretary at Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604. Information on the Company's Web site, except as described above, is for general information and does not form any 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 the Management Companies.

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

Assimilation of a Substantial Number of New Acquisitions

Since our formation, we have undertaken a strategy of aggressive growth through acquisitions. Our ability to manage our growth effectively requires that we, among other things, successfully apply our experience in managing our existing portfolio to an increased number of properties. In addition, we will be required to successfully manage the integration of a substantial number of new personnel. There can be no assurances that we will be able to integrate and manage these operations effectively or maintain or improve on their historical financial performance.

Real Estate Financing Risks

GENERAL. We are subject to the customary risks associated with debt financing including the potential inability to refinance existing mortgage indebtedness upon maturity on favorable terms. If a property is mortgaged to secure payment of indebtedness and we are unable to meet its debt service obligations, the property could be foreclosed upon. This could adversely affect our cash flow and, consequently, the amount available for distributions to stockholders.

NO LIMITATION ON DEBT. 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 published by Home Properties in its most recent quarterly earnings press release), but our organizational documents do not contain any limitation on the amount or percentage of indebtedness, funded or otherwise, 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 an increased risk of default on our indebtedness. Our net asset value fluctuates based on a number of factors. Our bank agreements and certain agreements with holders of our preferred stock limit the amount of indebtedness we may incur.

EXISTING DEBT MATURITIES. We are subject to the risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet the required payments of principal and interest. Because much of the financing is not fully self-amortizing, we anticipate that only a portion of the principal of our indebtedness will be repaid prior to maturity. So, we will need to refinance debt. Accordingly, there is a risk that we will not be successful in refinancing existing indebtedness or that the terms of such refinancing will not be as favorable as the terms of the existing indebtedness. We aim to stagger our debt maturities with the goal of minimizing the amount of debt which must be refinanced in any year.

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

Real Estate Investment Risks

GENERAL RISKS. Real property investments are subject to varying degrees of risk. If our communities do not generate revenues sufficient to meet operating expenses, including debt service and capital expenditures, Home Properties' cash flow and ability to make distributions to its stockholders will be adversely affected. A multifamily apartment community's revenues and value may be adversely affected by the general economic climates; the local economic climate; local real estate considerations (such as over supply 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.

OPERATING RISKS. We are dependent on rental income to pay operating expenses and 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 the Company is responsible.

ILLIQUIDITY OF REAL ESTATE. Real estate investments are relatively illiquid and, therefore, we have limited ability to vary 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.

COMPETITION. 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. Virtually all of the leases for the properties are short-term leases (generally, one year or less).

REPOSITIONING STRATEGY. A key component of our strategy is to acquire properties and to reposition them for long-term growth. A variety of factors could negatively impact our ability to timely complete repositioning activities within anticipated budgets. These include delays in obtaining necessary governmental permits and authorizations and increased costs of goods. Our inability to charge rents that will be sufficient to offset the effects of these delays and increase in costs may impair our profitability.

UNINSURED LOSSES. Certain extraordinary losses may not be covered by our comprehensive liability, fire, extended and rental loss insurance. If an uninsured loss occurred, we could lose our investment in, and cash flow from, the affected property (but we would be required to repay any indebtedness secured by that property and related taxes and other charges).

Federal Income Tax Risks

GENERAL. We believe that we have been organized and have operated in such manner so as to qualify as a REIT under the 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 gain). 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.

REQUIRED DISTRIBUTIONS AND PAYMENTS. 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 gain). 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.

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

THE OPERATING PARTNERSHIP'S FAILURE TO QUALIFY AS A PARTNERSHIP. 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).

Taxation of Dividends

The tax rate applicable to qualifying corporate dividends received by individuals prior to 2009 has been reduced to a maximum rate of 15%. This special tax rate is generally not applicable to dividends paid by a REIT, unless such dividends represent earnings on which the REIT itself had been taxed. As a result, dividends (other than capital gain dividends) paid by us to individual investors will generally be subject to the tax rates that are otherwise applicable to ordinary income which, currently, are as high as 35%. This law change may make an investment in our common stock comparatively less attractive relative to an investment in the share of other corporate entities which pay dividends that are not formed as REITs.

Limits on Ownership

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. Shares of common stock held by certain entities, such as qualified pension plans, are treated as if the beneficial owners of such entities were the holders of the common stock. These restrictions can be waived by the Board of Directors if it were satisfied, based upon the advice of tax counsel or otherwise, that such action would be in our best interests. Waivers were granted to certain institutional investors in connection with the sale of our preferred stock. Shares acquired or transferred in breach of the limitation may be redeemed by us for the lesser of the price paid or the average closing price for the ten trading days immediately preceding redemption or may be sold at our direction. A transfer of shares of common stock to a person who, as a result of the transfer, violates the ownership limit will be void and the shares will automatically be converted into shares of "excess stock", which is subject to a number of limitations.

Change of Control

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.

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.

We have various agreements which may have the effect of discouraging a change of control of us due to the costs involved. The Articles Supplementary to our Articles of Incorporation under which our outstanding Series F preferred stock were issued provide us the option of redeeming the outstanding Preferred Stock after the fifth anniversary of its issue date.

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 certain benefit continuation in the event of a change of control.

Potential Conflicts of Interest

Unlike persons acquiring common stock, certain of our executive officers and directors own a significant portion of their interest in us through Units. As a result of their status as holders of Units, those executive officers, 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, certain executive officers and 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 executive officers and directors and the stockholders may have different objectives regarding the appropriate pricing and timing of any sale or refinancing of Properties. In addition, those executive officers and 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.

Shares Available for Future Sale

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. The Operating Partnership has issued approximately 16.7 million UPREIT Units through December 31, 2005, to persons other than us or the Trust, which may be exchanged on a one-for-one basis for shares of Common Stock under certain circumstances. We have issued and outstanding Series F Cumulative Redeemable Preferred Stock. 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, 2005, 2,662,581 options remained outstanding and unexercised.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2005, the Owned Properties consisted of 153 multifamily residential communities containing 43,432 apartment units. At the time of the IPO (August 4, 1994), Home Properties owned 11 communities containing 3,065 units and simultaneously with the closing of the IPO acquired an additional four communities containing 926 units. From the time just prior to the IPO to December 31, 2005, the Company experienced a compounded annualized growth rate of 26.1% in the number of apartment units it owned. In 2005, Home Properties acquired 2,430 apartment units in seven communities for a total purchase price of approximately $283.4 million. Also in 2005, the Company sold four communities with a total of 816 units for total consideration of $142.6 million.

The Owned Properties are generally located in established markets in suburban neighborhoods and are well maintained and well leased. Average economic occupancy at the Owned Properties was 93.3% for 2005. Occupancy is defined as total possible rental income, net of vacancy and bad debt expense 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 45% for 2005, which is significantly below the national average of 61.3% 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 secure mortgage loans. See Schedule III contained herein (F-42 to F-46).

The table on the following pages illustrates certain of the important characteristics of the Owned Properties as of December 31, 2005.

Communities Wholly Owned and Managed by Home Properties

Regional Area		# Of Apts	Age In Years	Year Acq	Avg Apt Size (Sq Ft)	(2) 2005 % Resident Tumover	(3) 2005 Average % Occu- pancy	2 Aver Oc pa
	Same Store Communities(1)							
DE-Deleware	HP of Newark	432	37	1999	860	47%	94%	
IL-Chicago	Blackhawk Apt	371	44	2000	793	54%	91%	
IL-Chicago	Courtyards Village	224	34	2001	674	51%	94%	
IL-Chicago	Cypress Place	192	35	2000	852	41%	93%	
IL-Chicago	The Colony	783	32	1999	704	55%	93%	
IL-Chicago	The New Colonies	672	31	1998	657	53%	91%	
MA-Boston	Gardencrest Apts	696	57	2002	847	36%	95%	
MA-Boston	Stone Ends Apts	280	26	2003	815	50%	96%	
MD-Baltimore	Bonnie Ridge Apts	960	39	1999	998	46%	92%	
MD-Baltimore	Canterbury Apts	618	27	1999	934	47%	93%	
MD-Baltimore	Country Village Apts	344	34	1998	776	45%	93%	
MD-Baltimore	Falcon Crest Townhomes	396	36	1999	993	40%	91%	

MD-Baltimore	Fenland Field	234	35	2001	934	40%	94%
MD-Baltimore	Gateway Village Apts	132	16	1999	963	41%	93%
MD-Baltimore	Mill Towne Village	384	32	2001	812	34%	95%
MD-Baltimore	Morningside Heights Apts	1,050	40	1998	864	42%	94%
MD-Baltimore	Owings Run Apts	504	10	1999	1,136	46%	94%
MD-Baltimore	Selford Townhomes	102	18	1999	987	50%	92%
MD-Baltimore	Shakespeare Park Apts	84	22	1999	793	30%	97%
MD-Baltimore	The Manor Apts (MD)	435	36	2001	1,004	36%	92%
MD-Baltimore	Timbercroft Townhomes	284	33	1999	998	7%	99%
MD-Baltimore	Village Square (MD)	370	37	1999	948	45%	96%
MD-Baltimore	Woodholme Manor Apts	176	36	2001	817	34%	91%
ME-Portland	Mill Company Gardens	95	54	1998	542	61%	95%
ME-Portland	Redbank Village Apts	500	61	1998	735	40%	92%
MI-Detroit(4)	Canterbury Square	336	33	1997	788	52%	88%
MI-Detroit(4)	Carriage Hill - MI	168	39	1998	783	36%	94%
MI-Detroit(4)	Carriage Park	256	38	1998	778	43%	92%
MI-Detroit(4)	Charter Square	492	34	1997	912	43%	92%
MI-Detroit(4)	Cherry Hill Club Apts	165	33	1998	879	47%	90%
MI-Detroit(4)	Cherry Hill Village	224	39	1998	742	59%	95%
MI-Detroit(4)	Deerfield Woods Apts	144	29	2000	950	38%	93%
MI-Detroit(4)	Fordham Green	146	29	1997	868	61%	86%
MI-Detroit(4)	Greentrees	288	34	1997	862	46%	86%
MI-Detroit(4)	Hampton Court Apts	182	33	2000	966	56%	87%
MI-Detroit(4)	Kingsley	328	35	1997	792	54%	93%
MI-Detroit(4)	Macomb Manor Apts	217	36	2000	829	34%	92%
MI-Detroit(4)	Oak Park	298	50	1997	886	48%	86%
MI-Detroit(4)	Scotsdale	376	30	1997	761	43%	92%
MI-Detroit(4)	Southpointe Square	224	34	1997	776	56%	89%
MI-Detroit(4)	Springwells Park	303	64	1999	971	59%	89%
MI-Detroit(4)	Stephenson House	128	38	1997	708	46%	93%
MI-Detroit(4)	The Lakes Apts	434	18	1999	949	50%	86%
MI-Detroit(4)	Woodland Gardens	337	39	1997	719	53%	94%
NJ-Northern	East Hill Gardens	33	47	1998	654	24%	96%
NJ-Northern	Lakeview Apts	106	56	1998	492	35%	97%
NJ-Northern	Oak Manor Apartments	77	49	1998	918	31%	97%
NJ-Northern	Pleasant View Gardens	1,142	37	1998	746	37%	93%
NJ-Northern	Pleasure Bay Apts	270	34	1998	685	34%	96%
NJ-Northern	Royal Gardens Apts	550	37	1997	874	33%	92%
NJ-Northern	Wayne Village	275	40	1998	760	40%	96%
NJ-Northern	Windsor Realty Company	67	52	1998	628	39%	95%
NY-Alb/ Hudson Valley	Carriage Hill Apts	140	32	1996	898	74%	93%
NY-Alb/ Hudson Valley	Cornwall Park	75	38	1996	1,320	65%	88%
NY-Alb/ Hudson Valley	Lakeshore Villa Apts	152	30	1996	952	52%	93%
NY-Alb/ Hudson Valley	Patricia Apts	100	31	1998	725	38%	95%
NY-Alb/ Hudson Valley	Sherwood Consolidation	224	36	2002	831	26%	97%
NY-Alb/ Hudson Valley	Sunset Garden Apts	217	34	1996	840	42%	95%
NY-Buffalo	Emerson Square	96	35	1997	570	37%	96%
NY-Buffalo	Idylwood Resort Apts	720	35	1995	712	55%	92%
NY-Buffalo	Paradise Lane Apts	324	33	1997	657	53%	90%
NY-Buffalo	Raintree Island Apts	504	33	1985	695	51%	90%
NY-Long Island	Bayview & Colonial	160	38	2000	884	28%	96%
NY-Long Island	Cambridge Village Asso	82	38	2002	747	31%	97%
NY-Long Island	Coventry Village Apts	94	30	1998	831	38%	96%
NY-Long Island	Devonshire Hills	297	37	2001	803	41%	96%
NY-Long Island	East Winds Apts	96	39	2000	888	37%	93%
NY-Long Island	Hawthorne Court	434	37	2002	678	48%	94%

NY-Long Island	Heritage Square	80	56	2002	718	28%	97%
NY-Long Island	Holiday Square	144	26	2002	570	19%	95%
NY-Long Island	Lake Grove Apts	368	35	1997	836	51%	93%
NY-Long Island	Maple Tree	84	54	2000	936	30%	93%
NY-Long Island	Mid-Island Apts	232	40	1997	546	42%	95%
NY-Long Island	Rider Terrace	24	44	2000	825	33%	91%
NY-Long Island	South Bay Manor	61	45	2000	849	54%	93%
NY-Long Island	Southern Meadows	452	34	2001	845	40%	95%
NY-Long Island	Stratford Greens Asso	359	31	2002	725	40%	96%
NY-Long Island	Terry Apartments	65	29	2000	722	29%	96%
NY-Long Island	Westwood Village Apts	242	36	2002	829	32%	96%
NY-Long Island	Woodmont Village Apts	96	37	2002	704	37%	95%
NY-Long Island	Yorkshire Village Apts	40	36	2002	779	25%	97%
NY-Rochester	1600 East Avenue	164	46	1997	768	35%	91%
NY-Rochester	1600 Elmwood	210	45	1983	887	46%	92%
NY-Rochester	Brook Hill Village Apts	192	33	1994	1,008	44%	92%
NY-Rochester	Newcastle Apartments	197	30	1982	846	51%	92%
NY-Rochester	Perinton Manor Apts	224	35	1982	928	51%	94%
NY-Rochester	Riverton Knolls	240	31	1983	914	57%	93%
NY-Rochester	Spanish Gardens	220	31	1994	866	39%	92%
NY-Rochester	The Meadows Apartments	113	34	1984	880	48%	93%
NY-Rochester	Woodgate Place	120	32	1997	928	61%	92%
NY-Syracuse	Fairview Apartments	214	41	1985	565	47%	87%
NY-Syracuse	Harborside Manor	281	32	1995	705	51%	94%
NY-Syracuse	Pearl Street	60	34	1995	895	42%	93%
NY-Syracuse	Village Green Apts	448	19	1994	907	40%	90%
NY-Syracuse	Westminster Place	240	33	1996	913	67%	93%
PA-Philadelphia	Beechwood Gardens	160	38	1998	875	45%	94%
PA-Philadelphia	Castle Club Apts	158	38	2000	878	36%	95%
PA-Philadelphia	Chesterfield Apts	247	32	1997	812	46%	96%
PA-Philadelphia	Curren Terrace	318	34	1997	782	54%	93%
PA-Philadelphia	Executive House Apts	100	40	1997	700	52%	95%
PA-Philadelphia	Glen Brook Apartments	173	42	1999	707	45%	91%
PA-Philadelphia	Glen Manor Apartments	174	29	1997	667	48%	91%
PA-Philadelphia	Golf Club Apartments	399	36	2000	857	53%	91%
PA-Philadelphia	Hill Brook Place Apts	274	37	1999	699	47%	96%
PA-Philadelphia	Home Properties of Bryn Mawr	316	54	2000	822	54%	93%
PA-Philadelphia	Home Properties of Devon	629	42	2000	917	48%	90%
PA-Philadelphia	New Orleans Park	442	34	1997	685	44%	93%
PA-Philadelphia	Racquet Club East Apts	466	34	1998	911	41%	96%
PA-Philadelphia	Racquet Club South	103	36	1999	816	35%	96%
PA-Philadelphia	Ridley Brook Apts	244	43	1999	925	41%	95%
PA-Philadelphia	Sherry Lake Apts	298	40	1998	812	45%	94%
PA-Philadelphia	The Landings	384	32	1996	912	43%	93%
PA-Philadelphia	Trexler Park Apts	249	31	2000	921	47%	93%
PA-Philadelphia	Valley View Apts	177	32	1997	764	63%	91%
PA-Philadelphia	Village Square (PA)	128	32	1997	795	45%	93%
PA-Philadelphia	William Henry Apts	363	34	2000	938	53%	92%
VA-Suburban DC	Braddock Lee Apts	255	50	1998	757	33%	95%
VA-Suburban DC	Brittany Place	591	37	2002	922	47%	92%
VA-Suburban DC	Cider Mill	864	27	2002	834	47%	94%
VA-Suburban DC	East Meadow Apts	150	34	2000	1,034	53%	96%
VA-Suburban DC	Elmwood Terrace	504	32	2000	946	52%	90%
VA-Suburban DC	Falkland Chase Apts	450	68	2003	759	40%	93%
VA-Suburban DC	Orleans Village	851	37	2000	1,015	40%	94%
VA-Suburban DC	Park Shirlington Apts	294	50	1998	858	41%	93%
VA-Suburban DC	Seminary Hill Apts	296	45	1999	888	52%	93%
VA-Suburban DC	Seminary Towers Apts	539	41	1999	879	37%	93%
VA-Suburban DC	Tamarron Apartments	132	18	1999	1,075	36%	95%

VA-Suburban DC	The Manor Apts (VA)	198	31	1999	845	57%	94%
VA-Suburban DC	The Sycamores	185	27	2002	876	48%	97%
VA-Suburban DC	Virginia Village	344	38	2001	1,010	54%	95%
VA-Suburban DC	West Springfield Terrace	244	27	2002	1,019	50%	96%
	Same Store Total/ Weighted Avg	38,468	36		840	45%	93%
	2004 Acquisition Communities(5)						
FL-Southeast	The Hamptons	668	16	2004	1,052	47%	96%
FL-Southeast	Vinings at Hampton Village	168	16	2004	1,207	48%	95%
MA-Boston	The Village at Marshfield	276	33	2004	735	46%	94%
NJ-Northern	Chatham Hill Apts	308	38	2004	944	27%	95%
NJ-Northern	Fairmount Apts	54	62	2004	900	22%	98%
NJ-Northern	Kensington Apartments	38	62	2004	1,117	13%	97%
NJ-Northern	Northwood Apartments	134	40	2004	937	26%	97%
NJ-Northern	Regency Club Apartments	372	31	2004	941	44%	94%
VA-Suburban DC	The Apartments at Wellington Trace	240	3	2004	1,106	63%	97%
VA-Suburban DC	Woodleaf Apartments	228	20	2004	709	34%	93%
	2004 Total/Weighted Avg	2,486	32		963	42%	95%
	2005 Acquisition Communities (5)						
MD-Baltimore	Ridgeview at Wakefield Valley	204	8	2005	916	58%	93%
NJ-Northern	Barrington Gardens	148	32	2005	922	31%	95%
NJ-Northern	Hackensack Gardens	198	57	2005	636	17%	97%
NY-Long Island	Sayville Commons	342	4	2005	1,106	15%	97%
PA-Philadelphia	The Brooke at Peachtree Village	146	19	2005	1,261	40%	97%
VA-Suburban DC	Cinnamon Run	511	45	2005	1,006	0%	98%
VA-Suburban DC	Peppertree Farm	881	51	2005	1,051	0%	92%
	2005 Total/ Weighted Avg	2,430	31		1,009	13%	96%
	2005 Construction Communities(6)						
ME-Portland	Liberty Commons	48	0	2005	998	10%	88%
	Owned Portfolio Total/ Weighted Avg	43,432	36		857	43%	93%

(1) "Same Store Communities" represents the 38,468 apartment units owned consistently throughou
(2) Resident Turnover" reflects, on an annual basis, the number of moveouts divided by the tota
(3) "Average % Occupancy" is the average economic occupancy for the 12 months ended December 31
(4) MI - Detroit region represents the 5,046 apartment units considered Held for Sale as of Dec
(5) For communities acquired during 2004 and 2005, this is the average occupancy from the date
(6) Liberty Commons is under construction. As of December 31, 2005, 48 apartment units were in

Property Development

For approximately five years, from 1996 to 2000, the Company actively diversified its portfolio of market-rate communities with government assisted multifamily housing developed or re-developed by the Company. Effective December 31, 2000, the Company sold its affordable housing development operations to Conifer, LLC. Conifer, LLC is led by Richard J. Crossed, a former Executive Vice President and former director of the Company. At that time, the Company retained general partner ownership interests in and property management operations for 8,325 apartment units in 136 existing affordable communities.

In December 2002, the Company determined that it would market for sale virtually all of the assets associated with its interests in various affordable property limited partnerships. At that time, the Company announced its intention to sell the assets which include the equity interest in the affordable housing partnerships, loans, advances and management contracts.

During 2003, the Company was successful in selling its interest in entities that own in the aggregate 84 properties containing 2,590 units. During 2004, the Company closed on the sale of its general partner interests in an additional 26 entities that owned in the aggregate 1,952 units. During 2005, the Company sold 12 entities that owned in the aggregate 868 units. In addition, the Company completed the disposal of 1,057 units through a default on the non-recourse financing. The Company still holds an interest in one affordable limited partnership with 868 units. The Company will retain its ownership interest and will continue to manage this property located in Columbus, Ohio.

The Company has retained the ability to develop new market rate communities. It plans to engage in development activity only on a selective basis. The Company anticipates the development activity to be in the markets in which it currently is doing business, on land adjacent to existing properties or by increasing density of units at communities currently owned. Currently, the Company is developing a 120-unit apartment community in South Portland, Maine adjacent to a market-rate property the Company acquired in 1998. The first phase of the project, which consists of 48 units, was completed in the summer of 2005. The second and third phases, which consist of 72 units, are expected to be completed in the summer of 2006. The total construction cost at this community is anticipated to be $13.6 million upon completion. In addition, the Company is developing a 216-unit apartment community in Allentown, Pennsylvania, adjacent to a market-rate community purchased in 2000. The project is expected to be completed in the spring of 2008. The total construction cost for this development is anticipated to be $27.1 million upon completion. The construction in progress for these two development projects amounted to $4.5 million as of December 31, 2005.

Property Management

As of December 31, 2005, the Managed Properties consist of: (i) 868 apartment units where Home Properties is the general partner of the entity that owns the property; and (ii) 2,701 apartment units managed for others.

On January 1, 2004, the Company sold certain assets of its commercial property management division to Home Leasing LLC, which is owned by Nelson and Norman Leenhouts, who were the founders of Home Leasing, former Co-Chief Executive Officers of the Company, and current Co-Chairs of the Company's Board of Directors (the "Leenhoutses"). This division managed approximately 2.2 million square feet of gross leasable area, as well as certain planned communities. The majority of the managed commercial properties are and have been owned in whole or in part by the Leenhoutses since before the Company's IPO in 1994. The sale was completed in order to permit the Company to focus solely on the direct ownership and management of market-rate apartment communities. The contribution from the commercial property management division to Home Properties' 2003 earnings was significantly less than one-half of one percent. The initial amount paid was $82,000. In addition, the Company is entitled to receive a percentage of the management fee received by Home Leasing LLC and its assigns in connection with the management of one of the commercial properties for a period not to exceed 36 months. If Home Leasing LLC or its assigns continues to manage that property for three years, the Company is expected to receive an additional deferred purchase price of $135,000, for a total consideration of $217,000. If the management of this property is retained for the entire three years, the gain on sale will be approximately $104,000.

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

The following table details managed multifamily communities broken down by market area.

Communities Fee Managed by Home Properties by Market Area as of December 31, 2005

Community Name	City	# of Apts.
MARYLAND		
Annapolis Roads Apartments	Annapolis	282
Dunfield Townhomes	Baltimore	312
Fox Hall	Baltimore	720
NORTHERN VIRGINIA		
Mount Vernon Square	Alexandria	1,387
Total		2,701

Supplemental Property Information

At December 31, 2005, none of the Properties have an individual net book value equal to or greater than ten percent of the total assets of the Company or would have accounted for ten percent or more of the Company's aggregate gross revenues for 2005. There is no tenant who has one or more leases which, in the aggregate, account for more than 10% of the aggregate gross revenues for the year ended December 31, 2005.

Item 3. Legal Proceedings

The Company is a party to certain legal proceedings. In March 2005, the Company agreed to pay $3.5 million in settlement of an action commenced in 2000 against the Company, the Operating Partnership and Home Leasing. The essence of the complaint was that the entity in which the plaintiffs were investors was wrongfully excluded from the Company's initial public offering. The Company is subject to a variety of legal actions for personal injury or property damage arising in the ordinary course of its business, most of which are covered by liability insurance. Various claims of employment and resident discrimination are also periodically brought. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such legal proceedings and claims will not have a material adverse effect on the Company's liquidity, financial position or results of operations.

Item 4. Submission of Matters to Vote of Security Holders

None.

Item 4A. Executive Officers

The following table sets forth, as of February 21, 2006, the eight executive officers of the Company, together with their respective ages, positions and offices.

Name	Age	Position
Edward J. Pettinella	54	President and Chief Executive Officer of Home Proper and HPRS
David P. Gardner	50	Executive Vice President and Chief Financial Officer HP Management and HPRS
Ann M. McCormick	49	Executive Vice President, General Counsel Home Properties, HP Management and HPRS
Scott A. Doyle	44	Senior Vice President, Property Management of H Management and HPRS
Johanna A. Falk	41	Senior Vice President and Chief Administrative/Informat Properties, HP Management and HPRS
Robert J. Luken	41	Senior Vice President, Chief Accounting Officer Home Properties, HP Management and HPRS
Janine M. Schue	43	Senior Vice President, Human Resources of Home Proper and HPRS
John E. Smith	55	Senior Vice President and Chief Investment Officer of Management and HPRS

Information regarding Edward Pettinella is set forth below under "Directors" in Item 10.

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

Ann M. McCormick has served as Executive Vice President since 2004 and a Vice President, General Counsel and Secretary of the Company since its inception. She holds the same titles in HP Management and HPRS. Mrs. McCormick joined Home Leasing in 1987 and was named Vice President, Secretary and General Counsel in 1991. Prior to joining Home Leasing, she was an associate with the law firm of Nixon Peabody LLP. Mrs. McCormick is a graduate of Colgate University and holds a Juris Doctor from Cornell University. She is on the Board of Directors of Greater Rochester Housing Partnership, the Alzheimer's Association of the Finger Lakes, and St. Ann's of Greater Rochester, Inc.

Scott A. Doyle has served as a Senior Vice President since 2000, and, from 1997 until 2000, was a Vice President of the Company. He holds the same title in HP Management and HPRS. He joined Home Properties in 1996 as a Regional Property Manager. Mr. Doyle has been in property management for 20+ years and is a Certified Property Manager (CPM) as designated by the Institute of Real Estate Management. Prior to joining Home Properties, he worked with CMH Properties, Inc., Rivercrest Realty Associates and Arcadia Management Company. Mr. Doyle serves on the Advisory Board of the Residential Property Management Program at Virginia Tech. He is a graduate of State University at Plattsburgh, New York.

Johanna A. Falk has served as Senior Vice President since 2000 and as Chief Administrative/Information Officer since 2003. She had been a Vice President of the Company since 1997. She holds the same titles in HP Management and HPRS. She joined the Company in 1995 as an investor relations specialist, was responsible for the Information Systems Department through 2002, and was promoted to Chief Administrative/Information Officer in February 2003. Prior to joining the Company, Mrs. Falk was employed as a marketing manager at Bausch & Lomb Incorporated and Champion Products, Inc. and as a financial analyst at Kidder Peabody. She is a graduate of Cornell University and holds an MBA from the Wharton School of The University of Pennsylvania.

Robert J. Luken has served as Senior Vice President since 2004, and as Chief Accounting Officer since January, 2005. He has been the Company's Treasurer since 2000 and became a Vice President in 1997. He holds the same titles in HPRS and HP Management. He joined the Company in 1996, serving as its Controller. Prior to joining the Company, he was the Controller of Bell Corp. of Rochester and an Audit Supervisor for PricewaterhouseCoopers LLP. Mr. Luken is a graduate of St. John Fisher College and is a Certified Public Accountant. He is on the Board of Directors of St. Joseph's Villa of Rochester and the Finance Committee of Ronald McDonald House Charities.

Janine M. Schue has served as Senior Vice President of the Company since 2004, after joining the Company in October of 2001. She holds the same title in HPRS and HP Management. Prior to joining the Company, she was employed by NetSetGo as Vice President of Human Resources and prior to that by Wegmans Food Markets, Inc. as Director of Human Resources. Ms. Schue is a graduate of and holds a Masters of Education from the State University of New York at Albany.

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

PART II

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

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

	High	Low	Distribution
2005			
First Quarter	$42.39	$38.75	$.63
Second Quarter	$43.15	$38.78	$.63
Third Quarter	$46.27	$38.50	$.63
Fourth Quarter	$42.45	$36.05	$.64
2004			
First Quarter	$41.74	$38.45	$.62
Second Quarter	$41.30	$36.25	$.62
Third Quarter	$41.10	$36.83	$.62
Fourth Quarter	$43.96	$39.46	$.63

As of February 21, 2006, the Company had approximately 4,400 shareholders of record, 31,209,603 common shares (plus 16,657,780 UPREIT Units convertible into 16,657,780 common shares) were outstanding, and the closing price was $49.21. It is the Company's policy to pay dividends. The Company has historically paid dividends on a quarterly basis in the months of February, May, August and November.

Issuer Purchases of Equity Securities

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action does not establish a specific target stock price or a specific timetable for share repurchase. In addition, participants in the Company's Stock Benefit Plan can use common stock of the Company that they already own to pay all or a portion of the exercise price payable to the Company upon the exercise of an option. In such event, the common stock used to pay the exercise price is returned to authorized but unissued status, and for purposes of this table is deemed to have been repurchased by the Company. At December 31, 2004 the Company had authorization to repurchase 2,000,000 shares of common stock and UPREIT Units under the stock repurchase program. During 2005, the Company repurchased 2,779,805 shares at a cost of $111,738,000, and in January, 2006, an additional 107,800 shares at a cost of $4,468,000. On each of February 16, 2005 and November 4, 2005, the Board of Directors approved a 2,000,000-share increase in the stock repurchase program, resulting in a remaining authorization level of 3,112,395 shares as of February 21, 2006.

The following table summarizes the total number of shares (units) repurchased by the Company during the year ended December 31, 2005:

Period	Total shares/units purchased (1)	Average price per share/unit	Total shares/units purchased under Company program	Board approved increase to shares available under Company program
Balance January 1, 2005:				

January, 2005	717,792	$40.85	716,000	-
February, 2005	599,975	$41.06	584,700	2,000,000
March, 2005	1,796	$40.38	-	-
April, 2005	1,885	$39.21	-	-
May, 2005	8,569	$42.35	-	-
June, 2005	12,947	$41.08	-	-
July, 2005	1,199	$45.09	-	-
August, 2005	11,981	$40.84	-	-
September, 2005	208,289	$38.93	205,900	-
October, 2005	579,910	$38.08	578,205	-
November, 2005	331,697	$40.51	319,600	2,000,000
December, 2005	377,328	$41.49	375,400	-
Balance December 31, 2005:	2,853,368	$40.24	2,779,805	4,000,000

(1) During 2005, and as permitted by the Company's stock option plans, 7,038 shares of common stock already owned by option holders were used by those holders to pay the exercise price associated with their option exercise. These shares were returned to the status of authorized but unissued shares. In addition, the Company repurchased 66,525 shares of common stock through share repurchase by the transfer agent in the open market in connection with the Company's Dividend Reinvestment Plan.

Item 6. Selected Financial and Operating Information

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

	2005	2004	2003
Revenues:			
Rental Income	$417,607	$388,084	$348,895
Other Income (1)	26,194	21,985	20,936
TOTAL REVENUES	443,801	410,069	369,831
Expenses:			
Operating and maintenance	198,974	181,206	158,740
General & administrative	19,652	23,978	22,607
Interest	97,898	83,078	75,926
Depreciation & amortization	90,232	79,683	66,186

Prepayment penalties	-	-	-
Impairment of assets held as General Partner	400	1,116	2,518
TOTAL EXPENSES	407,156	369,061	325,977
Income from operations	36,645	41,008	43,854
Equity in earnings (losses) of unconsolidated affiliates	-	(538)	(1,892)
Income before minority interest, discontinued operations and extraordinary item	36,645	40,470	41,962
Minority interest in limited partnership	-	441	-
Minority interest in operating partnerships	(10,015)	(10,702)	(10,867)
Income from continuing operations	26,630	30,209	31,095
Discontinued operations, net of minority interest	54,882	17,201	10,712
Income before gain (loss) on disposition of property and business and cumulative effect of change in accounting principle	81,512	47,410	41,807
Gain (loss) on disposition of property and business, net of minority interest	-	(67)	(9)
Income before cumulative effect of change in accounting principle	81,512	47,343	41,798
Cumulative effect of change in accounting principle, net of minority interest	-	(321)	-
Net Income	81,512	47,022	41,798
Preferred dividends	(6,279)	(7,593)	(11,340)
Premium on Series B preferred stock repurchase	-	-	-
Net income available to common shareholders	$75,233	$39,429	$30,458
Basic earnings per share data:			
Income from continuing operations	$ 0.63	$ 0.69	$ 0.67
Discontinued operations	1.72	0.52	0.37
Cumulative effect of change in accounting principle	-	(0.01)	-
Net income available to common shareholders	$ 2.35	$1.20	$ 1.04
Diluted earnings per share data:			
Income from continuing operations	$0.63	$0.67	$0.67
Discontinued operations	1.70	0.52	0.36
Cumulative effect of change in accounting principle	-	(0.01)	-
Net income available to common shareholders	$2.33	$1.18	$1.03
Cash dividends declared per common share	$2.53	$2.49	$2.45

Balance Sheet Data:				
Real estate, before accumulated depreciation	$3,330,918	$3,123,901	$2,752,992	$
Total assets	2,977,870	2,816,796	2,513,317	
Total debt (including held for sale)	1,924,086	1,702,722	1,380,696	
Series B convertible cumulative preferred stock	-	-	-	
Redeemable preferred stock ((2))	60,000	85,000	85,000	
Stockholders' equity	656,812	720,422	741,263	
Other Data:				
Net cash provided by operating activities	$132,947	$161,691	$150,693	
Net cash used in investing activities	(179,696)	(165,466)	(112,025)	
Net cash provided by (used in) financing activities	44,215	5,747	(42,347)	
Funds from Operations ((3))	137,606	126,953	132,803	
Adjusted Funds From Operations((4))	115,720	104,787	111,020	
Weighted average number of shares outstanding:				
Basic	31,962,082	32,911,945	29,208,242	2
Diluted	32,328,105	33,314,038	29,575,660	2
Total communities owned at end of period	153	150	147	
Total apartment units owned at end of period	43,432	41,776	40,946	

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

(2) Redeemable preferred stock is redeemable solely at the option of the Company.

(3) Pursuant to the revised definition of Funds From Operations ("FFO") adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), FFO is defined as net income (computed in accordance with accounting principles generally accepted in the United States of America ("GAAP")) excluding gains or losses from sales of property, minority interest and extraordinary items plus depreciation from real property including adjustments for unconsolidated partnerships and joint ventures less dividends from non-convertible preferred shares. In 2003, the Company added back debt extinguishment costs which are incurred as a result of repaying property specific debt triggered upon sale as a gain or loss on sale of the property. Because of the limitations of the FFO definition as published by NAREIT as set forth above, the Company has made certain interpretations in applying the definition. The Company believes all adjustments not specifically provided for are consistent with the definition.

FFO falls within the definition of "non-GAAP financial measure" set forth in Item 10(e) of Regulation S-K and as a result the Company is required to include in this report a statement disclosing the reasons why management believes that presentation of this measure provides useful information to investors. Management believes that in order to facilitate a clear understanding of the combined historical operating results of the Company, FFO should be considered in conjunction with net income as presented in the consolidated financial statements included elsewhere herein. Management believes that by excluding gains or losses related to dispositions of property and excluding real estate depreciation (which can vary among owners of similar assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies. The Company also uses this measure to compare its performance to that of its peer group. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered as an alternative to net income as an indication of the Company's performance or to cash flow as a measure of liquidity.

The following table sets forth the calculation of FFO and Adjusted Funds from Operations for the previous five years, beginning with "net income available to common shareholders" from the Company's audited financial statements prepared in accordance with GAAP:

	2005	2004	2003
Net income available to common shareholders	$75,233	$ 39,429	$ 30,458
Convertible Preferred dividends(a)	880	2,194	5,939
Depreciation from real property(b)	97,686	91,564	79,577
Impairment on General Partner Investment	-	945	1,785
(Gain) loss from sale of property	-	50	260
Minority interest	10,015	10,702	13,965
Minority interest - discontinued operations	442	2,855	1,385
Impairment of real property	-	-	423
(Gain) loss from sale of discontinued operations	(46,650)	(21,107)	2,599)
Prepayment penalties	-	-	-
Loss from early extinguishment of debt in connection with sale of real estate	-	-	1,610
Cumulative effect of change in accounting principle	-	321	-
FFO as defined above	137,606	126,953	132,803
Premium paid on Series B repurchased(c)	-	-	-
FFO as adjusted by the Company	137,606	126,953	132,803
Reserve(3)	(21,886)	(22,166)	(21,783)
Adjusted Funds From Operations	$115,720	$104,787	$111,020
Weighted average common shares/units outstanding:			
Basic	47,714.3	48,675.0	45,276.7
Diluted(a)	48,411.3	49,077.1	47,873.8
FFO as adjusted by the Company per share diluted (a)	$2.84	$2.54	$2.77

(a) The calculation of FFO and FFO per share assumes the conversion of dilutive common stock equivalents and convertible preferred stock. Therefore, the convertible preferred dividends are added to FFO, and the common stock equivalent is included in both the basic and diluted weighted average common shares/units outstanding. The convertible preferred stock had an anti-dilutive effect in 2004 on the per-share calculation; therefore, the convertible preferred dividends of $2,194 are not included in FFO for the 2004 diluted calculation. The weighted average common shares/units outstanding assumes conversion of all UPREIT Units to common shares.

(b) Includes amounts passed through from unconsolidated investments.

(c) FFO for 2002 includes adding back the premium on the Series B preferred stock repurchase of $5,025.

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

(4) Adjusted Funds From Operations is defined as Funds from Operations less an annual reserve for anticipated recurring, non-revenue generating

capitalized costs ("Reserve") of $525 for 2005, 2004, 2003 and 2002 ($400 used for 2001) per apartment unit (weighted average units owned during the year). The adjustment from FFO to AFFO only takes into account this reserve level as previously described. The NAREIT definition of FFO or AFFO does not take into account any additional costs of capital improvements and capitalized interest that also are incurred. The total level of capital improvements and capitalized interest (including the amount defined as reserve) for the five years are as follows: 2005 - $100,013; 2004 - $102,700; 2003 - $106,346; 2002 - $115,692; and 2001 - $130,648. Please see Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations for an expanded discussion on capital improvements.

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

Overview

The following discussion should be read in conjunction with the consolidated financial statements, the notes thereto, and the selected financial data appearing elsewhere in this Form 10-K. Historical results and percentage relationships set forth in the consolidated financial statements, including trends which might appear, should not be taken as indicative of future operations. The Company considers portions of the information to be "forward-looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, with respect to the Company's expectations for future periods. Some examples of forward-looking statements include statements related to acquisitions (including any related pro forma financial information) future capital expenditures, financing sources and availability and the effects of environmental and other regulations. Although the Company believes that the expectations reflected in those forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be achieved. Factors that may cause actual results to differ include general economic and local real estate conditions, the weather and other conditions that might affect operating expenses, the timely completion of repositioning activities within anticipated budgets, the actual pace of future acquisitions and sales, and continued access to capital to fund growth. For this purpose, any statements contained in this report that are not statements of historical fact should be considered to be forward-looking statements. Some of the words used to identify forward-looking statements include "believes", "anticipates", "plans", "expects", "seeks", "estimates", and similar expressions. Readers should exercise caution in interpreting and relying on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond the Company's control and could materially affect the Company's actual results, performance or achievements.

The Company is engaged primarily in the ownership, management, acquisition, rehabilitation and development of residential apartment communities in selected Northeast, Mid-Atlantic, Midwest and Southeast Florida markets. As of December 31, 2005, the Company operated 158 apartment communities with 47,001 apartments. Of this total, the Company owned 153 communities, consisting of 43,432 apartments, managed as general partner one partnership that owned 868 apartments, and fee managed four properties with 2,701 apartments for third parties.

Executive Summary

The Company operated during 2005 in an improving economic environment. The recession, which started in 2001, continued through mid-2004 resulting in job losses in many parts of the country. For historical reference, Home Properties' markets experienced negative job growth of -0.4% in 2001 and -0.9% in 2002. For 2003, the Company's markets, as well as the country as a whole, experienced flat job growth. For 2004 and 2005, both the Company's markets and the country as a whole experienced positive job growth; 1.0% and 1.1% for the Company, and 1.7% and 1.5% for the country, respectively. An increase in job growth leads to household formations, which creates an increase in demand for rental housing. In addition, the increasing home mortgage interest rate environment made it more challenging for potential residents who considered making the switch to home ownership. Home ownership continues to be the number one reason our residents give for moving out of our communities. In 2001, home purchases represented 17.8% of our move-outs, growing to 18.8% in 2002, 19.6% in 2003, and leveling off at 19.5% for 2004 and 19.4% in 2005. A continued increase in home mortgage rates could push this level down, which would positively affect our turnover rates and improve occupancy. As referenced in our Market Demographics table on page 9 of this report, job growth for our markets improved in 2005 with 1.1% growth over 2004, on top of the 1.0% growth in 2004 over 2003. As there is usually a lag between job growth and household formation, this recovery did not create a measurable increased demand for our apartments until the second half of 2005. During the first six months of 2005, same property rent was up 1.4% and total property revenue was up 1.8%. These improved to 2.5% for rent and 4.0% for total revenue for the second six months of 2005.

The reason for using rent concessions, and the ultimate level of those concessions, has changed over the past few years. Concessions for 2003 were 119 basis points of rental revenue, which dropped to 87 basis points for all of 2004, and increased to 105 basis points for 2005. In 2003, the Company positioned itself to improve occupancy, which resulted in less aggressive rental rate increases and a greater use of rent concessions. In 2004, we were able to maintain and improve occupancies while reducing concessions as the economy improved. In 2005, the overall level of concessions increased to help soften the much more aggressive rental increases and significant use of water and sewer expense recovery which the Company started to pass through to the residents during 2005.

The Company owned 116 communities with 33,422 apartment units throughout 2004 and 2005 where comparable operating results are available for the years presented (the "2005 Core Properties"). Occupancies at the 2005 Core Properties increased slightly by 10 basis points, from 93.4% to 93.5%. Occupancies in the fourth quarter of 2005 averaged 93.7%, compared to 92.7% a year ago. The Company uses a measurement referred to as Available to Rent, or ATR. This is a leading indicator to assess future occupancy rates by reference to units which will be available for rent, based upon leases signed or termination notices received relating to future move in/move out dates. As of the middle of February, 2006, our ATR was 7.0%, compared to the same time period a year ago when ATR was 7.8%. The fact that ATR is 0.8% better than 2005 is not surprising, given the fact that the fourth quarter of 2005 was 1.0% ahead the previous year in occupancy. This is a positive trend as we enter 2006.

Total Same Store Properties (including Detroit) rental revenue growth for 2005 was projected to be 3.3%, consisting of 2.5% in rental rate growth, 0.3% in occupancy improvement, and 0.5% in reduction to concessions. Actual results were 2.2% in rental rate growth, 0.1% drop in occupancy, and 0.2% increase to concessions, totaling 1.9% total rental revenue growth. It is difficult to compare rental growth without including the utility recovery revenue which is classified as property other income. The Company recorded $3.2 million of recovery revenue in 2005 verses only $100,000 in 2004. This put pressure on the ability to raise base rent, as this initiative was not originally budgeted at the beginning of 2005. Actual results, including utility recovery revenue, were 3.0% in rental rate growth, 0.1% drop in occupancy, and 0.2% increase to concessions, totaling 2.7% total rental revenue growth including utility recovery income.

In November 2005, the Company announced its intention to sell its Detroit portfolio to focus on its target core markets. The operating results for Detroit produced negative year over year growth in 2005. This was a large contributing factor in results not achieving the 2005 revenue growth of 3.3% that had been projected. If Detroit results are left out, as those properties are classified as held for sale, the balance of the 2005 Core Properties achieved the following (including utility recovery revenue): 3.2% in rental rate growth, 0.1% increase in occupancy, and 0.2% increase to concessions, netting out to 3.1% total rental revenue growth.

The guidance for 2006 Same Store Properties (apartment units owned throughout 2005 and 2006) revenue growth is 4.8%. Rental rates are projected to increase 3.4%, including above-average rental increases at certain communities resulting from the continued efforts to upgrade the properties. The effect from the utility recovery revenue program is included in rental rate growth, which adds 0.4% of the 3.4% increase. Occupancies are expected to increase 0.3% for the year, and concessions are projected to slow down slightly, adding 0.1% to net rental income, such that rental revenues are projected to increase 3.8%. Property other income is expected to increase substantially year over year, increasing the 3.8% rental revenue growth to 4.8% total revenue growth. The items driving the property other income growth are a $3.9 million marginal increase in water and sewer recovery revenue and a $1.3 million marginal increase in heating cost recovery revenue from the utility recovery initiatives.

Expenses for 2006 Same Store Properties are projected to increase 5.3%. See below under "Results of Operations" for more details on expense comparisons.

These revenue and expense projections result in 2006 Same Store Properties net operating income ("NOI") growth of 4.3% at the mid-point of 2006 guidance. Markets where the Company expects above average NOI growth include: Florida (+9.0%); Washington, D.C. (+7.5%); Baltimore (+5.9%); Philadelphia (+5.5%). Average growth is expected in the New York City Metro area (+4.0%). Markets with below average expectations include: Upstate New York (+3.0%); Boston (+2.7%); Chicago (0.0%); and Detroit (-1.5%). Certain historical demographic information for these markets may be found in the tables on pages 9 and 10 of this report.

Of the two items making up NOI - revenue and operating expenses, the revenue component is likely to be more volatile. An improving economy could create higher demand for rental housing above that projected. An economic recovery that stumbles or creates little new job growth could put pressure on the Company's ability to reach the mid-point of guidance. The Company has given FFO guidance for 2006 with a range of $2.88 to $3.00 per share.

The Company has anticipated closing on acquisitions of $150 million in its budget for 2006. The Company is committed to a disciplined approach to acquisitions, but at the same time recognizes that the continued long term low interest rate levels allow the Company flexibility to adjust hurdle rates and bids to reflect market conditions. The Company is also targeting $250 million in dispositions, mostly from the sale of its entire Detroit portfolio. While the acquisition market will likely continue to be very competitive, the Company is confident that the 2006 acquisition goal of $150 million is achievable.

During 2005, the Company increased its level of stock buy-back activity substantially, repurchasing approximately 2.8 million shares at a weighted price slightly in excess of $40.00 per share. The Company's strategy is to opportunistically repurchase shares at a discount to its underlying net asset value, thereby continuing to build value for shareholders. The Company estimates its net asset value per share at December 31, 2005 to be $52.45, based on capitalizing at 6.3% the annualized and seasonally adjusted fourth quarter property net income, plus a 3% growth factor, minus a management fee. With the difficult and competitive acquisition environment described above, the Company believes buying back stock is a logical use of funds. The Company will continue to monitor stock prices, the published net asset value and acquisition alternatives to determine the current best use of capital between stock buyback and acquisitions.

During 2006, the Company anticipates increasing leverage to a level of approximately 49% of debt-to-total market capitalization in order to meet the above-described acquisition goals. Finally, although not contemplated based on the announced level of acquisitions of $150 million, if the acquisition pace were to increase, the Company would consider a combination of increased sales of under-performing or isolated apartment communities and issuance of cumulative redeemable preferred stock to raise additional capital.

Results of Operations

Comparison of year ended December 31, 2005 to year ended December 31, 2004.

The Company owned 116 communities with 33,422 apartment units throughout 2004 and 2005 where comparable operating results are available for the years presented (the "2005 Core Properties"). For the year ended December 31, 2005, the 2005 Core Properties showed an increase in rental revenues of 2.4% and a net operating income increase of 2.9% over the 2004 year-end period. Property level operating expenses increased 3.8%. Average economic occupancy for the 2005 Core Properties increased from 93.4% to 93.5%, with average monthly rental rates increasing 2.4% to $1,000 per apartment unit.

A summary of the 2005 Core Property NOI is as follows:

	2005	2004	$ Change
Rental Income	$374,816,000	$366,085,000	$8,731,00
Utility Recovery Revenue	2,756,000	95,000	2,661,00
Other Income	19,150,000	17,918,000	1,232,00
Total Property Other Income	21,906,000	18,013,000	3,893,00
Total Revenue	396,722,000	384,098,000	12,624,00
Operating and Maintenance	(176,339,000)	(169,954,000)	(6,385,00
Net Operating Income	$220,383,000	$214,144,000	$6,239,00

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

During 2005, the Company acquired a total of 2,430 apartment units in seven communities (the "2005 Acquisition Communities"). In addition, the Company experienced full-year results for the 2,486 apartment units in ten apartment communities (the "2004 Acquisition Communities") acquired during 2004. The inclusion of these acquired communities generally accounted for the significant changes in operating results for the year ended December 31, 2005. In addition, effective April 1, 2004, the reported income from operations include the consolidated results of one investment where the Company is the managing general partner that has been determined to be a Variable Interest Entity ("VIE").

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

	2005	2004	$ Change
Rental Income	$417,607,000	$388,084,000	$29,523,0
Utility Recovery Revenue	3,128,000	133,000	2,995,0
Other Income	20,462,000	18,589,000	1,873,0
Total Property Other Income	23,590,000	18,722,000	4,868,0
Total Revenue	441,197,000	406,806,000	34,391,0
Operating and Maintenance	(198,974,000)	(181,206,000)	(17,768,0
Net Operating Income	$242,223,000	$225,600,000	$16,623,0

During 2005, the Company disposed of four properties with a total of 816 units, which had partial results for 2005 (the "2005 Disposed Communities"). Also during 2005, the Company placed nineteen properties with a total of 5,046 units into held for sale status, which had full year results for 2005 and 2004 (the "2005 Held for Sale Communities"). The results of these disposed and held for sale properties have been reflected in discontinued operations and are not included in the table above.

For the year ended December 31, 2005, income from operations (income before equity in earnings (losses) of unconsolidated affiliates, minority interest, discontinued operations and gain (loss) on disposition of property and business) decreased by $4,363,000 when compared to the year ended December 31, 2004. The decrease was primarily attributable to the following factors: an increase in rental income of $29,523,000, an increase in property other income of $4,868,000, a decrease in general and administrative expense of $4,326,000 and a decrease in impairment of assets held as general partner of $716,000. These changes were more than offset by an increase in operating and maintenance expense of $17,768,000, an increase in interest expense of $14,820,000, an increase in depreciation and amortization of $10,549,000 and a decrease in interest and other income of $659,000. Each of the items are described in more detail below.

Of the $29,523,000 increase in rental income, $11,545,000 is attributable to the 2004 Acquisition Communities, $8,180,000 is attributable to the 2005 Acquisition Communities and $1,067,000 is attributable to the consolidation of the VIE. The balance of $8,731,000 relates to a 2.4% increase from the 2005 Core Properties due primarily to an increase of 2.4% in weighted average rental rates, accompanied by an increase in average economic occupancy from 93.4% to 93.5%.

In the current improving economic environment, it is very difficult to project rental rate and occupancy results. The Company has provided guidance for 2006, which, at the mid-point of the range, anticipates same store revenue growth of 4.8%, including above-average rental increases from the continued efforts to upgrade the properties. Occupancy levels are expected to slowly improve from the level at the end of the fourth quarter of 2005, producing an expected average for 2006 Same Store Properties of 93.7%, 30 basis points higher than all of 2005.

Property other income, which consists primarily of income from utility recovery charges, operation of laundry facilities, late charges, administrative fees, garage and carport rentals, revenue from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents, increased in 2005 by $4,868,000. Of this increase, $669,000 is attributable to the 2004 Acquisition Communities, $287,000 is attributable to the 2005 Acquisition Communities and $19,000 is attributable to the VIE. The balance of $3,893,000 represents a 21.6% increase attributable to the 2005 Core Properties. Included in the 2005 Core Properties increase is $2,661,000 which represents increased utility recovery revenue compared to 2004.

Other income, which primarily reflects management and other real estate service fees recognized by the Company, decreased in 2005 by $759,000. This is due primarily to a decrease in the level of management activity as a result of the sale of the affordable limited partnerships partially offset by increases in other fee managed properties.

Of the $17,768,000 increase in operating and maintenance expenses, $6,547,000 is attributable to the 2004 Acquisition Communities, $3,750,000 is attributable to the 2005 Acquisition Communities and $1,086,000 is attributable to the VIE. The balance for the 2005 Core Properties, a $6,385,000 increase in operating expenses or 3.8%, is primarily a result of increases in utilities, personnel and real estate taxes, offset in part by reductions in advertising, repairs and maintenance, and property insurance.

The breakdown of operating and maintenance costs for the 2005 Core Properties by line item is listed below (in thousands):

	2005	2004	$ Varian
Electricity	$ 7,114	$ 6,934	$(180)
Gas	20,839	17,423	(3,416)
Water & Sewer	10,244	9,644	(600)
Repairs & Maintenance	25,394	25,622	228
Personnel Expense	36,925	36,427	(498)
Site Level Incentive Compensation	2,501	1,544	(957)
Advertising	7,058	7,309	251
Legal & Professional	1,292	1,308	16
Office & Telephone	4,998	5,252	254
Property Insurance	5,120	6,230	1,110
Real Estate Taxes	40,166	38,404	(1,762)
Snow	1,280	1,099	(181)
Trash	2,515	2,441	(74)
Property Management G&A	10,893	10,317	(576)
Total	$176,339	$169,954	$(6,385)

The natural gas heating cost variance of 19.6% reflects significant increases in the cost of natural gas per decatherm. As of December 31, 2005, the Company had fixed-price contracts covering approximately 75% of its natural gas exposure for the balance of the 2005/2006 heating season. The Company has fixed-price contracts covering approximately 49% of its natural gas exposure for calendar year 2006. Risk is further diversified by staggering contract term expirations. For the balance of the 2005/2006 heating season, the Company estimates the average price per decatherm will be approximately $9.64. For calendar year 2006, where the Company has coverage for 49% of its exposure, the Company's negotiated average price per decatherm was approximately $8.47. A year ago, the average commodity cost for the season's contracts was $6.40. The Company has provided guidance for 2006 which anticipates a 23% increase (or $5,900,000) in natural gas heating costs. This is based on the thirty-year average for the number of degrees days for 2006. For guidance, the portion of the calendar year not covered by fixed price contracts is assumed to be priced at a level that reflects twelve month strip pricing as of February, 2006. During 2006, the Company plans on increasing the percentage of fixed price contracts before entering the 2006/2007 winter heating season.

The over 6% increase in water and sewer costs is a function of municipalities across all regions looking at ways to increase revenues. The Company initiated a program to allocate water and sewer costs to residents at a majority of the Owned Properties in March 2005.

The decrease in repairs and maintenance of 0.9% is mainly attributed to a $919,000 decrease in sales tax charges between periods. Included in contract repairs in 2004 is $805,000 of sales tax expense, compared to a reduction in sales tax expense of $111,000 in 2005. See discussion on page 39 in section titled Comparison of year ended December 31, 2004 compared to year ended December 31, 2003. The Company has provided guidance for 2006 which anticipates a 3.6% increase in repairs and maintenance.

Personnel expense was up 1.4% in 2005 versus 2004. Significant variances were in workers compensation, up $421,000, or 27%, and health insurance, down $867,000, or 33%. For 2006 guidance, personnel costs are anticipated to increase 2.5%.

Site level incentive compensation was up $957,000, or 62.0%. This represents an increased focus on creating a higher level of property management compensation coming from incentive based performance measures.

Advertising costs were down 3.4% as a result of property management decreasing spending on major newspaper ads and focusing instead on internet advertising and resident referral programs.

Property insurance costs were down 17.8% over 2004. The Company renewed the property and general liability insurance policy for the year beginning November, 2004 at significantly reduced rates, due to a reduced number of claims and better management of those claims. The guidance for 2006 reflects a 1.6% decrease in insurance costs.

Real estate taxes were up 4.6% in 2005, reflecting increased assessments and rates as tax authorities struggle to raise revenues in many regions of the country. The Company expects real estate taxes to increase only 1.0% in 2006 reflecting successful initiatives to challenge assessments and obtain cost reductions.

Snow removal costs were up 16.5%. The year 2005 produced normal snowfalls compared to below normal snowfall in 2004. Snow removal costs are anticipated to remain at normal levels in 2006.

The operating expense ratio (the ratio of operating and maintenance expense compared to rental and property other income) for the 2005 Core Properties was 44.4% and 44.2% for 2005 and 2004, respectively. This 0.2% increase resulted from the 3.3% increase in total revenue achieved through ongoing efforts to upgrade and reposition properties for maximum potential being offset by the 3.8% increase in operating and maintenance expense. In general, the Company's operating expense ratio is higher than that experienced in other parts of the country due to relatively high real estate taxes in its markets and the Company's practice, typical in its markets, of including heating expenses in base rent. This ratio could change as the Company rolls out its heating cost recovery program in 2006 and 2007, charging residents for their share of heating costs.

General and administrative expenses ("G&A") decreased in 2005 by $4,326,000 or 18% from $23,978,000 in 2004 to $19,652,000 in 2005. Of this decrease, $3,800,000 is attributable to an accrued liability recorded in the fourth quarter of 2004 relating to the March 2005 settlement of a lawsuit and the payment of certain related legal fees, as described on page 40 in the section titled Comparison of year ended December 31, 2004 to year ended December 31, 2003. After taking into account the settlement expense, all other items of G&A decreased $526,000 year over year. Of this net variance, there was a $481,000 decrease in the level of corporate incentive compensation and a $573,000 decrease in other items of G&A; partially offset by $528,000 increased external costs incurred specifically to comply with Section 404 of Sarbanes-Oxley. The total direct external costs incurred during 2005 for Section 404 compliance totaled approximately $2,300,000. A significant portion of this related to costs incurred in 2005 to satisfy the first year efforts for Section 404 compliance. G&A is expected to decrease 2.6% for 2006, based on an expectation of a lower level of Section 404 costs.

Interest expense increased in 2005 by $14,820,000 as a result of the increased borrowings in connection with acquisition of the 2005 Acquisition Communities, and a full year of interest expense for the 2004 Acquisition Communities. In addition, amortization from deferred charges relating to the financing of properties totaled $1,975,000 and $1,766,000, and was included in interest expense for 2005 and 2004, respectively.

Included in interest expense are prepayment penalties which decreased in 2005 by $158,000 as compared to 2004. During 2005, the Company incurred a total of $147,000 in prepayment penalties in connection with the refinancing or payoff of certain mortgages compared to $305,000 in 2004.

Depreciation and amortization expense increased $10,549,000 due to the additional depreciation expense on the 2005 Acquisition Communities and a full year of depreciation expense for the 2004 Acquisition Communities, as well as the incremental depreciation on the capital expenditures for additions and improvements to the Core Properties in 2005 and 2004 of $71,481,000 and $81,379,000, respectively.

Impairment of assets held as General Partner decreased from $1,116,000 in 2004 to $400,000 in 2005. During 2005, the Company recorded impairment charges of $400,000 relating to the Company's estimate of fair market value of the one remaining VIE. During 2004, the Company recorded impairment charges of $1,116,000 (all in the first quarter). Of this total, $171,000 represented advances made during the first quarter of 2004 to certain of the affordable property limited partnerships which the Company believed would not be repaid upon the sale of the loans. The remaining $945,000 pertained to an additional net impairment charge taken on the 38 properties included in the Company's planned disposition of its affordable portfolio to reduce the investment in the partnerships based upon the revisions to the sale contract in the first quarter. In connection with FIN 46R, the Company was required to consolidate the majority of the affordable limited partnerships results of operations beginning April 1, 2004.

The equity in earnings (losses) of unconsolidated affiliates of ($538,000) in 2004 is primarily the result of the general partner recording a greater share of the underlying investment's losses due to the loans and advances to certain of the affordable property limited partnerships where the limited partner had no capital account. This is pursuant to the accounting requirements of EITF 99-10, "Percentage Used to Determine the Amount of Equity Method Losses."

Minority interest decreased $555,000 as a direct result of the decrease in income from operations over the prior year.

Included in discontinued operations for the year-ended December 31, 2005, are the Disposition Communities and Held for Sale Communities. The Company generally considers assets to be held for sale when all significant contingencies surrounding the closing have been resolved, which often corresponds with the actual closing date. However, the Company has classified as held for sale the entire Detroit region portfolio of nineteen apartment communities containing 5,046 apartment units. The Company has announced its intention to sell the portfolio and has met all of the requirements under SFAS 144.

Included in the $53,975,000 gain on disposition of property reported for the year 2005 is the sale of four apartment communities where the Company has recorded a combined gross gain on sale of $73,022,000, net of minority interest of $24,227,000. In addition, the Company recorded a $7,686,000 gain, net of minority interest of $2,506,000, during the year related to the disposal of two affordable partnerships.

In connection with the adoption of FIN 46R, the Company recorded a $321,000 cumulative effect charge of a change in accounting principle in the first quarter of 2004. This charge was the result of negative capital accounts of minority interest partners that were absorbed by the Company.

Net income increased $34,490,000 primarily due to the increase in gain on sale of discontinued operations of $42,558,000 in 2005 compared to 2004; partially offset by $5,145,000 lower income from the operation of discontinued operations in 2005 compared to 2004.

Comparison of year ended December 31, 2004 to year ended December 31, 2003.

The Company owned 114 communities with 32,708 apartment units throughout 2003 and 2004 where comparable operating results are available for the years presented (the "2004 Core Properties"). For the year ended December 31, 2004, the 2004 Core Properties showed an increase in rental revenues of 3.7% and a net operating income increase of 2.2% over the 2003 year-end period. Property level operating expenses increased 6.6%. Average economic occupancy for the 2004 Core Properties increased from 93.0% to 93.4%, with average monthly rental rates increasing 3.3% to $973 per apartment unit.

A summary of the 2004 Core Property NOI is as follows:

	2004	2003	$ Change
Rental Income	$356,738,000	$343,921,000	$12,817,0
Property Other Income	17,585,000	15,563,000	2,022,0
Total Revenue	374,323,000	359,484,000	14,839,0
Operating and Maintenance	(166,530,000)	(156,150,000)	(10,380,0
Net Operating Income	$207,793,000	$203,334,000	$4,459,0

During 2004, the Company acquired a total of 2,486 apartment units in ten newly-acquired communities (the "2004 Acquisition Communities"). In addition, the Company experienced full-year results for the 730 apartment units in two apartment communities (the "2003 Acquisition Communities") acquired during 2003. The inclusion of these acquired communities generally accounted for the significant changes in operating results for the year ended December 31, 2004. In addition, effective April 1, 2004, the reported income from operations include the consolidated results of one investment where the Company is the managing general partner that has been determined to be a VIE.

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

	2004	2003	$ Change
Rental Income	$388,084,000	$348,895,000	$39,189,0
Property Other Income	18,722,000	15,994,000	2,728,0
Total Revenue	406,806,000	364,889,000	41,917,0
Operating and Maintenance	(181,206,000)	(158,740,000)	(22,466,0
Net Operating Income	$225,600,000	$206,149,000	$19,451,0

During 2004, the Company also disposed of five properties with a total of 1,646 units, which had partial results for 2004 (the "2004 Disposed Communities"). The results of these disposed properties have been reflected in discontinued operations.

For the year ended December 31, 2004, income from operations (income before equity in earnings (losses) of unconsolidated affiliates, minority interest, discontinued operations and gain (loss) on disposition of property and business) decreased by $2,846,000 when compared to the year ended December 31, 2003. The decrease was primarily attributable to the following factors: an increase in rental income of $39,189,000, an increase in property other income of $2,728,000 and a decrease in impairment of assets held as general partner of $1,402,000. These changes were more than offset by an increase in operating and maintenance expense of $22,466,000, an increase in general and administrative expense of $1,371,000, an increase in interest expense of $7,152,000, an increase in depreciation and amortization of $13,497,000 and a decrease in interest and other income of $1,679,000. Each of the items are described in more detail below.

Of the $39,189,000 increase in rental income, $4,410,000 is attributable to the 2003 Acquisition Communities, $18,936,000 is attributable to the 2004 Acquisition Communities and $3,026,000 is attributed to the VIE. The balance of $12,817,000 relates to a 3.7% increase from the 2004 Core Properties due primarily to an increase of 3.3% in weighted average rental rates, accompanied by an increase in average economic occupancy from 93.0% to 93.4%.

The Company focused more on improving occupancy during 2003 and therefore was less aggressive with rent increases at its Core Properties. The Company reverted back in 2004 to focusing on rent increases, as seen by the quarter over quarter trend of more aggressive rents. An additional component of the 3.3% increase in weighted average rent results from the significant upgrading and repositioning efforts discussed under "Capital Improvements" below. The Company seeks a minimum 9% internal rate of return for these revenue-enhancing upgrades, down from the 12% goal referenced in 2003.

Property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport rentals, revenue from corporate apartments, cable revenue, pet charges, utility recovery charges and miscellaneous charges to residents, increased in 2004 by $2,728,000. Of this increase, $229,000 is attributable to the 2003 Acquisition Communities, $412,000 is attributable to the 2004 Acquisition Communities and $65,000 is attributable to the VIE. The balance of $2,022,000 represents a 13% increase attributable to the 2004 Core Properties. A significant portion of the increase (47%) for the 2004 Core Properties is from telephone revenue and cable revenue, in particular, revenue recognized in the amount of $500,000 associated with the termination of a contract with a telephone service provider. In addition, 12% of the increase is from increased laundry revenue as we continue to increase the percentage of owned laundry equipment at the properties.

Other income, which primarily reflects management and other real estate service fees recognized by the Company, decreased in 2004 by $1,644,000. This is due primarily to a decrease in the level of management activity as a result of the sale of the affordable limited partnerships.

Of the $22,466,000 increase in operating and maintenance expenses, $1,730,000 is attributable to the 2003 Acquisition Communities, $8,274,000 is attributable to the 2004 Acquisition Communities and $2,082,000 is attributable to the VIE. The balance for the 2004 Core Properties, a $10,380,000 increase in operating expenses or 6.6%, is primarily a result of increases in utilities, repairs and maintenance, personnel, property insurance and real estate taxes, offset in part by reductions in advertising and snow removal costs.

The breakdown of operating and maintenance costs for the 2004 Core Properties by line item is listed below (in thousands):

	2004	2003	$ Variance
Electricity	$ 6,839	$ 6,361	$ (478)
Gas	17,173	15,963	(1,210)
Water & Sewer	9,400	8,482	(918)
Repairs & Maintenance	25,083	22,081	(3,002)
Personnel Expense	35,491	32,972	(2,519)
Site Level Incentive Compensation	1,507	1,003	(504)
Advertising	7,206	7,863	657
Legal & Professional	1,279	1,216	(63)
Office & Telephone	5,161	5,403	242
Property Insurance	6,099	5,242	(857)
Real Estate Taxes	37,838	35,654	(2,184)
Snow	1,042	1,746	704
Trash	2,373	2,423	50
Property Management G&A	10,039	9,741	(298)
Total	$166,530	$156,150	$(10,380)

The increase in electric of 7.5% continues a trend of above 5% increases for the past two years, reflective of market increases versus any substantial shift in usage.

The natural gas heating cost variance of 7.6% was all a fourth quarter event, as this line item was breakeven through the third quarter of 2004. The fourth quarter of 2003 was relatively mild, plus there have been significant increases in the cost of natural gas per decatherm. As of December 31, 2004, the Company had fixed-price contracts covering approximately 99% of its natural gas exposure for the 2004/2005 heating season. The Company has fixed-price contracts covering approximately 59% of its natural gas exposure for calendar year 2005. Risk is further diversified by staggering contract term expirations. For the 2004/2005 heating season, where the Company has coverage for approximately 99% of its exposure, the Company's negotiated average price per decatherm is approximately $6.08.

The over 10% increase in water and sewer costs are a function of municipalities across all regions looking at ways to increase revenues. The Company was focusing on a program to allocate water and sewer costs to residents at a majority of the Owned Properties.

The increase in repairs and maintenance of 13.6% occurred in contract repairs, painting and cleaning. Included in contract repairs is $805,000 of sales tax expense, as described below, which accounted for 27% of the total increase in repairs and maintenance. Cleaning costs are up $634,000, or 21% of the total increase in repairs and maintenance. A significant portion of this represents a shift between personnel costs and repairs and maintenance as more of this function was performed by outside contractors versus in-house personnel.

During April, 2004, the Company finalized negotiations with New York State settling a sales and use tax audit covering the period June 1, 1999 through May 31, 2002. The total cost to the Company as a result of the audit amounted to $861,000 (including $173,000 of interest expense) for sales tax not charged to the Company by its vendors. This was included in the first quarter results and allocated $312,000 to expense for property repairs, $136,000 (before minority interest) to loss on disposition of property, and $413,000 capitalized to real estate assets for improvements.

As a result of this audit, during the second quarter of 2004, the Company examined its sales and use tax compliance in the other states in which the Company operates. Based upon its internal analysis, the Company estimated its liability as of June 30, 2004 in those states where it found non-compliance and had recorded a liability of $1,712,000. This was allocated $493,000 to expense for property repairs, $233,000 to interest expense, $35,000 (before minority interest) to loss on disposition of property, and $951,000 capitalized to real estate assets. The liability recorded related to the period beginning on the later of: (i) the date the Company first purchased property in the applicable state; or (ii) January 1, 1997 and ending on June 30, 2004. The Company recognizes that the liability recorded was an estimate and that the actual tax liability paid in 2005 was approximately $1,430,000.

The Company determined that the amount of liability which it failed to record with respect to sales and use tax did not have a material impact on its results of operations or reported earnings for the prior periods in which the items subject to tax were purchased and that the expense recorded in the first and second quarters of 2004 were one-time adjustments. The Company does not believe that the additional sales and use tax it will record and pay will have a material impact on its results of operations in future periods. As a result of the sales tax audit, the Company initiated procedures to ensure that sales and use tax on expenditures were properly collected by its vendors or accrued and paid by the Company.

Personnel expense was up 7.6% in 2004 versus 2003. Payroll tax expense was up 6.7%, mostly fueled by significant increases in workers compensation and health insurance costs. The balance represents a 4.8% increase in wages.

Site level incentive compensation was up $504,000, or 50.2%. This represents an increased focus on creating a higher level of property management compensation coming from incentive based performance measures.

Advertising costs were down 8.4% as a result of a comparison to higher than normal levels in 2003. Advertising costs were up substantially in 2003 consistent with increased efforts to attract traffic and increase occupancy. The advertising level in 2004 reflected a more normalized run rate.

Property insurance costs were up 16.3% over 2003. The insurance expense for 2003 reflects the impact of a legal settlement which reduced the expense by $500,000. Without the benefit of this settlement, insurance costs would have been up 6.8%. The Company renewed the property and general liability insurance policy for the year beginning November, 2004 at significantly reduced rates.

Real estate taxes were up 6.1% in 2004, reflecting increased assessments and rates as tax authorities struggle to raise revenues in many regions of the country.

Snow removal costs were down 40.3%. The first quarter of 2003 produced significant snowfalls compared to historical norms. Most of the $704,000 decrease in snow removal costs occurred during the first quarter, due to this comparison, and below normal snowfall in 2004.

The operating expense ratio (the ratio of operating and maintenance expense compared to rental and property other income) for the 2004 Core Properties was 44.5% and 43.4% for 2004 and 2003, respectively. This 1.1% increase resulted from the 4.1% increase in total revenue achieved through ongoing efforts to upgrade and reposition properties for maximum potential being offset by the 6.6% increase in operating and maintenance expense. In general, the Company's operating expense ratio is higher than that experienced in other parts of the country due to relatively high real estate taxes in its markets and the Company's practice, typical in its markets, of including heating expenses in base rent.

G&A increased in 2004 by $1,371,000 or 6% from $22,607,000 in 2003 to $23,978,000 in 2004. Of this increase, $3,800,000 is attributable to an accrued liability recorded in the fourth quarter of 2004 relating to the March 2005 settlement of a lawsuit and the payment of certain related legal fees, as described below. The year-over-year increase would have been greater except for a $5,000,000 expense incurred in 2003 for the restricted stock granted to the Leenhoutses as part of their retirement as Co-CEO's. After taking into account the settlement expense and the restricted stock grant, all other items of G&A increased $2,571,000 year over year. Of this net variance, $1,591,000 is directly attributed to increased external costs incurred specifically to comply with Section 404 of Sarbanes-Oxley. Including all other accounting, auditing and tax compliance cost increases explains an additional $368,000 of the variance increase. All other items of G&A accounted for the $612,000 balance of the increase. The total direct external costs incurred during 2004 for Section 404 compliance totaled approximately $1,800,000.

The $3,800,000 accrued for settlement costs ($3,500,000) and the legal fees ($300,000) relates to a legal action, commenced in 2000, against the Company, the Operating Partnership and Home Leasing Corporation. Home Leasing is owned by Nelson B. Leenhouts and Norman Leenhouts, who are the Co-Chairs of the Board of Directors and Senior Advisors to the Company. The Company was originally formed to expand and continue Home Leasing's business. The essence of the complaint was that the entity in which the plaintiffs were investors was wrongfully excluded from the Company's initial public offering. In their original complaint, plaintiffs sought damages in the amount of $3,000,000. In the subsequent discovery process, plaintiffs increased damages sought to $10,000,000. Payment in settlement and of legal fees was made on behalf of Home Leasing as well as the Company and the Operating Partnership in recognition of the fact that the matters alleged in the action against Home Leasing related directly and solely to the promotion and creation of the Company.

Interest expense increased in 2004 by $7,152,000 as a result of the increased borrowings in connection with acquisition of the 2004 Acquisition Communities, and a full year of interest expense for the 2003 Acquisition Communities. In addition, amortization from deferred charges relating to the financing of properties totaled $1,766,000 and $1,483,000, and was included in interest expense for 2004 and 2003, respectively.

Included in interest expense are prepayment penalties which decreased in 2004 by $1,305,000 as compared to 2003. During 2004, the Company incurred a total of $305,000 in prepayment penalties in connection with the refinancing of certain mortgages and the sale of one of the 2004 disposed properties. In 2003, $1,610,000 was recorded in loss from early extinguishment of debt in connection with the sale of two of the 2003 Disposed Communities.

Depreciation and amortization expense increased $13,497,000 due to the additional depreciation expense on the 2004 Acquisition Communities and a full year of depreciation expense for the 2003 Acquisition Communities, as well the incremental depreciation on the capital expenditures for additions and improvements to the Core Properties in 2004 and 2003 of $91,151,000 and $101,398,000, respectively, net of the Disposition Communities.

In the fourth quarter of 2002, the Company announced its intention to sell virtually all of the assets associated with its general partner interests in the affordable properties in order to focus solely on the direct ownership and management of market rate apartment communities. The assets included principally loans, advances and management contracts. During 2004, the Company recorded impairment charges of $1,116,000 (all in the first quarter). Of this total, $171,000 represents advances made during the first quarter of 2004 to certain of the affordable property limited partnerships which the Company believes will not be repaid upon the sale of the loans. The remaining $945,000 pertains to an additional net impairment charge taken on the 38 properties included in the Company's planned disposition of its affordable portfolio to reduce the investment in the partnership based upon the revisions to the sale contract in the first quarter. In connection with FIN 46R, the Company was required to consolidate the majority of the affordable limited partnerships results of operations beginning April 1, 2004.

The equity in earnings (losses) of unconsolidated affiliates of ($538,000) is primarily the result of the general partner recording a greater share of the underlying investment's losses due to the loans and advances to certain of the affordable property limited partnerships where the limited partner has no capital account. This is pursuant to the accounting requirements of EITF 99-10, "Percentage Used to Determine the Amount of Equity Method Losses." In connection with FIN 46R, the Company was required to consolidate the majority of the affordable limited partnerships results of operations beginning April 1, 2004.

Minority interest decreased $165,000 as a direct result of the decrease in income from operations over the prior year.

Included in discontinued operations for the year-ended December 31, 2004, are the Disposition Communities, Held for Sale Communities and the results of operations of the sold affordable limited partnerships that in connection with FIN 46R were required to be consolidated beginning April 1, 2004. As all significant contingencies surrounding the sale of the affordable properties had been resolved, the Company had considered these assets held for sale and reported them in discontinued operations. (See further detail supplied under "Variable Interest Entities" section below).

Included in the $11,417,000 net gain on disposition of property reported for the year 2004 is the sale of five apartment communities where the Company has recorded a combined gain on sale, net of minority interest, of approximately $18,082,000. In addition, the Company recorded a $6,665,000 loss, net of minority interest of $3,103,000, during the year related to the disposal of the affordable partnerships. Included in the gross $9,800,000 loss reported is a $5,000,000 loss from a property being disposed through a default with the lender. In December, 2004, the Company recorded an obligation to repurchase the limited partner's interests in two VIEs in satisfaction of any tax credit guarantees or other obligations to that partner for $5.7 million, resulting in a loss of $5.0 million included in "gain on disposition of property" as part of "Discontinued operations." The transfer of the partnership interests was effective in January, 2005. An additional impairment in the Company's investment of $4,000,000 was recorded relating to the closing of 26 affordable properties and the eight properties under contract for sale with the same buyer. Finally, a reduction of $800,000 to fair market value of the Company's investment has been recorded for the property the Company will continue to hold for sale.

In connection with the adoption of FIN 46R, the Company recorded a $321,000 cumulative effect charge, net of minority interest, of a change in accounting principle in the first quarter of 2004. This charge was the result of negative capital accounts of minority interest partners that were absorbed by the Company.

Net income increased $5,224,000 primarily due to the increase in discontinued operations of $6,489,000 in 2004 compared to 2003.

Liquidity and Capital Resources

The Company's principal liquidity demands are expected to be distributions to the preferred and common stockholders and Operating Partnership Unitholders, capital improvements and repairs and maintenance for the properties, acquisition of additional properties, stock repurchases and debt repayments. The Company may also acquire equity ownership in other public or private companies that own and manage portfolios of apartment communities. Management anticipates the acquisition of properties of approximately $150 million in 2006, although there can be no assurance that such acquisitions will actually occur.

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

To the extent that the Company does not satisfy its long-term liquidity requirements through net cash flows provided by operating activities and the line of credit, it intends to satisfy such requirements through property debt financing, proceeds from the sale of properties, the issuance of UPREIT Units, proceeds from sales of its common stock through the Dividend Reinvestment Plan, or issuing additional common shares, shares of the Company's preferred stock, or other securities. As of December 31, 2005, the Company owned 25 properties, with 5,271 apartment units, which were unencumbered by debt.

A source of liquidity in 2006 is expected to be from the sale of properties. During 2005, the Company sold four communities for a total sales price of $142.6 million. The Company sold five communities during 2004 for a total sales price of $92.5 million. The Company was able to sell these properties at an average capitalization rate of 5.7% and reinvest in the acquisition of properties with more growth potential at an expected first year cap rate of 6.3%. Management has included in its operating plan that the Company will strategically dispose of assets totaling approximately $250 million in 2006, although there can be no assurance that such dispositions will actually occur.

In May 1998, the Company's Form S-3 Registration Statement was declared effective relating to the issuance of up to $400 million of common stock, preferred stock or other securities. As of December 31, 2005, the Company continued to have available securities under the registration statement in the aggregate amount of $144,392,000.

In May and June 2000, the Company completed the sale of $60 million of Series C Preferred Stock in a private transaction with affiliates of Prudential Real Estate Investors ("Prudential"), Teachers Insurance and Annuity Association of America ("Teachers"), affiliates of AEW Capital Management and Pacific Life Insurance Company. The Series C Preferred Stock carried an annual dividend rate equal to the greater of 8.75% or the actual dividend paid on the Company's common shares into which the preferred shares could be converted. The stock had a conversion price of $30.25 per share and a five-year, non-call provision. As part of the Series C Preferred Stock transaction, the Company also issued

240,000 warrants to purchase common shares at a price of $30.25 per share, expiring in five years. On January 9, 2003, holders of 100,000 shares of Series C Preferred Shares elected to convert those shares for 330,579 shares of common stock. On May 8, 2003, 200,000 shares of Series C Preferred Shares were converted into 661,157 shares of common stock. On August 26, 2003, 200,000 shares of Series C Preferred Shares were converted into 661,157 of common stock. On November 5, 2003, holders of the remaining 100,000 shares of Series C Preferred Shares elected to convert those shares for 330,579 shares of common stock. On September 9, 2003, 17,780 warrants were exercised, resulting in the issuance of 17,780 shares of common stock. During the fourth quarter of 2003, the remaining 222,220 common stock warrants were exercised, resulting in the issuance of 222,220 shares of common stock. Neither the conversions nor the warrant exercise had an effect on the reported results of operations.

In June 2000, the Company completed the sale of $25 million of Series D Preferred Stock in a private transaction with The Equitable Life Assurance Society of the United States. The Series D Preferred Stock carries an annual dividend rate equal to the greater of 8.775% or the actual dividend paid on the Company's common shares into which the preferred shares can be converted. The stock has a conversion price of $30 per share and a five-year, non-call provision. On May 26, 2005, all 250,000 shares of the Series D Preferred Stock were converted into 833,333 shares of common stock. The conversion of preferred shares to common shares did not have an effect on the reported results of operations.

In December 2000, the Company completed the sale of $30 million of Series E Preferred Stock in a private transaction, again with affiliates of Prudential and Teachers. The Series E Preferred Stock carried an annual dividend rate equal to the greater of 8.55% or the actual dividend paid on the Company's common shares into which the preferred shares could be converted. The stock had a conversion price of $31.60 per share and a five-year, non-call provision. In addition, as part of the Series E Preferred Stock transaction, the Company issued warrants to purchase 285,000 common shares at a price of $31.60 per share, expiring in five years. On August 20, 2002, 63,200 of the Series E Convertible Preferred Shares were converted into 200,000 shares of common stock. On May 6, 2003, 36,800 shares of Series E Preferred Shares were converted into 116,456 shares of common stock. On August 26, 2003 the remaining 200,000 shares of Series E Preferred Shares were converted into 632,911 of common stock. On September 9, 2003, 17,100 warrants were exercised, resulting in the issuance of 17,100 shares of common stock. During the fourth quarter of 2003, the remaining 267,900 common stock warrants were exercised, resulting in the issuance of 267,900 shares of common stock. Neither the conversions nor the warrant exercise had an effect on the reported results of operations.

In March 2002, the Company issued 2,400,000 shares of its 9.00% Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Shares"), with a $25.00 liquidation preference per share. This offering generated net proceeds of approximately $58 million. The net proceeds were used to fund the repurchase of the Company's Series B Preferred Stock, property acquisitions, and property upgrades. The Series F Preferred Shares are redeemable by the Company at anytime on or after March 25, 2007 at a redemption price of $25.00 per share, plus any accumulated, accrued and unpaid dividends. Each Series F Preferred share will receive an annual dividend equal to 9.00% of the liquidation preference per share (equivalent to a fixed annual amount of $2.25 per share).

In 2000, the Company obtained an investment grade rating from Fitch, Inc. The Company was assigned an initial corporate credit rating of "BBB" (Triple-B), with a rating of "BBB-" (Triple-B Minus) for Series C through E Convertible Preferred Stock and Series F Preferred Stock. This rating remains in effect as of December 31, 2005.

The issuance of UPREIT Units for property acquisitions continues to be a minor source of capital for the Company. During 2005, the Company issued $55,600,000 of UPREIT Units as consideration for three acquired properties. During 2004, the Company issued $12,100,000 worth of UPREIT Units as consideration for two of the four properties acquired in the New Jersey region. No units were issued in connection with the two acquisitions during 2003.

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action did not establish a target price or a specific timetable for repurchase. At December 31, 2003, there was approval remaining to purchase 3,135,800 shares. During 2004, the Company repurchased 1,135,800 shares at a cost of $47,426,000. During 2005, the Company repurchased 2,779,805 shares at a cost of $111,738,000. In addition, in January, 2006, the Company repurchased 107,800 shares at a cost of $4,468,000. On each of February 16, 2005 and November 4, 2005, the Board of Directors approved a 2,000,000 share increase in the stock repurchase program, resulting in a remaining authorization level of approximately 3,112,000 shares at February 21, 2006. During 2006, the Company will monitor stock prices, the published net asset value, and acquisition alternatives to determine the current best use of capital between the two major uses of capital - stock buyback and acquisitions.

The Company has a Dividend Reinvestment Plan (the "DRIP"). The DRIP provides the stockholders of the Company an opportunity to automatically invest their cash dividends in common stock. In addition, eligible participants may make monthly payments or other voluntary cash investments in shares of common stock. The maximum monthly investment without prior Company approval is currently $1,000. In the fourth quarter of 2004, the Company began meeting share demand in the program through share repurchase by the transfer agent in the open market on the Company's behalf instead of new share issuance. This removes essentially 100% of the dilution caused by issuing new shares at a price less than the net asset value in an economic and efficient manner. During 2004, $17,560,000 (net of $5,978,000 share repurchase) of common stock was issued under this plan, with no additional issuance (net of share repurchases) of common stock in 2005.

Management monitors the relationship between the Company's stock price and its estimated net asset value. During times when the difference between these two values is small, resulting in little "dilution" of net asset value by common stock issuances, the Company has the flexibility to satisfy the demand for DRIP shares with stock repurchased in the open market or to issue waivers to DRIP participants to provide for investments in excess of the $1,000 maximum monthly investment. No such waivers were granted during 2004 or 2005.

During 2005, the Company extended its revolving line of credit with M&T Bank for a period of three years, increasing the line from $115,000,000 to $140,000,000. As of December 31, 2005, the Company had $82,000,000 outstanding on the line of credit. Borrowings under the line of credit bear interest at .75% over the one-month LIBOR rate. Accordingly, increases in interest rates will increase the Company's interest expense and as a result will affect the Company's results of operations and financial condition. The one-month Libor was 4.38% at December 31, 2005. The Company renegotiated certain terms of the line of credit effective, including a forty basis point drop in the interest rate and easing of certain covenant restrictions. The line of credit expires on September 1, 2008.

The Credit Agreement relating to this line of credit provides for the Company to maintain certain financial ratios and measurements. One of these covenants was that the Company may not pay any distribution if a distribution, when added to other distributions paid during the three immediately preceding fiscal quarters, exceeds the greater of: (i) 90% of funds from operations and 110% of cash available for distribution; and (ii) the amount required to maintain the Company's status as a REIT. Historically, there were certain quarters where the

Company did not meet this specific covenant and appropriate waivers were granted by the participating banks. The new credit agreement, effective September 1, 2005, has removed this covenant completely. The line of credit has not been used for long-term financing but adds a certain amount of flexibility, especially in meeting the Company's acquisition goals. Many times it is easier to temporarily finance an acquisition in a short-term nature through the line of credit, with long term secured financing or other sources of capital replenishing the line of credit availability.

On November 23, 2004, the Company signed a supplemental demand note with M&T Bank. The note had a maximum principal amount of $42 million. Borrowings on the note bear interest at 1.25% over the one-month LIBOR rate. The demand note was entered into to fund the Company's stock repurchase program. The Company had no outstanding balance on the note as of December 31, 2004. In connection with the increased borrowing capacity of the line of credit as described above, this supplemental note was terminated during the third quarter of 2005.

On November 23, 2005, the Company executed a Standard Libor Grid Note with M&T Bank. The note has a maximum principal amount of $40 million with an interest rate at .95% over the one-month LIBOR. Proceeds from this demand note were utilized to fund the Company's stock repurchase program. The Company had no outstanding balance on the note as of December 31, 2005.

As of December 31, 2005, the weighted average rate of interest on the Company's mortgage debt was 5.9% and the weighted average maturity of such indebtedness was approximately seven years. Mortgage debt of $1.8 billion was outstanding with 91% at fixed rates of interest with staggered maturities. This limits the exposure to changes in interest rates, minimizing the effect of interest rate fluctuations on the Company's results of operations and cash flows.

The Company's net cash provided by operating activities decreased from $161,691,000 for the year ended December 31, 2004, to $132,947,000 for the year ended December 31, 2005. The decrease was principally due to changes in accounts payable and accrued liabilities. The decrease in liabilities over the prior year were primarily related to paying $5,700,000 to repurchase limited partner interests, $3,800,000 for a legal settlement, bonus accrual of $1,500,000 and increased insurance reserves of $2,000,000 over the prior year. The remainder of the difference is attributable to an increase in trade payables offset by a decrease in other assets.

Net cash used in investing activities increased from $165,466,000 in 2004 to $179,696,000 in 2005. The increase was principally due to the higher level of properties purchased in 2005, which increased to $283,363,000 in 2005 from $247,500,000 in 2004. Other changes included an increase of $50,045,000 in proceeds from sale of property, offset by a decrease in property additions of $3,783,000.

The Company's net cash provided by financing activities increased from $5,747,000 in 2004 to $44,215,000 in 2005. Debt proceeds, used to fund property acquisitions and additions, increased from $94,038,000 in 2004 to $250,813,000 in 2005. Net borrowings on the Company's line of credit decreased from a net borrowing of $58,000,000 in 2004 to a net borrowing of $24,000,000 in 2005.

On February 7, 2006, the Board of Directors approved a dividend on the Company's common shares of $.64 per share for the period from October 1, 2005 to December 31, 2005. This is the equivalent of an annual distribution of $2.56 per share. In addition, the Company declared a dividend of $0.5625 per share on its Series F Cumulative Redeemable Preferred Stock for the quarter ended February 28, 2006. The dividends were paid on February 28, 2006 to shareholders of record on February 17, 2006.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, management has utilized information available including industry practice and its own past history in forming its estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by management in formulating its estimates inherent in these financial statements may not materialize. However, application of the accounting policies below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates which may impact comparability of the Company's results of operations to those of companies in similar businesses.

Revenue Recognition

The Operating Partnership leases its residential properties under leases with terms generally one year or less. Rental income is recognized on a straight-line basis over the related lease term. As a result, deferred rents receivable are created when rental income is recognized during the concession period of certain negotiated leases and amortized over the remaining term of the lease. In accordance with SFAS 141, the Company recognizes rental revenue of acquired in-place "above and below" market leases at their fair value over the weighted average remaining lease term. Property other income, which consists primarily of income from operation of laundry facilities, utility recovery, administrative fees, garage and carport rentals and miscellaneous charges to residents, is recognized when earned (when the services are provided, or when the resident incurs the charge).

Property management fees are recognized when earned based on a contractual percentage of net monthly cash collected on rental income.

Real Estate

Real estate is recorded at cost. Costs related to the acquisition, development, construction and improvement of properties are capitalized. Recurring capital replacements typically include carpeting and tile, appliances, HVAC equipment, new roofs, site improvements and various exterior building improvements. Non-recurring upgrades include, among other items, community centers, new appliances, new windows, kitchens and bathrooms. Interest costs are capitalized until construction is substantially complete. There was $1,096,000, $763,000, and $920,000 of interest capitalized in 2005, 2004 and 2003, respectively. Salaries and related costs capitalized for the years ended December 31, 2005, 2004 and 2003 were $2,135,000, $3,391,000 and $6,008,000, respectively. When retired or otherwise disposed of, the related asset cost and accumulated depreciation are cleared from the respective accounts and the net difference, less any amount realized from disposition, is reflected in income. Ordinary repairs and maintenance that do not extend the life of the asset are expensed as incurred.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. An asset is considered impaired when the undiscounted future cash flows are not sufficient to recover the asset's carrying value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The Company records impairment losses and reduces the carrying amounts of assets held for sale when the carrying amounts exceed the estimated selling proceeds less the costs to sell.

The Company accounts for its acquisitions of investments in real estate in accordance with SFAS No. 141, Business Combinations ("SFAS 141"), which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building, and personal property and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases and value of resident relationships, based in each case on their fair values. The Company considers acquisitions of operating real estate assets to be businesses as that term is contemplated in Emerging Issues Task Force Issue No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business.

The Company allocates purchase price to the fair value of the tangible assets of an acquired property (which includes the land, building, and personal property) determined by valuing the property as if it were vacant. The as-if-vacant value is allocated to land, buildings, and personal property based on management's determination of the relative fair values of these assets.

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases.

Other intangible assets acquired include amounts for in-place lease values that are based upon the Company's evaluation of the specific characteristics of the leases. Factors considered in these analyses include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods depending on the property acquired.

The total amount of other intangible assets acquired is further allocated to in-place leases, which includes other resident relationship intangible values based on management's evaluation of the specific characteristics of the residential leases and the Company's resident retention history.

The value of in-place leases and resident relationships are amortized as a leasing cost expense over the initial term of the respective leases and any expected renewal period.

The acquisitions of minority interests for shares of the Company's Common Stock are recorded under the purchase method with assets acquired reflected at the fair market value of the Company's Common Stock on the date of acquisition. The acquisition amounts are allocated to the underlying assets based on their estimated fair values.

Discontinued Operations

In the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets ("SFAS 144"), the standard addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It also retains the basic provisions for presenting discontinued operations in the income statement but broadened the scope to include a component of an entity rather than a segment of a business. Pursuant to the definition of a component of an entity in SFAS 144, assuming no significant continuing involvement by the former owner after the sale, the sale of an apartment community is now considered a discontinued operation. In addition, apartment communities classified as held for sale are also considered a discontinued operation. The Company generally considers assets to be held for sale when all significant contingencies surrounding the closing have been resolved, which often corresponds with the actual closing date.

Included in discontinued operations for the three years ended December 31, 2005 are the operating results, net of minority interest, of sixteen apartment community dispositions (four sold in 2005, five sold in 2004 and seven sold in 2003). In addition, discontinued operations for all periods presented includes the operating results, net of minority interest of twenty two VIEs sold during 2004 and four VIEs sold during 2005 and nineteen apartment communities held for sale as of December 31, 2005. For purposes of the discontinued operations presentation, the Company only includes interest expense associated with specific mortgage indebtedness of the properties that are considered discontinued operations. Subsequent to the classification of assets held for sale, no further depreciation expense is recorded. The depreciation suspended for the nineteen apartment communities held for sale amounted to $1,457,000.

Capital Improvements

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

The Company is required to make subjective assessments as to the useful lives of its properties and improvements for purposes of determining the amount of depreciation to reflect on an annual basis. These assessments have a direct impact on the Company's net income.

Estimate of Fair Value of Assets Associated with General Partnership Interests

The Company uses the sale contract to determine the fair market value of assets associated with its general partner investment, including notes, advances, management contracts and the equity investment in the limited partnership. The fair value used could vary from the actual sales price of the assets which could result in further charges or gains recognized upon disposition. See Note 3 to the Notes to Consolidated Financial Statements for further discussion.

Federal Income Taxes

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 years ended December 31, 2005, 2004 and 2003, 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. Stockholders of the Company are taxed on dividends and must report distributions from the Company as either ordinary income, capital gains, or as return of capital.

Included in total assets on the Consolidated Balance Sheets are deferred tax assets of $8,496,000 and $8,737,000 as of December 31, 2005 and 2004, respectively. The deferred tax assets were a result of the net losses associated with the affordable property portfolio sales during 2004 and 2003. Management does not believe it is more likely than not that these deferred assets will be used, and accordingly has recorded a reserve against the deferred tax assets of $8,421,000 and $8,680,000 for the years ended December 31, 2005 and 2004, respectively. The deferred tax assets are associated with the Management Companies who perform certain of the residential and development activities of the Company. The Management Companies historically provided commercial management services and provided loan advances to affordable housing entities owned through general partnership interests. As these activities are no longer provided, Management does not currently believe there is a source for future material taxable earnings for the Management Companies that would give rise to value for the deferred tax assets.

Variable Interest Entities

Effective March 31, 2004, the Company adopted FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 - Consolidated Financial Statements. The interpretation addresses consolidation by businesses of special purpose entities (variable interest entities, "VIE"). The Company had made the determination that all 41 of the remaining limited partnerships at the time were Variable Interest Entities.

The Company determined that it was not the primary beneficiary in seven partnerships syndicated under U.S. Department of Housing and Urban Development subsidy programs, all of which have been sold as of December 31, 2005.

The Company had further determined that it was the primary beneficiary in 34 of the VIEs and, therefore, consolidated these entities effective March 31, 2004. Beginning with the second quarter of 2004, the Company consolidated the results of operations of the VIEs. Effective December 31, 2005, the Company has closed on the sale on all but one of the VIEs. The one remaining VIE is not considered held for sale and is included in the Consolidated statement of operations for the years ended December 31, 2005 and 2004.

The Company is currently the general partner in this one VIE with a total of 868 units syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company manages the day-to-day operations of this partnership for a management fee. In addition, the Company has certain operating deficit and tax credit guarantees to its limited partner. The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards when cash flow reaches certain levels. The effect on the consolidated balance sheets of including these VIEs as of December 31, 2005 and 2004 includes Total assets of $21.3 and $87.8 million, Total liabilities of $17.9 and $80.6 million, and Minority interest of $3.4 and $7.5 million, respectively.

The Company believes the properties' operations conform to the applicable requirements as set forth above.

Acquisitions and Dispositions

In 2005, the Company acquired a total of seven communities with a total of 2,430 units for total consideration of approximately $283,400,000, or an average of approximately $116,900 per unit. For the same time period, the Company sold four properties with a total of 816 units for total consideration of $142,600,000, or an average of $174,700 per unit. The weighted average expected first year cap rate of the 2005 Acquisition Communities was 6.0% and of the 2005 Disposed Communities was 4.0%. The weighted average unleveraged internal rate of return (IRR) during the Company's ownership for the properties sold was 20.0%.

In 2004, the Company acquired a total of ten communities with a total of 2,486 units for total consideration of approximately $247,500,000, or an average of approximately $99,600 per unit. For the same time period, the Company sold five properties with a total of 1,646 units for total consideration of $92,500,000, or an average of $56,200 per unit. The weighted average expected first year cap rate of the 2004 Acquisition Communities was 6.7% and of the 2004 Disposed Communities was 8.2%. The weighted average unleveraged IRR during the Company's ownership for the properties sold was 13.1%.

Contractual Obligations and other Commitments

The primary obligations of the Company relate to its borrowings under the line of credit and mortgage notes payable. The Company's line of credit matures in September 2008, and has $82,000,000 outstanding at December 31, 2005. The $1.8 billion in mortgage notes payable have varying maturities ranging from one to 37 years. The principal payments on the mortgage notes payable for the years subsequent to December 31, 2005, are set forth in the table below as "long-term debt."

The Company has a non-cancelable operating ground lease for one of its properties. The lease expires May 1, 2020, with options to extend the term of the lease for two successive terms of twenty-five years each. The lease provides for contingent rental payments based on certain variable factors. At December 31, 2005, future minimum rental payments required under the lease are $70,000 per year until the lease expires.

The Company leases its corporate office space from an affiliate and the office space for its regional offices from third parties. The corporate office space requires an annual base rent plus a pro-rata portion of property improvements, real estate taxes, and common area maintenance. The regional office leases require an annual base rent plus a pro-rata portion of real estate taxes. These leases are set forth in the table below as "Operating lease."

On December 1, 2004 the Company entered into a lease agreement with a third party owner to manage the operations of one of their communities. The lease has a term of five years, but after two years, (from the 24th month to the 36th month) the owner may require the Company to buy the property. From the 36th month to the end of the lease term, we have the right to require the owner to sell the property to the Company. It is the Company's expectation that closing on the acquisition of the property will occur no later than 36 months after the commencement of the lease. The estimated future acquisition cost of $141 million is included in the total purchase obligations amount for the year 2007 in the table below.

Purchase obligations represent those costs that the Company is contractually obligated to in the future. The significant components of this caption are costs for capital improvements at the Company's properties, as well as costs for normal operating and maintenance expenses at the site level that are tied to contracts such as utilities, landscaping and grounds maintenance and advertising. The purchase obligations include amounts tied to contracts, some of which expire in 2006. It is the Company's intention to renew these normal operating contracts; however, there has been no attempt to estimate the length or future costs of these contracts.

Tabular Disclosure of Contractual Obligations:

		Payments Due by Period (in thousands)					
Contractual Obligations	Total	2006	2007	2008	2009	2010	T
Long-term debt (1)	$1,842,086	$60,848	$184,684	$205,630	$66,249	$289,161	
Ground lease	1,050	70	70	70	70	70	
Operating lease	7,883	2,020	1,951	1,921	1,861	130	
Purchase obligations	159,493	15,800	142,783	653	164	93	
Total (2)	$2,010,512	$78,738	$329,488	$208,274	$68,344	$289,454	

(1) Amounts include principal payments only. The Company will pay interest on outstanding indebtedness based on the rates and terms summarized in note 4 to the consolidated financial statements.

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

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

In connection with the issuance of the Series F Preferred Stock, the Company is required to maintain for each fiscal quarterly period a fixed charge coverage ratio, as defined in the Series F Cumulative Redeemable Preferred Stock Article Supplementary, of 1.75 to 1.0.

The fixed charge coverage ratio and the components thereof do not represent a measure of cash generated from operating activities in accordance with generally accepted accounting principles and are not necessarily indicative of cash available to fund cash needs. Further, this ratio should not be considered as an alternative measure to net income as an indication of the Company's performance or of cash flow as a measure of liquidity.

The calculation of the fixed charge coverage ratio for the four most recent quarters since the issuance of the Series F Preferred Stock are presented below (in thousands). EBITDA is defined in the Series F Cumulative Redeemable Preferred Stock Article Supplementary as consolidated income before gain (loss) on disposition of property and business, minority interest and extraordinary items, before giving effect to expenses for interest, taxes, depreciation and amortization. Net operating income from discontinued operations in the calculation below is defined as total revenues from discontinued operations less operating and maintenance expenses.

Calculation Presented for Series F Covenants

	Three-months en		
	Dec. 31 2005	Sept. 30 2005	Jun 2
EBITDA			
Total revenues	$114,835	$125,775	$12
Net operating income from discontinued operations	5,677	1,045	
Operating and maintenance	(51,801)	(54,161)	(5
General and administrative	(5,209)	(4,894)	(
	$ 63,502	$ 67,765	$ 6
Fixed Charges			
Interest expense	$ 25,793	$ 27,059	$ 2
Interest expense on discontinued operations	1,578	382	
Preferred dividends	1,350	1,350	
Capitalized interest	312	254	
	$ 29,033	$ 29,045	$ 2
Times Coverage ratio:	2.19	2.33	2

Capital Improvements

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

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

Category	Capitalized Cost per Unit	Useful Life(1)	Capitalized Expenditure Per Unit Per Year(2)	Maintenan Expense Cost pe Unit Per Year(
Appliances	$1,000	18	$ 56	$ 5
Blinds/Shades	130	6	22	6
Carpets/cleaning	840	5	140	97
Computers, equipment, misc.(4)	120	5	24	29
Contract repairs	-	-	-	102
Exterior painting (5)	84	5	17	1

Flooring	250	8	31	-
Furnace/Air (HVAC)	765	24	32	43
Hot water heater	130	7	19	-
Interior painting	-	-	-	138
Kitchen/bath cabinets	1,100	25	44	-
Landscaping	-	-	-	106
New roof	800	24	33	-
Parking lot	400	15	27	-
Pool/ Exercise facility	100	16	6	23
Windows	980	36	27	-
Miscellaneous (6)	705	15	47	40
Total	$7,404		$525	$590

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

(2) This amount is not necessarily incurred each and every year. Some years, per unit expenditures in any category will be higher, or lower depending on the timing of certain longer lived capital or maintenance items.

(3) These expenses are included in the Operating and maintenance line item of the Consolidated Statement of Operations. Maintenance labor costs are not included in the $590 per unit maintenance estimate. All personnel costs for site supervision, leasing agents, and maintenance staff are combined and disclosed in the Company's same- store expense detail schedule. The annual per unit cost of maintenance staff would add another $570 to maintenance expenses and total cost figures provided.

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

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

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

The Company's strategy in operating apartments is to improve every property every year regardless of age. Another part of its strategy is to purchase older properties and rehab and reposition them to enhance internal rates of return. This strategy results in higher costs of capital expenditures and maintenance costs than may be reported by other apartment companies, but the Company's experience is that the strategy results in higher revenue growth, higher net operating income growth and a higher rate of property appreciation.

The Company estimates that during 2005, approximately $525 per unit was spent on recurring capital expenditures. The table below summarizes the breakdown of capital improvements by major categories between recurring and non-recurring, revenue generating capital improvements as follows:

For the year- ended December 31,
(in thousands, except per unit data)
2005

	Recurring Cap Ex	Per Unit	Non-recurring Cap Ex	Per Unit	Total Capital Improvements	Per Unit	Total Impro
New Buildings	$ -	$ -	$4,647	$ 111	$ 4,647	$ 111	
Major building improvements	3,794	91	18,523	444	22,317	535	

Roof replacements	1,376	33	3,731	89	5,107	122
Site improvements	1,376	33	7,464	179	8,840	212
Apartment upgrades	2,751	66	17,421	418	20,172	484
Appliances	2,335	56	1,933	46	4,268	102
Carpeting/Flooring	7,129	171	3,679	88	10,808	259
HVAC/Mechanicals	2,126	51	8,880	213	11,006	264
Miscellaneous	1,001	24	2,569	62	3,570	86
Totals	$21,888	$525	$68,847	$1,650	$90,735	$2,175

(a) Calculated using the weighted average number of apartment units owned, including 33,422 core units, 5,046 held for sale units, 2004 acquisition units of 2,486 and 2005 acquisition units of 734 for the year-ended December 31, 2005 and 33,422 core units, 5,046 held for sale units and 2004 acquisition units of 1,593 for the year-ended December 31, 2004.

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

	For the year- ended December 31, (in thousands, except per unit data) 2005					
	Recurring Cap Ex	Per Unit	Non-recurring Cap Ex	Per Unit	Total Capital Improvements	Per Unit
Core Communities	$17,549	$525	$53,932	$1,614	$71,481	$2,139
Held For Sale/Detroit Communities	2,649	525	2,494	494	5,143	1,019
Total Same Store	20,198	525	56,426	1,467	76,624	1,992
2005 Acquisition Communities	385	525	6,371	8,680	6,756	9,205
2004 Acquisition Communities	1,305	525	6,050	2,434	7,355	2,959
Sub-total	21,888	525	68,847	1,650	90,735	2,175
2005 Disposed Communities	371	525	2,942	4,168	3,313	4,693
2004 Disposed Communities	-	-	-	-	-	-
Construction In Progress	-	-	4,089	-	4,089	-
Corporate office expenditures(1)	-	-	-	-	780	-
	$22,259	$525	$75,878	$1,790	$98,917	$2,315

(1) No distinction is made between recurring and non-recurring expenditures for corporate office.

Environmental Issues

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

During the past few years, there has been media attention given to the subject of mold in residential communities. The Company has responded to this attention by providing to its community management the Company's "Operation and

Maintenance Plan for the Control of Moisture". The Plan, designed to analyze and manage all exposures to mold, has been implemented at all of the Company's communities. There have been only limited cases of mold identified to management due to the application and practice of the Plan. No condition is known to exist that would give rise to a material liability for site restoration or other costs that may be incurred with respect to mold.

Recent Accounting Pronouncements

In May 2003, FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted this pronouncement for the year ended December 31, 2004, and it did not have a material impact on the Company's results of operations, financial position or liquidity.

In December 2003, the FASB issued Interpretation No. 46R, Consolidation of Variable Interest Entities ("FIN 46R"). This interpretation addresses consolidation by business enterprises of variable interest entities in which the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or in which the equity investors do not have the characteristics of a controlling financial interest. This interpretation requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The interpretation also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. Effective March 31, 2004, the Company adopted FIN 46R. See the Basis of Presentation disclosure in Note 1 to the Company's consolidated financial statements and the Company's disclosure on its Investments in and Advances to Affiliates in Note 3 for a discussion of the impact on the Company from the adoption of FIN 46R.

In March 2004, the FASB issued EITF 03-6, Participating Securities and the Two-Class Method under FASB Statement 128, Earnings per Share ("EITF 03-6"). EITF 03-6 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating EPS. It clarifies what constitutes a participating security and how to apply the two-class method of computing EPS once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. The EITF was effective for the fiscal periods beginning after March 31, 2004. The Company adopted the provisions of this EITF effective April 1, 2004, and had no impact on the Company's results of operations, financial position or liquidity.

In November 2004, the FASB issued EITF Issue 04-8, The Effect of Contingently Convertible Debt on Diluted Earnings Per Share. ("EITF 04-8"). EITF 04-8 addresses a number of issues relating to issued securities with embedded market price contingent conversion features, which includes contingently convertible preferred stock, and the impact on the calculation of earnings per share on a quarterly basis. The EITF is effective for periods ending after December 15, 2004. The Company adopted the provisions of this EITF for the year ended

December 31, 2004, and it and had no impact on the Company's results on operations, financial position or liquidity.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment ("SFAS 123(R)"). The statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS 123(R) requires that entities recognize the cost of employee services received in exchange for awards of equity instruments (i.e. stock options) based on the grant-date fair value of those awards. The Statement is effective for the first fiscal year beginning after June 15, 2005. On January 1, 2003, the Company adopted the provisions of SFAS No. 148 Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment to SFAS No. 123 ("SFAS 148"). Effective on that date, the Company began recognizing compensation cost related to stock option grants. Based upon the Company's adoption of SFAS 148, the Company expects to adopt the provisions of SFAS No. 123(R) beginning January 1, 2006 using a modified prospective application. The Company does not expect the adoption to have a material impact on the Company's results of operations, financial position or liquidity.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets - An amendment of APB Opinion No. 29 ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for non-monetary exchanges of similar productive assets in paragraph 21 (b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with a general exception for exchanges that lack commercial substance. SFAS 153 specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 was effective for the Company's interim periods beginning July 1, 2005. The adoption of SFAS 153 did not have a material effect on our financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations ("FIN 47"). FIN 47 requires an entity to recognize a liability for a conditional asset retirement obligation when incurred if the liability can be reasonably estimated. FIN 47 clarifies that the term "conditional asset retirement obligation" as used in the FASB refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. This legal obligation is absolute, despite the uncertainty regarding the timing and/or method of settlement. In addition, the fair value of a liability for the conditional asset retirement obligation should be recognized when incurred: generally upon acquisition, construction or development and/or through normal operation of the asset. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 was effective no later than fiscal years ending after December 15, 2005. The Company adopted FIN 47 as required effective December 31, 2005. The initial application of FIN 47 did not have a material effect on our financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections ("SFAS 154"). SFAS 154 replaces APB No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements and establishes retrospective application as the required method for reporting a change in accounting principle. SFAS 154 provides guidance for determining whether a retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of SFAS 154 will have a material effect on our financial position and results of operations.

In October 2005, the FASB issued Staff Position No. 13-1 Accounting for Rental Costs Incurred during a Construction Period ("FSP FAS 13-1"). FSP FAS 13-1 addresses the accounting for rental costs associated with operating leases that are incurred during the construction period. FSP FAS 13-1 makes no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period are to be recognized as rental expense, allocated over the lease term in accordance with SFAS No. 13 and Technical Bulletin 85-3. FSP FAS 13-1 is effective for the first reporting period beginning after December 15, 2005. Retrospective application in accordance with SFAS 154 is permitted but not required. The Company does not believe that the application of FSP FAS 13-1 will have a material impact on our financial position or results of operations.

Economic Conditions

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

Historically, real estate has been subject to a wide range of cyclical economic conditions, which affect various real estate sectors and geographic regions with differing intensities and at different times. Starting in 2001 and continuing into 2004 many regions of the United States had experienced varying degrees of economic recession and certain recessionary trends, such as a temporary reduction in occupancy and reduced pricing power limiting the ability to aggressively raise rents. Starting in the second half on 2004 and continuing into 2005, we have seen a reversal of these recessionary trends. In light of this, we will continue to review our business strategy; however, we believe that given our property type and the geographic regions in which we are located, we do not anticipate any changes in our strategy or material effects on financial performance.

Contingencies

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

In 2001, the Company underwent a state tax audit. The state had assessed taxes of $469,000 for the 1998 and 1999 tax years under audit. If the state's position was applied to all tax years through December 31, 2001, the assessment would be $1.3 million. At the time, the Company believed the assessment and the state's underlying position were not supportable by the law nor consistent with previously provided interpretative guidance from the office of the State Secretary of Revenue. After two subsequent enactments by the state legislation during 2002 affecting the pertinent tax statute, the Company has been advised by outside tax counsel that its filing position for 1998-2001 should prevail. During December 2003, the state's governor signed legislation which included the REIT tax provisions. Based upon this, Company's tax counsel expected that the outstanding litigation should now be able to be resolved. Effective January 1, 2003, the Company reorganized the ownership of Home Properties Trust, which should subject the Company to a much lower level of tax going forward. In September 2004, the Company settled the 1998 year under audit for a total of $39,000, including interest. During 2005, the Company filed a protest with the Pennsylvania State Commonwealth Court concerning the 1999 tax year. The Company has had settlement discussions for the years 1999-2001 with the State and, based on these discussions, believes that the likelihood of settling all three years is imminent. The Company has accrued $160,000 as of December 31, 2005.

During April, 2004, the Company finalized negotiations with New York State settling a sales and use tax audit covering the period June 1, 1999 through May 31, 2002. The total cost to the Company as a result of the audit amounted to $861,000. This was included in the first quarter 2004 results and allocated $448,000 to expense and $413,000 capitalized to real estate assets for improvements.

As a result of this audit, during the second quarter of 2004, the Company examined its sales and use tax compliance in the other states in which the Company operates. Based upon its internal analysis, the Company estimated its liability as of June 30, 2004 in those states where it found non-compliance and recorded at June 30, 2004 a liability of $1,712,000. This was included in the second quarter results and allocated $761,000 to expense and $951,000 capitalized to real estate assets for improvements. The liability recorded relates to the period beginning on the later of: (i) the date the Company first purchased property in the applicable state; or (ii) January 1, 1997 and ending on June 30, 2004. In addition, the Company increased the liability for sales tax exposure by $68,000 for the six-month period ended December 31, 2004. The Company filed Voluntary Disclosure Agreements ("VDAs") with the four states where it had significant financial exposure. During the first six months of 2005, the Company signed VDAs with these states limiting the VDA filing period back to January 1, 2001, and the Company had satisfied all financial obligations under the VDAs. For the three- and six-month periods ended June 30, 2005, the Company had recorded adjustments to the liability for both the effects of signing the VDAs as well as for the results of the Company's additional testing for the first six months. The net impact of these adjustments resulted in a decrease in real estate assets of $175,000, interest expense of $115,000 and operating expenses of $108,000 for a net decrease to the accrued liability of $398,000. During the third quarter of 2005, the Company finalized negotiations with New York State settling a sales tax audit covering the period June 1, 2002 through November 30, 2004. The settlement was not materially different from what had been accrued. The result of the payments on the VDAs and this New York State audit is that the sales tax accrual which had been $1,712,000 (as referenced above) has been reduced to $0 at December 31, 2005.

In connection with the issuance of the Series F Preferred Stock, the Company is required to maintain for each fiscal quarterly period a fixed charge coverage ratio, as defined in the Series F Cumulative Redeemable Preferred Stock Articles Supplementary to the Company's Articles of Incorporation, of 1.75 to 1.0. The fixed charge coverage ratio and the components thereof do not represent a measure of cash generated from operating activities in accordance with generally accepted accounting principles and are not necessarily indicative of cash available to fund cash needs. Further, this ratio should not be considered as an alternative measure to net income as an indication of the Company's performance or of cash flow as a measure of liquidity. The Company has been in compliance with the covenant since the Series F Preferred Stock was issued. If the Company fails to be in compliance with this covenant for six or more consecutive fiscal quarters, the holders of the Series F Preferred Stock would be entitled to elect two directors to the board of directors of the Company.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk exposure is interest rate risk. At December 31, 2005 and December 31, 2004, approximately 91% and 89%, respectively, of the Company's debt bore interest at fixed rates with a weighted average maturity of approximately 7 and 8 years and a weighted average interest rate of approximately 5.95% and 6.23%, respectively, including the $29 million and $34 million of debt, respectively which has been swapped to a fixed rate. The remainder of the Company's debt bears interest at variable rates with a weighted average maturity of approximately 12 and 8 years, respectively, and a weighted average interest rate of 4.54% and 2.98%, respectively, at December 31, 2005 and December 31, 2004. The Company does not intend to utilize a significant amount of permanent variable rate debt to acquire properties in the future. On occasion, the Company may use its line of credit in connection with a property acquisition with the intention to refinance at a later date. The Company believes, however, that in no event would increases in interest expense as a result of inflation significantly impact the Company's distributable cash flow.

At December 31, 2005 and December 31, 2004, the interest rate risk on $29 million and $34 million, respectively of such variable rate debt has been mitigated through the use of interest rate swap agreements (the "Swaps") with major financial institutions. The Company is exposed to credit risk in the event of non-performance by the counter-parties to the Swaps. The Company believes it mitigates its credit risk by entering into these Swaps with major financial institutions. The Swaps effectively convert the variable rate mortgages to fixed rates of 5.35%, 5.39%, 8.22% and 8.40%.

At December 31, 2005 and December 31, 2004, the fair value of the Company's fixed rate debt, including the $29 million at December 31, 2005 and $34 million at December 31, 2004 which was swapped to a fixed rate, amounted to a liability of $1.9 billion and $1.7 billion, respectively, compared to its carrying amount of $1.84 billion and $1.64 billion, respectively. The Company estimates that a 100 basis point increase in market interest rates at December 31, 2005 would have changed the fair value of the Company's fixed rate debt to a liability of $1.81 billion.

The Company intends to continuously monitor and actively manage interest costs on its variable rate debt portfolio and may enter into swap positions based upon market fluctuations. In addition, the Company believes that it has the ability to obtain funds through additional equity offerings or the issuance of UPREIT Units. Accordingly, the cost of obtaining such interest rate protection agreements in relation to the Company's access to capital markets will continue to be evaluated. The Company has not, and does not plan to, enter into any derivative financial instruments for trading or speculative purposes. As of December 31, 2005, the Company had no other material exposure to market risk.

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

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

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

The principal executive officer and principal financial officer evaluated, as of December 31, 2005, the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15-d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and have determined that such disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under that framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2005. In addition, management has not identified any material weaknesses in the Company's internal controls.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005.

Changes in Internal Controls Over Financial Reporting

There were no changes in the internal controls over financial reporting that occurred during the fourth quarter of the year ended December 31, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors

The Board of Directors (the "Board") currently consists of twelve members. The terms for all of the directors of Home Properties expire at the 2006 Shareholders' Meeting.

The information sets forth, as of February 21, 2006, for each director of the Company such director's name, experience during the last five years, other directorships held, age and the year such director was first elected as director of the Company.

Name of Director	Age	Year First Elected Director
William Balderston, III	78	1994
Josh E. Fidler	50	2004
Alan L. Gosule	65	1996
Leonard F. Helbig, III	60	1994
Roger W. Kober	72	1994
Nelson B. Leenhouts	70	1993
Norman Leenhouts	70	1993
Edward J. Pettinella	54	2001
Clifford W. Smith, Jr.	59	1994
Paul L. Smith	70	1994
Thomas S. Summer	52	2004
Amy L. Tait	47	1993

William Balderston, III has been a director of the Company since 1994. From 1991 to the end of 1992, he was an Executive Vice President of The Chase Manhattan Bank, N.A. From 1986 to 1991, he was President and Chief Executive Officer of Chase Lincoln First Bank, N.A., which was merged into The Chase Manhattan Bank, N.A. He is a Senior Trustee of the University of Rochester and a member of the Board of Governors of the University of Rochester Medical Center. Mr. Balderston is a graduate of Dartmouth College.

Josh E. Fidler has been a director of the Company since August, 2004. Mr. Fidler is a Founding Partner of Boulder Ventures, Ltd., a manager of venture capital funds, which has been in operation since 1995. Since 1985, he has also been a principal in a diversified real estate development business known as The Macks Group. In 1999, the Company acquired 3,297 apartment units from affiliates of The Macks Group. Mr. Fidler was also a principal of the entity which owned a 240-unit apartment community which the Company purchased in 2004. He is a graduate of Brown University and received a law degree from New York University. Mr. Fidler is a member of the Maryland Region Advisory Board of SunTrust Bank and the Board of Trustees of The Park School.

Alan L. Gosule, has been a director of the Company since 1996. Mr. Gosule has been a partner in the New York Office of the law firm of Clifford Chance US LLP since August 1991 and prior to that time was a partner in the law firm of Gaston & Snow. Mr. Gosule is a graduate of Boston University and its Law School and received an LLM in Taxation from Georgetown University. Mr. Gosule also serves on the Board of Directors of MFA Mortgage Investments, Inc. He is a member of the Board of Advisors of Paloma, LLC, which is the general partner of Simpson Housing Limited Partnership, and is a voting trustee of F.L. Putnam Investment Management Company.

Leonard F. Helbig, III has been a director of the Company since 1994. Since September 2002 he has served as a Director of Integra Realty Advisors in Philadelphia. Between 1980 and 2002 he was employed with Cushman & Wakefield, Inc. From 1990 until 2002, Mr. Helbig served as President, Financial Services for Cushman & Wakefield, Inc.. Prior to that and since 1984, Mr. Helbig was the Executive Managing Director of the Asset Services and Financial Services Groups. He was a member of that firm's Board of Directors and Executive Committee. Mr. Helbig is a member of the Urban Land Institute, the Pension Real Estate Association and the International Council of Shopping Centers. Mr. Helbig is a graduate of LaSalle University and holds the MAI designation of the American Institute of Real Estate Appraisers.

Roger W. Kober has been a director of the Company since 1994. He was employed by Rochester Gas and Electric Corporation from 1965 until his retirement on January 1, 1998. From March 1996 until January 1, 1998, Mr. Kober served as Chairman and Chief Executive Officer of Rochester Gas and Electric Corporation. He is a Trustee Emeritas of Rochester Institute of Technology. Mr. Kober is a graduate of Clarkson College and holds a Masters Degree in Engineering from Rochester Institute of Technology.

Nelson B. Leenhouts has served as Board Co-Chair since his retirement as Co-Chief Executive Officer effective January 1, 2004. He had served as Co-Chief Executive Officer, President and a director of the Company since its inception in 1993. Since their formation, he has also served as a director of HP Management and HPRS, for which he had also served in various officer capacities prior to his retirement. Mr. Leenhouts also currently serves as a Senior Advisor to the Company pursuant to an Employment Agreement with a term that expires on December 31, 2006. Nelson Leenhouts was the founder, and a co-owner, together with Norman Leenhouts, of Home Leasing, and has served as President of Home Leasing since 1967. He is a member of the Board of Directors of the Genesee Valley Trust Company. Nelson Leenhouts is a graduate of the University of Rochester. He is the twin brother of Norman Leenhouts.

Norman P. Leenhouts has served as Board Co-Chair since his retirement as Co-Chief Executive Officer effective January 1, 2004. He had served as Board Chair, Co-Chief Executive Officer and a director of the Company since its inception in 1993. Since their formation, he has also served as a director of HP Management and HPRS. Mr. Leenhouts also currently serves as a Senior Advisor to the Company pursuant to an Employment Agreement with a term that expires on December 31, 2006. Prior to January 1, 2006, Norman Leenhouts was a co-owner, together with Nelson Leenhouts, of Home Leasing, where he had served as Board Chair since 1971. He is currently the Chairman of Broadstone Ventures, LLC and Broadstone Real Estate, LLC, formed to contain the property management business of Home Leasing. He is a member of the Board of Trustees of the University of Rochester, Roberts Wesleyan College, The Charles E. Finney School and the Free Methodist Foundation, where he also serves as Board Chair. He is a graduate of the University of Rochester and is a certified public accountant. He is the twin brother of Nelson Leenhouts.

Edward J. Pettinella has served as President and Chief Executive Officer of the Company since January 1, 2004. He is also a director. He joined the Company in 2001 as an Executive Vice President and director. He is also the President and Chief Executive Officer of HP Management and HPRS. From 1997 until February 2001, Mr. Pettinella served as President, Charter One Bank (NY Division) and Executive Vice President of Charter One Financial, Inc. From 1980 through 1997, Mr. Pettinella served in several managerial capacities for Rochester Community

Savings Bank, Rochester, NY, including the positions of Chief Operating Officer and Chief Financial Officer. Mr. Pettinella serves on the Board of Directors of United Way of Greater Rochester, Rochester Business Alliance, The Lifetime Healthcare Companies, National Multi Housing Counsel, Syracuse University School of Business and YMCA of Greater Rochester. He is also on the Board of Governors of National Association of Real Estate Investment Trusts and is a member of Urban Land Institute. Mr. Pettinella is a graduate of the State University at Geneseo and holds an MBA Degree in finance from Syracuse University.

Clifford W. Smith, Jr. has been a director of the Company since 1994. Mr. Smith is the Epstein Professor of Finance of the William E. Simon Graduate School of Business Administration of the University of Rochester, where he has been on the faculty since 1974. He has written numerous books and articles on a variety of financial, capital markets and risk management topics and has held editorial positions for a variety of journals. Mr. Smith is a graduate of Emory University and has a PhD from the University of North Carolina at Chapel Hill.

Paul L. Smith has been a director of the Company since 1994. Mr. Smith was a director, Senior Vice President and the Chief Financial Officer of the Eastman Kodak Company from 1983 until he retired in 1993. He was a member of the Financial Accounting Standards Advisory Council. He is currently a director of Constellation Brands, Inc. He is also a member of the Board of Trustees of the George Eastman House and Ohio Wesleyan University. Mr. Smith is a graduate of Ohio Wesleyan University and holds an MBA Degree in finance from Northwestern University.

Thomas S. Summer has been a director of the Company since August, 2004. Mr. Summer has been the Executive Vice President and Chief Financial Officer of Constellation Brands, Inc. since 1997. Prior to that, he held various positions in financial management with Cardinal Health, Inc., PepsiCo, Inc., and Inland Steel Industries. He is also a member of the Boards of Greatbatch, Inc. and AIDS Rochester, Inc. Prior to January, 2006, Mr. Summer was a member of the Board of the Rochester Philharmonic Orchestra. Mr. Summer is a graduate of Harvard University and holds an MBA degree in finance and accounting from the University of Chicago.

Amy L. Tait has served as a director of the Company since its inception in 1993. Effective February 15, 2001, Mrs. Tait resigned her full-time position as Executive Vice President of the Company and as a director of HP Management. She continued as a consultant to the Company pursuant to a consulting agreement that terminated on February 15, 2002. She is currently the Chief Executive Officer and a director of Broadstone Ventures, LLC and Broadstone Real Estate, LLC, where she also serves as Secretary. Mrs. Tait joined Home Leasing in 1983 and held several positions with the Company, including Senior and Executive Vice President and Chief Operating Officer. She currently serves on the M & T Bank Regional Advisory Board and the boards of the United Way of Rochester, Princeton Club of Rochester, Al Sigl Center, Center for Governmental Research, Allendale Columbia School, and Monroe County Center for Entrepreneurship. Mrs. Tait is a graduate of Princeton University and holds an MBA from the William E. Simon Graduate School of Business Administration of the University of Rochester. She is the daughter of Norman Leenhouts.

See Item 4A in Part I hereof for information regarding executive officers of the Company.

Compliance with Section 16(a) of the Securities Exchange Act of 1934.

Section 16(a) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") requires the Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and

Exchange Commission and the New York Stock Exchange. Officers, directors and greater than 10% shareholders are required to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended December 31, 2005, all Section 16(a) filing requirements applicable to its executive officers, directors and greater than 10% beneficial owners were satisfied.

Audit Committee, Audit Committee Independence and Financial Expert

The information required by this item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 4, 2006 under "Audit Committee." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Stockholder Nominations to Board

The information required by this item is incorporated herein by reference to the Company's Proxy Statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 4, 2006 under "Board of Directors." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics and a Code of Ethics for Senior Financial Officers, both which apply to the Company's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller. Both codes are available on the Company's website at www.homeproperties.com under the heading "Investors/Corporate Governance/Highlights." In addition, the Company will provide a copy of the codes to anyone without charge, upon request addressed to the Corporate Secretary at Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604.

The Company intends to disclose any amendment to its Code of Business Conduct and Ethics and its Code of Ethics for Senior Financial Officers on its Web site. In addition, in the event that the Company waives compliance by any of its directors and executive officers with the Code of Business Conduct and Ethics or compliance by any of the individuals subject to the Code of Ethics for Senior Financial Officers with that Code of Ethics, the Company will post on its Web site within four business days the nature of the waiver in satisfaction of its disclosure requirement under Item 5.05 of Form 8-K.

Corporate Guidelines and Committee Charters

The Board of Directors has adopted corporate Governance Guidelines and revised charters in compliance with applicable law and NYSE listing standards for the Company's Audit, Compensation, Corporate Governance/Nominating and Real Estate Investment Committees. The Guidelines and charters are available on the Company's Web site, www.homeproperties.com, and by request addressed to the Corporate Secretary at Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of the Stockholders of the Company to be held on May 4, 2006 under "Executive Compensation." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Item 12. Securities Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item, including Equity Compensation Plan Information, is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 4, 2006 under "Security Ownership of Certain Beneficial Owners and Management" and under "Equity Compensation Plan Information." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 4, 2006 under "Certain Relationships and Transactions." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 4, 2006 under "Report of the Audit Committee" and "Principal Accounting Fees and Services." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1 and 2. Financial Statements and Schedule

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

HOME PROPERTIES, INC.

Consolidated Financial Statements

3. Exhibits

Exhibit Number	Exhibit
2.1	Agreement among Home Properties of New York, Inc. and Philip J. Solondz, Daniel Solondz and Julia Weinstein Relating to Royal Gardens I, together with Amendment No. 1
2.2	Agreement among Home Properties of New York, Inc and Philip Solondz and Daniel Solondz relating to Royal Gardens II, together with Amendment No. 1
2.15	Contribution Agreement, dated October __, 1997 between Home Properties of New York between Home Properties of New York, L.P. and Berger/Lewiston Associates Limited Partnership; Stephenson-Madison Heights Company Limited Partnership; Kingsley- Moravian Company Limited Partnership; Woodland Garden Apartments Limited Partnership; B&L Realty Investments Limited Partnership; Southpointe Square Apartments Limited Partnership; Greentrees Apartments Limited Partnership; Big Beaver-Rochester Properties Limited Partnership; Century Realty Investment Company Limited Partnership
2.24	Contribution Agreement dated March 2, 1998 among Home Properties of New York, L.P., Braddock Lee Limited Partnership and Tower Construction Group, LLC
2.25	Contribution Agreement dated March 2, 1998 among Home Properties of New York, L.P., Park Shirlington Limited Partnership and Tower Construction Group, LLC
2.27	Form of Contribution Agreement among Home Properties of New York, L.P. and Strawberry Hill Apartment Company LLLP, Country Village Limited Partnership, Morningside Six, LLLP, Morningside North Limited Partnership and Morningside Heights Apartment Company Limited Partnership with schedule setting forth material details in which documents differ from form
2.29	Form of Contribution Agreement dated June 7, 1999, relating to the CRC Portfolio with schedule setting forth material details in which documents differ from form
2.30	Form of Contribution Agreement relating to the Mid-Atlantic Portfolio with schedule setting forth material details in which documents differ from form
2.31	Contribution Agreement among Home Properties of New York, L.P., Leonard

Klorfine, Ridley Brook Associates and the Greenacres Associates

2.33 Contribution Agreement among Home Properties of New York, L.P., Gateside-Bryn Mawr Company, L.P., Willgold Company, Gateside-Trexler Company, Gateside-Five Points Company, Stafford Arms, Gateside-Queensgate Company, Gateside Malvern Company, King Road Associates and Cottonwood Associates

2.34 Contribution Agreement between Old Friends Limited Partnership and Home Properties of New York, L.P. and Home Properties of New York, Inc., along with Amendments Number 1 and 2 thereto

2.35 Contribution Agreement between Deerfield Woods Venture Limited Partnership and Home Properties of New York, L.P.

2.36 Contribution Agreement between Macomb Apartments Limited Partnership and Home Properties of New York, L.P.

2.37 Contribution Agreement between Home Properties of New York, L.P. and Elmwood Venture Limited Partnership

2.38 Sale Purchase and Escrow Agreement between Bank of America as Trustee and Home Properties of New York, L.P.

2.39 Contribution Agreement between Home Properties of New York, L.P., Home Properties of New York, Inc. and S&S Realty, a New York General Partnership (South Bay)

2.40 Contribution Agreement between Hampton Glen Apartments Limited Partnership and Home Properties of New York, L.P.

2.41 Contribution Agreement between Home Properties of New York, L.P. and Axtell Road Limited Partnership

2.42 Contribution Agreement between Elk Grove Terrace II and III, L.P., Elk Grove Terrace, L.P. and Home Properties of New York, L.P.

3.1 Articles of Amendment and Restatement of Articles of Incorporation of Home Properties of New York, Inc.

3.2 Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.

3.3 Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.

3.4 Amended and Restated Articles Supplementary of Series A Senior Convertible Preferred Stock of Home Properties of New York, Inc.

3.5 Series B Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.

3.6 Series C Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.

3.7 Series D Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.

3.8 Series E Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.

3.9 Amended and Restated By-Laws of Home Properties of New York, Inc. (Revised 12/30/96)

3.10 Series F Cumulative Redeemable Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.

3.11 Articles of Amendment to the Articles of Incorporation of Home Properties of New York, Inc.

3.12 Amendment Number One to Home Properties of New York, Inc. Amended and Restated Bylaws

4.1 Form of certificate representing Shares of Common Stock

4.2 Agreement of Home Properties of New York, Inc. to file instruments defining the rights of holders of long-term debt of it or its subsidiaries with the Commission upon request

4.7 Spreader, Consolidation, Modification and Extension Agreement between Home Properties of New York, L.P. and John Hancock Mutual Life Insurance Company, dated as of October 26, 1995, relating to indebtedness in the principal amount of $20,500,000

4.8 Amended and Restated Stock Benefit Plan of Home Properties of New York, Inc.

4.9 Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan

4.10 Amendment No. One to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan

4.11 Amendment No. Two to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan

4.12 Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan

4.13 Amendment No. Three to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan

4.14 Directors' Stock Grant Plan

4.16 Home Properties of New York, Inc., Home Properties of New York, L.P. Executive Retention Plan

4.17 Home Properties of New York, Inc. Deferred Bonus Plan

4.18 Fourth Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan

4.19 Directors Deferred Compensation Plan

4.23 Home Properties of New York, Inc. Amendment Number One to the Amended and Restated Stock Benefit Plan

4.24 Fifth Amendment to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan

4.25 Sixth Amendment to Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan

4.26 Home Properties of New York, Inc. Amendment Number Two to the Amended and Restated Stock Benefit Plan

4.27 Amendment No. One to Home Properties of New York, Inc. Deferred Bonus Plan

4.28 Amended and Restated Director Deferred Compensation Plan

4.29 Amendment No. Two to Deferred Bonus Plan

4.30 Amendment Number One to Sixth Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan

4.31 Amended and Restated 2003 Stock Benefit Plan

4.32 Second Amended and Restated Director Deferral Compensation Plan

10.1 Second Amended and Restated Agreement Limited Partnership of Home Properties of New York, L.P.

10.2 Amendments No. One through Eight to the Second Amended and Restated Agreement of Limited Partnership of Home Properties of New York, L.P.

10.3 Articles of Incorporation of Home Properties Management, Inc.

10.4 By-Laws of Home Properties Management, Inc.

10.5 Articles of Incorporation of Conifer Realty Corporation

10.6 Articles of Amendment to the Articles of Incorporation of Conifer Realty Corporation Changing the name to Home Properties Resident Services, Inc.

10.7 By-Laws of Conifer Realty Corporation (now, Home Properties Resident Services, Inc.)

10.8 Home Properties Trust Declaration of Trust, dated September 19, 1997

10.13 Indemnification Agreement between Home Properties of New York, Inc. and certain officers and directors

10.15 Indemnification Agreement between Home Properties of New York, Inc. and Alan L. Gosule

10.17 Agreement of Operating Sublease, dated October 1, 1986, among KAM, Inc., Morris Massry and Raintree Island Associates, as amended by Letter Agreement Supplementing Operating Sublease dated October 1, 1986

10.26 Amendment No. Nine to the Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership

10.27 Master Credit Facility Agreement by and among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp., dated as of August 28, 1998

10.28 First Amendment to Master Credit Facility Agreement, dated as of December 11, 1998 among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P.

and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp. and Fannie Mae

10.29 Second Amendment to Master Credit Facility Agreement, dated as of August 30, 1999 among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp. and Fannie Mae

10.30 Amendments Nos. Ten through Seventeen to the Second Amended and Restated Limited Partnership Agreement

10.31 Amendments Nos. Eighteen through Twenty- Five to the Second Amended and Restated Limited Partnership Agreement

10.32 Credit Agreement, dated 8/23/99 between Home Properties of New York, L.P., certain lenders, and Manufacturers and Traders Trust Company as Administrative Agent

10.33 Amendment No. Twenty-Seven to the Second Amended and Restated Limited Partnership Agreement

10.34 Amendments Nos. Twenty-Six and Twenty-Eight through Thirty to the Second Amended and Restated Limited Partnership Agreement

10.37 2000 Stock Benefit Plan

10.39 Purchase Agreement between Home Properties of New York, Inc. and The Equitable Life Assurance Society of the United States

10.41 Home Properties of New York, L.P. Amendment Number One to Executive Retention Plan

10.42 Amendments No. Thirty-One and Thirty-Two to the Second Amended and Restated Limited Partnership Agreement

10.49 Amendment No. Thirty Three to the Second Amended and Restated Limited Partnership Agreement

10.50 Amendment No. Thirty Five to the Second Amended and Restated Limited Partnership Agreement

10.51 Amendment No. Forty Two to the Second Amended and Restated Limited Partnership Agreement

10.52 Amendments Nos. Thirty Four, Thirty Six through Forty One, Forty Three and Forty Four to the Second Amended and Restated Limited Partnership Agreement

10.57 Amendment Nos. Forty-Five through Fifty-One to the Second Amendment and Restated Limited Partnership Agreement

10.58 Home Properties of New York, Inc. Amendment No. One to 2000 Stock Benefit Plan

10.59 Home Properties of New York, Inc. Amendment No. Two to 2000 Stock Benefit Plan

10.60 Amendment Nos. Fifty-Two to Fifty-Five to the Second Amended and Restated Limited Partnership Agreement

10.61 Amendment Nos. Fifty-Six to Fifty-Eight to the Second Amended and Restated Limited Partnership Agreement

10.62 Amendment No. Two to Credit Agreement

10.63 Purchase and Sale Agreement, dated as of January 1, 2004 among Home Properties of New York, L.P., Home Properties Management, Inc. and Home Leasing, LLC, dated January 1, 2004

10.64 Amendment Nos. Fifty-Nine through Sixty-Seven to the Second Amended and Restated Limited Partnership Agreement

10.65 Home Properties of New York, Inc. Amendment No. Three to 2000 Stock Benefit Plan

10.66 Employment Agreement, dated as of October 28, 2003 between Home Properties, L.P., Home Properties, Inc., and Nelson B. Leenhouts

10.67 Employment Agreement, dated as of October 28, 2003 between Home Properties, L.P., Home Properties, Inc. and Norman B. Leenhouts

10.68 Home Properties of New York, Inc. 2003 Stock Benefit Plan

10.69 Amendment Number Two to Home Properties of New York, Inc. and Home Properties of New York, L.P. Executive Retention Plan

10.70 Employment Agreement, dated as of May 17, 2004, between Home Properties, L.P., Home Properties, Inc. and Edward J. Pettinella

10.71 Amendment Nos. Sixty-Eight through Seventy-Three to the Second Amended and Restated Limited Partnership Agreement

10.72 Summary of Non-Employee Director Compensation Effective January 1, 2006

10.73 Summary of Named Executive Compensation for 2006

10.74 Amendment No. Three to Credit Agreement, dated April 1, 2004 between Home Properties, L.P., certain lenders, and Manufacturers and Traders Trust Company as Administrative Agent

10.75 Amended and Restated Incentive Compensation Plan

10.76 Libor Grid Note, dated November 23, 2004 from Home Properties, L.P. to Manufacturers and Traders Trust Company

10.77 Mutual Release, dated January 24, 2005, given by Home Properties, L.P. and Home Properties, Inc. and Boston Capital Tax Credit Fund XIV, a Limited Partnership, Boston Capital Tax Credit Fund XV, a Limited Partnership and BCCC, Inc. relating to certain obligations pertaining to Green Meadows and related Letter Agreement.

10.78 Amendment No. Four to Credit Agreement, dated September 8, 2005 between Home Properties, L.P., certain Lenders, and Manufacturers and Traders Trust Company, as Administrative Agent

10.79 Agreement, dated September 30, 2005, between General Electric Credit Equities, Inc. and H.P. Knolls I Associates, L.P.

10.80 Agreement, dated September 30, 2005, between General Electric Credit Equities, Inc. and H.P. Knolls II Associates, L.P.

10.81 Amendments Nos. Seventy-Four to through Seventy-Nine to the Second Amended and Restated Limited Partnership

11 Computation of Per Share Earnings Schedule

14.1 Home Properties, Inc. Code of Ethics for Senior Finance Officers

14.2 Home Properties, Inc. Code of Business Conduct and Ethics

21 List of Subsidiaries of Home Properties, Inc.

23 Consent of PricewaterhouseCoopers LLP

31.1* Section 302 Certification of Chief Executive Officer (furnished)

31.2* Section 302 Certification of Chief Financial Officer(furnished)

32.1 Section 906 Certification of Chief Executive Officer

32.2 Section 906 Certification of Chief Financial Officer

99 Additional Exhibits - Debt Summary Schedule

*These exhibits are not incorporated by reference in any registration statement or report which incorporates this Annual Report on Form 10-K for the year ended December 31, 2005.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOME PROPERTIES, INC.

/s/ Edward J. Pettinella

Edward J. Pettinella
Director, President and Chief Executive Officer

Date: March 13, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, the report has been signed by the following persons on behalf of Home Properties, Inc. and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Edward J. Pettinella -------------------- Edward J. Pettinella	Director, President and Chief Executive Officer	March 13, 2006
/s/ David P. Gardner -------------------- David P. Gardner	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	March 13, 2006
/s/ Robert J. Luken -------------------- Robert J. Luken	Senior Vice President, Chief Accounting Officer and Treasurer (Principal Accounting Officer)	March 13, 2006

/s/ Kenneth O. Hall -------------------- Kenneth O. Hall	Vice President and Controller	March 13, 2006
/s/ Norman P. Leenhouts -------------------- Norman P. Leenhouts	Director, Co-Chairman of the Board of Directors	March 13, 2006
/s/ Nelson B. Leenhouts -------------------- Nelson B. Leenhouts	Director, Co-Chairman of the Board of Directors	March 13, 2006
/s/ William Balderston, III -------------------- William Balderston, III	Director	March 13, 2006
/s/ Josh E. Fidler -------------------- Josh E. Fidler	Director	March 13, 2006
/s/ Alan L. Gosule -------------------- Alan L. Gosule	Director	March 13, 2006
/s/ Leonard F. Helbig, III -------------------- Leonard F. Helbig, III	Director	March 13, 2006
/s/ Roger W. Kober -------------------- Roger W. Kober	Director	March 13, 2006
/s/ Clifford W. Smith, Jr. -------------------- Clifford W. Smith, Jr.	Director	March 13, 2006
/s/ Paul L. Smith -------------------- Paul L. Smith	Director	March 13, 2006
/s/ Thomas S. Summer -------------------- Thomas S. Summer	Director	March 13, 2006
/s/ Amy L. Tait -------------------- Amy L. Tait	Director	March 13, 2006

HOME PROPERTIES, INC.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Home Properties, Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Home Properties, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9(a), that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
March 10, 2006

HOME PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 and 2004
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE

	2
ASSETS	
Real estate:	
Land	$ 4
Construction in progress	
Buildings, improvements and equipment	2,7
Real estate held for sale or disposal, net	2
	3,3
Less: accumulated depreciation	(4
Real estate, net	2,8
Cash and cash equivalents	
Cash in escrows	
Accounts receivable	
Prepaid expenses	
Deferred charges	
Other assets	
Other assets held for sale	
Total assets	$2,9
LIABILITIES AND STOCKHOLDERS' EQUITY	
Mortgage notes payable	$1,7
Line of credit	
Accounts payable	
Accrued interest payable	
Accrued expenses and other liabilities	
Security deposits	
Liabilities held for sale	
Total liabilities	1,9
Commitments and contingencies	
Minority interest	3
Stockholders' equity:	

Cumulative redeemable preferred stock, $.01 par value; 2,400,000 shares issued and outstanding at December 31, 2005 and 2004, respectively	
Convertible cumulative preferred stock, $.01 par value; 10,000,000 shares authorized; 250,000 shares issued and outstanding at December 31, 2004	
Common stock, $.01 par value; 80,000,000 shares authorized; 31,184,256 and 32,625,413 shares issued and outstanding at December 31, 2005 and 2004, respectively	
Excess stock, $.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	
Additional paid-in capital	7
Accumulated other comprehensive income (loss)	
Distributions in excess of accumulated earnings	(1
Total stockholders' equity	6
Total liabilities and stockholders' equity	$2,9

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATION
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004,
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE

	2005	
Revenues:		
Rental income	$417,607	$3
Property other income	23,590	
Interest income	581	
Other income	2,023	
Total Revenues	443,801	4
Expenses:		
Operating and maintenance	198,974	1
General and administrative	19,652	
Interest	97,898	
Depreciation and amortization	90,232	
Impairment of assets held as General Partner	400	
Total Expenses	407,156	3
Income from operations	36,645	
Equity in earnings (losses) of unconsolidated affiliates	-	
Income before minority interest, discontinued operations and extraordinary item	36,645	
Minority interest in limited partnership	-	
Minority interest in operating partnerships	(10,015)	(
Income from continuing operations	26,630	
Discontinued operations		
Income from operations, net of $442, $2,856 and $4,485, in 2005, 2004 and		

2003 allocated to minority interest, respectively	907	
Gain on disposition of property, net of $26,733, $5,382 and $1,359 in 2005, 2004 and 2003 allocated to minority interest, respectively	53,975	
Discontinued operations	54,882	
Income before loss on sale of property and business and cumulative effect of change in accounting principle	81,512	
Loss on sale of property and business, net of $33 and $4 in 2004 and 2003 allocated to minority interest, respectively	-	
Income before cumulative effect of change in accounting principle	81,512	
Cumulative effect of change in accounting principle net of $159 in 2004 allocated to minority interest	-	
Net income	81,512	
Preferred dividends	(6,279)	
Net income available to common shareholders	$75,233	$
Basic earnings per share data:		
Income from continuing operations	$0.63	
Discontinued operations	1.72	
Cumulative effect of change in accounting principle	-	
Net income available to common shareholders	$2.35	
Diluted earnings per share data:		
Income from continuing operations	$0.63	
Discontinued operations	1.70	
Cumulative effect of change in accounting principle	-	
Net income available to common shareholders	$2.33	
Weighted average number of shares outstanding:		
Basic	31,962,082	32,
Diluted	32,328,105	33,

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS'
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE

Preferred Stock at Liquidation Preference	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Distributions in Excess of Accumulated Earnings	Acc Comp I

Balance, January 1, 2003	$167,680	27,027,003	$270	$649,489	$(89,452)
Issuance of common stock, net		1,330,733	14	44,608	
Conversion of Series C preferred stock for common stock	(59,500)	1,983,470	20	59,480	
Conversion of Series E preferred stock for common stock	(23,180)	749,367	7	23,173	
Exercise of Series C Warrants		231,560	2	9,001	
Exercise of Series E Warrants		285,000	3	6,927	
Payments on notes for stock purchase					
Interest receivable on notes for stock purchase					
Net income					41,798
Change in fair value of hedge instruments, net of minority interest					
Conversion of UPREIT Units for stock		359,107	4	13,038	
Adjustment of minority interest				(20,006)	
Preferred dividends					(11,340)
Dividends paid ($2.45 per share)					(69,916)
Balance, December 31, 2003	85,000	31,966,240	320	785,710	(128,910)
Issuance of common stock, net		1,251,949	12	43,086	
Repurchase of common stock		(1,280,196)	(13)	(53,783)	
Payments on notes for stock purchase					
Interest receivable on notes for stock purchase					
Net income					47,022
Change in fair value of hedge instruments, net of minority interest					
Conversion of UPREIT Units for stock		687,420	7	26,569	
Adjustment of minority interest				5,630	
Preferred dividends					(7,593)
Dividends paid ($2.49 per share)					(82,273)
Balance, December 31, 2004	85,000	32,625,413	326	807,212	(171,754)
Issuance of common stock, net		358,737	4	12,845	
Repurchase of common stock		(2,850,882)	(28)	(114,737)	
Conversion of Series D preferred stock for common stock	(25,000)	833,333	8	24,992	
Net income					81,512
Change in fair value of hedge instruments, net of minority interest					
Conversion of UPREIT Units for stock		217,655	2	9,228	
Adjustment of minority interest				33,856	
Preferred dividends					(6,279)
Dividends paid ($2.53 per share)					(80,581)
Balance, December 31, 2005	$60,000	31,184,256	$312	$773,396	$(177,102)

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004
(IN THOUSANDS)

	2005	2004	
Net income	$ 81,512	$ 47,022	$
Other comprehensive income:			
Change in fairvalue of hedged instruments	568	180	
Net comprehensive income	$ 82,080	$ 47,202	$

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004
(IN THOUSANDS)

	2005	20
Cash flows from operating activities:		
Net income	$ 81,512	$ 47
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in (earnings) losses of unconsolidated affiliates	-	
Income allocated to minority interest	37,190	18
Depreciation and amortization	100,584	98
Impairment of assets held as General Partner	400	1
Impairment of real property	7,325	1
Gain on disposition of property and business	(81,679)	(26
Issuance of restricted stock, compensation cost of stock options and deferred compensation	2,662	2
Changes in assets and liabilities:		
Other assets	(8,423)	(1
Accounts payable and accrued liabilities	(6,624)	20
Total adjustments	51,435	114
Net cash provided by operating activities	132,947	161
Cash flows from investing activities:		
Purchase of properties and other assets, net of mortgage notes assumed and UPREIT Units issued	(219,852)	(153
Additions to properties	(98,917)	(102
Advances to affiliates	-	
Payments on advances to affiliates	-	
Proceeds from sale of affordable properties, net	-	2
Proceeds from sale of properties and business, net	139,073	89
Net cash used in investing activities	(179,696)	(165
Cash flows from financing activities:		
Proceeds from sale of common stock, net	10,185	40
Repurchase of common stock	(114,765)	(53
Proceeds from mortgage notes payable	370,752	191

Payments of mortgage notes payable	(119,939)	(97
Proceeds from line of credit	376,370	291
Payments on line of credit	(352,370)	(233
Payments of deferred loan costs	(2,991)	(2
Withdrawals from (additions to) cash escrows, net	3,112	(1
Repayment of officer and director loans	-	
Dividends and distributions paid	(126,139)	(128
Net cash provided by (used in) financing activities	44,215	5
Net increase (decrease) in cash and cash equivalents	(2,534)	1
Cash and cash equivalents		
Beginning of year	7,925	5
Cash assumed in connection with FIN 46 consolidation	-	
End of year	$ 5,391	$ 7

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

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

1 ORGANIZATION AND BASIS OF PRESENTATION

Organization

Home Properties, Inc. (the "Company ") was formed in November 1993, as a Maryland corporation and is engaged primarily in the ownership, management, acquisition, and rehabilitation of residential apartment communities in the Northeastern, Mid-Atlantic, Midwestern and Southeast Florida 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 December 31, 2005, the Company operated 158 apartment communities with 47,001 apartments. Of this total, the Company owned 153 communities, consisting of 43,432 apartments, managed as general partner one partnership that owned 868 apartments, and fee managed four communities, consisting of 2,701 apartments for third parties.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its 65.2% (67.7% at December 31, 2004) interest in the Operating Partnership. Such interest has been calculated as the percentage of outstanding common shares divided by the total outstanding common shares and Operating Partnership Units ("UPREIT Units") outstanding. The remaining 34.8% (32.3% at December 31, 2004) is reflected as Minority Interest in these consolidated financial statements. 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 the limited partner, Home Properties Trust. 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. For financing purposes, the Company has formed a limited liability company (the "LLC") and a partnership (the "Financing Partnership"), which beneficially own certain apartment communities encumbered by mortgage indebtedness. The LLC is wholly owned by the Operating Partnership.

The Financing Partnership is owned 99.9% by the Operating Partnership and 0.1% by the QRS.

The accompanying consolidated financial statements include the accounts of Home Properties Management, Inc. and Home Properties Resident Services, Inc. (the "Management Companies"). The Management Companies are wholly owned subsidiaries of the Company. All significant inter-company balances and transactions have been eliminated in these consolidated financial statements.

Through March 30, 2004, the Company accounted for its investment as managing general partner ("GP") in unconsolidated affordable housing limited partnerships ("LP") using the equity method of accounting. Effective March 31, 2004, the Company adopted FASB Interpretation No. 46R, Consolidation of Variable Interest Entities ("FIN 46R"). This interpretation addresses consolidation by business enterprises of variable interest entities in which the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or in which the equity investors do not have the characteristics of a controlling financial interest. This interpretation requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The interpretation also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. As

1 ORGANIZATION AND BASIS OF PRESENTATION (Continued)

of March 31, 2004, the Company was the general partner in 41 limited partnerships in Upstate New York, Pennsylvania, Ohio and Maryland. The Company had made a determination that all 41 limited partnerships were Variable Interest Entities ("VIEs"). As of March 31, 2004, Home Properties determined that it was not the primary beneficiary in seven partnerships syndicated under U.S. Department of Housing and Urban Development subsidy programs none of which remained as of December 31, 2005. These investments continued to be accounted for under the equity method until their sale. For those investments, the Company continued to record its allocable share of the respective partnership's income or loss based on the terms of the agreement. To the extent it was determined that the LPs could not absorb their share of the losses, if any, the GP recorded the LPs share of such losses. The Company had further determined that it was the primary beneficiary in 34 of the VIEs and, therefore, consolidated these entities effective March 31, 2004. Beginning with the second quarter of 2004, the Company consolidated the results of operations of the VIEs. During 2004 and 2005, the Company sold most of these consolidated VIEs with only one partnership remaining as of December 31, 2005. The results of operations for the VIEs sold during the years ended 2005 and 2004 are included in discontinued operations. The one remaining property is classified as held and used as of December 31, 2005 and the results of operations are included in continuing operations.

Reclassifications

Certain reclassifications have been made to the 2004 and 2003 consolidated financial statements to conform to the 2005 presentation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Real Estate

Real estate is recorded at cost. Costs related to the acquisition, development, construction and improvement of properties are capitalized. Recurring capital replacements typically include carpeting and tile, appliances, HVAC equipment, new roofs, site improvements and various exterior building improvements. Non-recurring upgrades include, among other items, community centers, new appliances, new windows, kitchens and bathrooms. Interest costs are capitalized until construction is substantially complete. There was $1,096, $763, and $920 of interest capitalized in 2005, 2004 and 2003, respectively. Salaries and related costs capitalized for the years ended December 31, 2005, 2004 and 2003 were $2,135, $3,391 and $6,008, respectively. When retired or otherwise disposed of, the related asset cost and accumulated depreciation are cleared from the respective accounts and the net difference, less any amount realized from disposition, is reflected in income. Ordinary repairs and maintenance that do not extend the life of the asset are expensed as incurred.

Management reviews its long-lived assets used in operations for impairment when in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets ("SFAS 144") there is an event or change in circumstances that indicates an impairment in value. An asset is considered impaired when the undiscounted future cash flows are not sufficient to recover the asset's carrying value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The Company records impairment losses and reduces the carrying amounts of assets held for sale when the carrying amounts exceed the estimated selling proceeds less the costs to sell.

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate (Continued)

The Company accounts for its acquisitions of investments in real estate in accordance with SFAS No. 141, Business Combinations ("SFAS 141"), which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building, and personal property and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases and value of resident relationships, based in each case on their fair values. The Company considers acquisitions of operating real estate assets to be businesses as that term is contemplated in Emerging Issues Task Force Issue No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business.

The Company allocates purchase price to the fair value of the tangible assets of an acquired property (which includes the land, building, and personal property) determined by valuing the property as if it were vacant. The as-if-vacant value is allocated to land, buildings, and personal property based on management's determination of the relative fair values of these assets.

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values are included in other assets and are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are included in accrual expenses and other liabilities and are amortized as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases.

Other intangible assets acquired include amounts for in-place lease values that are based upon the Company's evaluation of the specific characteristics of the leases. Factors considered in these analyses include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management also includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods depending on the property acquired.

The total amount of other intangible assets acquired is further allocated to in-place leases, which includes other resident relationship intangible values based on management's evaluation of the specific characteristics of the residential leases and the Company's resident retention history.

The value of in-place leases and resident relationships are amortized as a leasing cost expense over the initial term of the respective leases and any expected renewal period.

The acquisitions of minority interests for shares of the Company's Common Stock are recorded under the purchase method with assets acquired reflected at the fair market value of the Company's Common Stock on the date of acquisition. The acquisition amounts are allocated to the underlying assets based on their estimated fair values.

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Properties are depreciated using a straight-line method over the estimated useful lives of the assets as follows: buildings, improvements and equipment - 3 to 40 years. Depreciation expense charged to operations was $89,427, $78,563 and $65,956 from continuing operations and $9,883, $15,546 and $13,230 from discontinued operations for the years ended December 31, 2005, 2004 and 2003, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments purchased with original maturities of three months or less. The Company estimates that the fair value of cash equivalents approximates the carrying value due to the relatively short maturity of these instruments.

Cash in Escrows

Cash in escrows consists of cash restricted under the terms of various loan agreements to be used for the payment of property taxes and insurance as well as required replacement reserves and resident security deposits for residential properties.

Allowance for Doubtful Receivables

The allowance for doubtful receivables was $513, $567 and $241 as of December 31, 2005, 2004 and 2003, respectively.

Deferred Charges

Costs relating to the financing of properties are deferred and amortized over the life of the related financing agreement. The straight-line method, which approximates the effective interest method, is used to amortize all financing costs; such amortization is reflected as interest expense in the consolidated statement of operations. The range in the terms of the agreements are from 1-18 years. Accumulated amortization was $5,832, $5,640 and $3,212, as of December 31, 2005, 2004 and 2003, respectively.

Intangible Assets

Intangible assets of $5,080, $3,281 and $3,403 at December 31, 2005, 2004 and 2003, respectively, included in Other Assets, consist primarily of property management contracts obtained through the acquisition of real estate management businesses, and intangible assets recorded in connection with SFAS 141. Intangible assets associated with SFAS 141 are amortized on the straight-line basis over their estimated useful lives of 7 months to 3 years. Subsequent to 2002, the Company has not amortized intangibles on assets held for sale (see Notes 3 and 4). Accumulated amortization of intangible assets was $2,797, $2,005 and $893 as of December 31, 2005, 2004 and 2003, respectively. Amortization expense was $805, $1,120, and $230 for the years ended December 31, 2005, 2004 and 2003, respectively. The carrying value of intangible assets is periodically reviewed by the Company and impairments are recognized when the expected future operating cash flows derived from such intangible assets is less than their carrying value. During 2004 and 2003, in connection with the sale of the assets associated with the general partnership interests in certain affordable housing limited partnerships, the Company disposed of $1,771 and $1,284 of intangible assets, respectively.

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Operating Partnership leases its residential properties under leases with terms generally one year or less. Rental income is recognized on a straight-line basis over the related lease term. As a result, deferred rents receivable are created when rental income is recognized during the concession period of certain negotiated leases and amortized over the remaining term of the lease. In accordance with SFAS 141, the Company recognizes rental revenue of acquired in-place "above and below" market leases at their fair value over the weighted average remaining lease term. Property other income, which consists primarily of income from operation of laundry facilities, utility recovery, administrative fees, garage and carport rentals and miscellaneous charges to residents, is recognized when earned (when the services are provided, or when the resident incurs the charge).

Property management fees are recognized when earned based on a contractual percentage of net monthly cash collected on rental income.

Other Income

Other income for the years ended December 31, 2005, 2004 and 2003 primarily reflects management and other real estate service fees.

Gains on Real Estate Sales

Gains on disposition of properties are recognized using the full accrual method in accordance with the provisions of SFAS No. 66, Accounting for Real Estate Sales, provided that various criteria relating to the terms of sale and any subsequent involvement by the Company with the properties sold are met.

Advertising

Advertising expenses are charged to operations during the year in which they were incurred. Advertising expenses incurred and charged to operations were approximately $5,603, $5,568, and $5,525 from continuing operations, and $1,005, $1,263, and $1,703 from discontinued operations, for the years ended December 31, 2005, 2004 and 2003, respectively.

Legal Settlements

In March 2005, the Company settled a legal claim for a total cost of $3,800, which was expensed in 2004. The legal claim was brought against the Company, the Operating Partnership, and Home Leasing Corporation. Home Leasing is owned by Nelson B. Leenhouts and Norman Leenhouts, who are the Co-Chairs of the Board of Directors and Senior Advisors to the Company. The Company was originally formed to expand and continue Home Leasing's business. The essence of the complaint is that the entity in which plaintiffs were investors was wrongfully excluded from the Company's initial organization as a real estate investment trust and the investors, therefore, did not obtain the benefits from exchanging their equity interests in that entity for equity in the Operating Partnership. In their original complaint, plaintiffs sought damages in the amount of $3,000. In the subsequent discovery process, plaintiffs increased the damages sought to $10,000. Included in general and administrative expenses for the year ended December 31, 2004 is the accrual for payment made during 2005 in settlement of $3,500 and for legal fees of $300 made on behalf of Home Leasing Corporation, as well as the Company and the Operating Partnership. Payment was made on behalf of Home Leasing in recognition of the fact that the matters alleged in the action against Home Leasing related directly and solely to the promotion and creation of the Company.

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Legal Settlements (continued)

In October 2001, the Company resolved a legal claim with an insurance provider and received a total settlement of $4,900. This refund was allocated to insurance expense in relation to the Company's estimate of loss spread over the corresponding policy term between November 1, 2000 to October 31, 2002. An additional $600 was received in December 2002 relating to the settlement for the policy period January 1, 2003 through October 31, 2003. This settlement was amortized to insurance expense on a straight-line basis over that period.

Federal Income Taxes

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 years ended December 31, 2005, 2004 and 2003, 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. Stockholders of the Company are taxed on dividends and must report distributions from the Company as either ordinary income, capital gains, or as return of capital. (See Note 7)

The tax basis of assets is less than the amounts reported in the accompanying consolidated financial statements by approximately $619,000 and $476,000 at December 31, 2005 and 2004, respectively.

The following table reconciles net income to taxable income for the years ended December 31, 2005, 2004 and 2003:

		2005	
Net income		$81,512	
Add back:	Net loss of taxable REIT Subsidiaries included in net income above	172	
Deduct:	Net income of taxable REIT subsidiaries included in net income above	(27)	
Net income from REIT operations		81,657	
Add:	Book depreciation and amortization	68,814	
Less:	Tax depreciation and amortization	(68,426)	(
Book/tax difference on gains/losses from capital transactions		(45,906)	(
Other book/tax differences, net		(6,450)	(
Adjusted taxable income subject to 90% REIT dividend requirement		$29,689	

The Company made actual distributions in excess of 100% of taxable income before capital gains. All adjustments to net income from REIT operations are net of amounts attributable to minority interest and taxable REIT subsidiaries.

Included in total assets on the Consolidated Balance Sheets are deferred tax assets of $8,496 and $8,737 as of December 31, 2005 and 2004, respectively. Management does not believe it is more likely than not that these deferred assets will be used, and accordingly has recorded a reserve against the deferred tax asset of $8,421 and $8,680 as of December 31, 2005 and 2004, respectively.

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share

Basic Earnings Per Share ("EPS") is computed as net income available to common shareholders 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 cumulative convertible preferred stock. The exchange of an UPREIT Unit for common stock will have no effect on diluted EPS as unitholders and stockholders effectively share equally in the net income of the Operating Partnership.

Income from continuing operations is the same for both the basic and diluted EPS calculation. The reconciliation of the basic and diluted earnings per share for the years ended December 31, 2005, 2004, and 2003, is as follows:

	2005	2004
Income from continuing operations	$ 26,630	$ 30,20
Add: Gain (loss) on sale of business, net of minority interest	-	(6
Less: Preferred dividends	(6,279)	(7,59
Basic and Diluted - Income from continuing operations applicable to common shareholders	$ 20,351	$ 22,54
Basic weighted average number of shares outstanding	31,962,082	32,911,94
Effect of dilutive stock options	366,023	402,09
Diluted weighted average number of shares outstanding	32,328,105	33,314,03
Basic earnings per share data:		
Income from continuing operations	$0.63	$0.69
Discontinued operations	1.72	0.52
Cumulative effect of change in accounting principle	-	(0.01
Net income available to common shareholders	$2.35	$1.20
Diluted earnings per share data:		
Income from continuing operations	$0.63	$0.67
Discontinued operations	1.70	0.52
Cumulative effect of change in accounting principle	-	(0.01
Net income available to common shareholders	$2.33	$1.18

Unexercised stock options to purchase 539,500, zero and 641,550 shares of the Company's common stock were not included in the computations of diluted EPS because the options' exercise prices were greater than the average market price of the Company's stock during the years ended December 31, 2005, 2004 and 2003, respectively. For the years ended December 31, 2005 (until the date of the conversion) and 2004, the 833,333 common stock equivalents on an as-converted basis of the Series D Convertible Cumulative Preferred Stock have an antidilutive effect and are not included in the computation of diluted EPS. For the year ended December 31, 2003, there were 2,229,719 common stock equivalents on an as-converted basis of certain convertible preferred stock that had an antidilutive effect and were not included in the computation of diluted EPS. To the extent the preferred stock was converted, the common shares would be included in outstanding shares from the date of conversion.

HOME PROPERTIES, INC.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock Based Employee Compensation

Effective January 1, 2003, the Company adopted the fair value based method of accounting for stock options in accordance with SFAS No. 123, Accounting for Stock-Based Compensation. The Company applied the modified-prospective approach in adopting SFAS No. 123 in conformity with the transition provisions of SFAS No. 148 - Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of SFAS No. 123. Under this approach, the Company recognizes stock-based employee compensation cost from the beginning of the fiscal year in which the recognition provisions are first applied as if the fair value based accounting method in this Statement had been used to account for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. For 2005, 2004 and 2003, total compensation costs recognized by the Company on its stock options and restricted stock, (including in 2003 $5,000 recognized in connection with a 129,870 share restricted stock grant to the Leenhoutses upon their retirement as Co-CEO's), amounted to $2,429, $2,119 and $6,341, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2005, 2004, and 2003:

Assumption	2005	200
Dividend yields	6.55%	6.74
Expected volatility	18.76%	19.7
Expected lives of the options with a lifetime of ten years	7.5 Years	7.5 Ye
Expected lives of the options with a lifetime of five years	5.0 Years	N/A
Risk free interest rate	4.10%	4.04

Recent Accounting Pronouncements

In May 2003, FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted this pronouncement for the year ended December 31, 2004, and it did not have an impact on the Company's results of operations, financial position or liquidity.

HOME PROPERTIES, INC.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (continued)

In December 2003, the FASB issued Interpretation No. 46R, Consolidation of Variable Interest Entities ("FIN 46R"). This interpretation addresses consolidation by business enterprises of variable interest entities in which the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or in which the equity investors do not have the characteristics of a controlling financial interest. This interpretation requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The interpretation also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. Effective March 31, 2004, the Company adopted FIN 46R. See the Basis of Presentation disclosure in Note 1 and the Company's disclosure on its Variable Interest Entities (Investments in and Advances to Affiliates) in Note 3 for a discussion of the impact on the Company from the adoption of FIN 46R.

In March 2004, the FASB issued EITF 03-6, Participating Securities and the Two-Class Method under FASB Statement 128, Earnings per Share ("EITF 03-6"). EITF 03-6 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating EPS. It clarifies what constitutes a participating security and how to apply the two-class method of computing EPS once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. The EITF was effective for the fiscal periods beginning after March 31, 2004. The Company adopted the provisions of this EITF effective April 1, 2004, and had no impact on the Company's results of operations, financial position or liquidity.

In November 2004, the FASB issued EITF Issue 04-8, The Effect of Contingently Convertible Debt on Diluted Earnings Per Share. ("EITF 04-8"). EITF 04-8 addresses a number of issues relating to issued securities with embedded market price contingent conversion features, which includes contingently convertible preferred stock, and the impact on the calculation of earnings per share on a quarterly basis. The EITF is effective for periods ending after December 15, 2004. The Company adopted the provisions of this EITF for the year ended December 31, 2004 and it had no impact on the Company's results of operations, financial position or liquidity.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment ("SFAS 123(R)"). The statement is a revision of

SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS 123(R), requires that entities recognize the cost of employee services received in exchange for awards of equity instruments (i.e. stock options) based on the grant-date fair value of those awards. The Statement is effective for the first fiscal year beginning after June 15, 2005. On January 1, 2003, the Company adopted the provisions of SFAS No. 148 Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment to SFAS No. 123 ("SFAS 148"). Effective on that date, the Company began recognizing compensation cost related to stock option grants. Based upon the Company's adoption of SFAS 148, the Company does not expect the application of SFAS No. 123(R) beginning January 1, 2006 to have a material impact on the Company's results of operations, financial position or liquidity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (continued)

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets - An amendment of APB Opinion No. 29 ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for non-monetary exchanges of similar productive assets in paragraph 21 (b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with a general exception for exchanges that lack commercial substance. SFAS 153 specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 was effective for our interim periods beginning July 1, 2005. The adoption of SFAS 153 did not have an effect on our financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations ("FIN 47"). FIN 47 requires an entity to recognize a liability for a conditional asset retirement obligation when incurred if the liability can be reasonably estimated. FIN 47 clarifies that the term "conditional asset retirement obligation" refers to a legal obligation (pursuant to existing laws or by contract) to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 was effective no later than fiscal years ending after December 15, 2005. The Company adopted FIN 47 as required effective December 31, 2005 and the initial application of FIN 47 did not have a material effect on our financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections ("SFAS 154"). SFAS 154 replaces APB No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements and establishes retrospective application as the required method for reporting a change in accounting principle. SFAS 154 provides guidance for determining whether a retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of SFAS 154 will have a material effect on our financial position and results of operations.

In October 2005, the FASB issued Staff Position No. 13-1 Accounting for Rental Costs Incurred during a Construction Period ("FSP FAS 13-1"). FSP FAS 13-1 addresses the accounting for rental costs associated with operating leases that are incurred during the construction period. FSP FAS 13-1 makes no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense, allocated over the lease term in accordance with SFAS No. 13 and Technical Bulletin 85-3. FSP FAS 13-1 is effective for the first reporting period beginning after December 15, 2005. Retrospective application in accordance with SFAS 154 is permitted but not required. The Company does not believe that the application of FSP FAS 13-1 will have a material impact on our financial position or results of operations.

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3 VARIABLE INTEREST ENTITIES

Effective March 31, 2004, the Company adopted FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 - Consolidated Financial Statements. The interpretation addresses consolidation by businesses of special purpose entities (variable interest entities, "VIE"). The Company had made the determination that all 41 of the remaining limited partnerships at the time were Variable Interest Entities.

The Company determined that it was not the primary beneficiary in seven partnerships syndicated under U.S. Department of Housing and Urban Development subsidy programs, all of which have been sold as of December 31, 2005. These investments were accounted for under the equity method through their sale. The Company recorded its allocable share of the respective partnership's income or loss based on the terms of the agreements. To the extent it was determined that the LPs could not absorb their share of the losses, if any, the GP recorded the LPs share of such losses. The Company absorbed such losses to the extent the Company had outstanding loans or advances and the limited partner had no remaining capital account.

The Company had further determined that it was the primary beneficiary in 34 of the VIEs and, therefore, consolidated these entities effective March 31, 2004. In connection with the adoption of FIN 46R, the Company recorded a $321 charge of a cumulative effect, net of minority interest, of a change in accounting principle during the first quarter of 2004. This charge was a result of the negative capital accounts of minority interest partners that were absorbed by the Company. During the first quarter of 2004, prior to the adoption of FIN 46R, the Company recorded an impairment charge of $1,654 to reduce the value of the Company's investment associated with the VIEs to management's estimate of fair market value. The impairment charge is classified in the financial statements as "Impairment of assets held as general partner" of $1,116 and "Equity in earnings (losses) of unconsolidated affiliates" of ($538). During 2003, the Company recorded total impairment charges of $4,410 to reduce the value of the Company's investment associated with the VIEs to management's estimate of fair market value. The impairment charge is classified in the financial statements as "Impairment of assets held as general partner" of $2,518 and "Equity in earnings (losses) of unconsolidated affiliates" of ($1,892). Beginning with the second quarter of 2004, the Company consolidated the results of operations of the VIEs. The results of operations of 33 of the VIEs are included in discontinued operations as of December 31, 2004, as all of the VIEs were considered held for sale. During 2005, the Company closed on the sale of all but one VIE. The one remaining VIE is not considered held for sale and is included in the Consolidated statement of operations for the years ended December 31, 2005 and 2004. The effect on the consolidated balance sheets of including these VIEs as of December 31, 2005 and 2004 includes Total assets of $21,300 and $87,800, Total liabilities of $17,900 and $80,600, and Minority interest of $3,400 and $7,500, respectively.

The Company is currently the general partner in the one remaining VIE syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company manages the day-to-day operations of this partnership for a management fee. In addition, the Company has certain operating deficit and tax credit guarantees to its limited partner. The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards when cash flow reaches certain levels.

Based upon the final contract price established during final negotiations with the buyers for 38 of these partnerships, an additional $4,000 loss was recorded during 2004, included in "gain on disposition of property" as part of "Discontinued operations."

HOME PROPERTIES, INC.

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3 VARIABLE INTEREST ENTITIES (Continued)

In December, 2004, the Company recorded an obligation to repurchase the limited partner's interests in two VIEs in satisfaction of any tax credit guarantees or other obligations to that partner for $5,700, resulting in a loss of $5,000 included in "gain on disposition of property" as part of "Discontinued operations." The transfer of the partnership interests was effective in January, 2005. In connection with the Company's decision to dispose of the property through a transfer of deed in lieu of foreclosure, the Company performed a valuation analysis on the underlying real estate, and as a result, recorded a $7,300 impairment of real estate during the first quarter of 2005 to adjust the net book value of the property to the Company's estimated fair market value. This impairment is included as part of "Discontinued operations" in "Income from operations." Finally, on September 30, 2005, the deed was transferred to the new mortgage holder in lieu of foreclosure resulting in a gain on sale of real estate of $7,700, included in "gain on disposition of property" as part of "Discontinued operations."

Additionally, the Company is no longer marketing for sale the one remaining VIE. Based upon the Company's estimate of fair market value, an $800 and $400 investment impairment charge was recorded in the periods ended December 31, 2004 and 2005, respectively, for this one remaining VIE, included as part of "Discontinued operations" in "gain on disposition of property."

4 MORTGAGE NOTES PAYABLE

The Company's mortgage notes payable are summarized as follows:

	2005	2004
Fixed rate mortgage notes payable	$1,749,127	$1,516,926
Variable rate mortgage notes payable	92,959	127,796
Total mortgage notes payable	1,842,086	1,644,722

Less: Mortgage notes payable classified as held for sale	73,603	77,637
Mortgage notes payable - net	$1,768,483	$1,567,085

Mortgage notes payable (including mortgage notes classified as held for sale) are collateralized by certain apartment communities and mature at various dates from 2006 through 2042. The weighted average interest rate of the Company's fixed rate notes was 5.95% and 6.23% at December 31, 2005 and 2004, respectively. The weighted average interest rate of the Company's variable rate notes and credit facility (Note 6) was 4.82% and 2.98% at December 31, 2005 and 2004, respectively.

Principal payments on the mortgage notes payable for years subsequent to December 31, 2005 are as follows:

2006	$ 60,848
2007	184,684
2008	205,630
2009	66,249
2010	289,161
Thereafter	1,035,514
	$1,842,086

HOME PROPERTIES, INC.

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4 MORTGAGE NOTES PAYABLE (Continued)

The Company determines the fair value of the mortgage notes payable based on the discounted future cash flows at a discount rate that approximates the Company's current effective borrowing rate for comparable loans. Based on this analysis, the Company has determined that the fair value of the mortgage notes payable approximates $1,890,232 and $1,704,410, at December 31, 2005 and 2004, respectively.

At December 31, 2005 and 2004, the consolidated mortgage balance (including mortgage notes payable classified as held for sale) of $1,842,086 and $1,644,722, respectively, included mortgage notes payable related to the Company's affordable limited partnerships, consolidated in connection with the Company's adoption of FIN 46R, in the amount of $16,989 and $77,637, respectively.

Prepayment penalties of approximately $147, $305 and $1,610 were incurred for the years ended December 31, 2005, 2004 and 2003, respectively. For 2005, a prepayment penalty was incurred in connection with the repayment of a mortgage. For 2004 the prepayment penalties were incurred in connection with both debt restructurings and the sale of property, whereas in 2003 the prepayment penalties were incurred strictly in connection with the sale of property.

During 2005, repayments on five debt instruments totaled $29,113 and were refinanced by six new borrowings of $69,197. In addition, the Company added additional financing on seven properties totaling $116,537 and repaid debt on four mortgages in the amount of $26,429. In connection with the acquisition of seven apartment communities, the Company entered into or assumed new debt in the amount of $190,460. During 2004, repayments on three debt instruments totaling $14,338 were refinanced by three new borrowings of $52,957 and the Company added additional financing on six properties totaling $76,853. Debt totaling $9,561 was repaid. Debt in the amount of $146,566 was entered into or assumed in connection with the acquisition of ten apartment communities.

5 LINE OF CREDIT

As of December 31, 2005, the Company had an unsecured line of credit of $140,000. The Company's outstanding balance as of December 31, 2005 was $82,000. Provided that no event of default under this agreement has occurred, the Company may request on or before September 1, 2007 that the lenders increase the line of credit to an amount not to exceed $190,000. The Company has had no occurrences of default as of December 31, 2005. The line of credit is led by Manufacturers and Traders Trust Company ("M&T Bank"), as Administrative Agent, with three other participants: Citizens Bank of Rhode Island, Chevy Chase Bank, F.S.B., and Comerica Bank. Borrowings under the line of credit bear interest at .75% over the one-month LIBOR. The one-month LIBOR was 4.38% at December 31, 2005. The LIBOR interest rate plus .75% was 5.13% at December 31, 2005.

Increases in interest rates will raise the Company's interest expense on any outstanding balances and as a result would affect the Company's results of operations and financial condition. The line of credit expires on September 1, 2008 and can be extended one year upon satisfaction of certain conditions. The Credit Agreement relating to this line of credit requires the Company to maintain certain financial ratios and measurements. The Company was in compliance with these financial covenants for the quarterly period ended December 31, 2005.

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5 LINE OF CREDIT (Continued)

As of December 31, 2004 the Company had an unsecured line of credit of $115,000. The outstanding balance as of December 31, 2004 was $58,000. The Credit Agreement relating to this line of credit required the Company to maintain certain financial ratios and measurements. One of these covenants restricted the Company from making any distribution to its shareholders and holders of its Operating Partnership units if a distribution, that when added to other distributions paid during the three immediately preceding fiscal quarters, exceeded the greater of: (i) 90% of funds from operations and 110% of cash available for distribution; and (ii) the amount required to maintain the Company's status as a REIT. Due to the granting of restricted stock to the retiring Co-CEO's in the fourth quarter of 2003, the Company did not meet the required ratio. The funds from operations payout ratio was 91%, when measured for the calendar years. Waivers were granted by the participating banks for the excess payout incurred in 2003, as indicated above. The new credit agreement effective September 1, 2005 has removed this covenant completely. The line of credit has not been used for long-term financing but adds a certain amount of flexibility, especially in meeting the Company's acquisition goals. Many times, it is easier to temporarily finance an acquisition or stock repurchase in a short-term nature through the line of credit, with long-term secured financing or other sources of capital replenishing the line of credit availability.

On November 23, 2005, the Company executed a Standard Libor Grid Note with M&T Bank. The note has a maximum principal amount of $40,000 with an interest rate at .95% over the one-month LIBOR. Proceeds from this demand note were utilized to fund the Company's stock repurchase program. The Company had no outstanding balance on the note as of December 31, 2005.

6 MINORITY INTEREST

Minority interest in the Company relates to the interest in the Operating Partnership and affordable limited partnerships not owned by Home Properties, Inc. Holders of UPREIT Units may redeem a 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.

For 2005 and 2004, the effect of consolidating the affordable limited partnership in connection with FIN 46R has been reflected in the change in minority interest for the year. The changes in minority interest for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
Balance, beginning of year	$310,775	$330,54
Issuance of UPREIT Units associated with property acquisitions	55,598	12,10
Adjustment between minority interest and stockholders' equity	(33,856)	(5,63
Exchange of UPREIT Units for Common Shares	(4,010)	(14,10
Net income	37,190	18,98
Accumulated other comprehensive loss	278	11
Distributions	(39,279)	(38,91
Effect of consolidating affordable limited partnerships under FIN 46R	(3,427)	7,67
Balance, end of year	$323,269	$310,77

HOME PROPERTIES, INC.

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7 PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Preferred Stock

In May and June of 2000, the Company privately placed 600,000 of its 8.75% Series C convertible cumulative preferred stock ("Series C Preferred Shares"), $100 liquidation preference per share. This offering generated net proceeds of approximately $60,000. The net proceeds were used to fund acquisitions and property upgrades. The Series C Preferred shares were convertible at any time by the holder into Common Shares at a conversion price of $30.25 per Common Share, equivalent to a conversion ratio of 3.3058 Common Shares for each Series C Preferred share (equivalent to 1,983,471 Common shares assuming 100% converted). The Series C Preferred shares were non-callable for five years. Each Series C Preferred share received the greater of a quarterly distribution of $2.1875 per share or the dividend paid on a share of common stock on an as-converted basis. The Company also issued 240,000 additional warrants to purchase common shares at a price of $30.25 per share, expiring in 2005. In January 2003, holders of 100,000 shares of Series C Preferred Shares elected to convert those shares for 330,579 shares of common stock. On May 8, 2003, 200,000 shares of Series C Preferred Shares were converted into 661,157 shares of common stock. On August 26, 2003, 200,000 shares of Series C Preferred Shares were converted into 661,157 of common stock. On November 5, 2003, the remaining 100,000 shares of Series C Preferred Shares elected to convert those shares for 330,579 shares of common stock. On September 9, 2003, 17,780 warrants were exercised, resulting in the issuance of 17,780 shares of common stock. During the fourth quarter of 2003, the remaining 222,220 common stock warrants were exercised, resulting in the issuance of 222,220 shares of common stock. Neither the conversions nor the warrant exercise had an effect on the reported results of operations. As of December 31, 2003, there were no Series C Preferred Shares outstanding.

In June 2000, the Company privately placed 250,000 of its 8.78% Series D convertible cumulative preferred stock ("Series D Preferred Shares"), $100 liquidation preference per share. This offering generated net proceeds of approximately $25,000. The net proceeds were used to fund Company acquisitions and property upgrades. The Series D Preferred Shares were convertible at any time by the holder into Common Shares at a conversion price of $30.00 per Common Share, equivalent to a conversion ratio of 3.333 Common Shares for each Series D Preferred share (equivalent to 833,333 Common Shares assuming 100% converted) and were non-callable for five years. Each Series D Preferred share received the greater of a quarterly distribution of $2.195 per share or the dividend paid on a share of common stock on an as-converted basis. On May 26, 2005, all 250,000 shares of the Series D Preferred Shares were converted into 833,333 shares of Common stock. The conversion of the Series D Preferred Shares to Common Shares did not have an effect on the reported results of operations. As of December 31, 2005, there were no Series D Preferred Shares outstanding.

In December 2000, the Company privately placed 300,000 of its 8.55% Series E convertible cumulative preferred stock ("Series E Preferred Shares"), $100 liquidation preference per share. This offering generated net proceeds of approximately $30,000. The net proceeds were used to pay down Company borrowings. The Series E Preferred Shares were convertible at any time by the holder into Common Shares at a conversion price of $31.60 per Common Share, equivalent to a conversion ratio of 3.1646 Common Shares for each Series E Preferred Share (equivalent to 949,367 Common Shares assuming 100% converted). The Series E Preferred Shares were non-callable for five years. Each Series E Preferred Share received the greater of a quarterly distribution of $2.1375 per share or the dividend paid on a share of common stock on an as-converted basis. In addition, the Company issued warrants to purchase 285,000 common shares at a price of $31.60 per share, expiring in 2005. On August 20, 2002, 63,200 of the Series E Convertible Preferred Shares were converted into 200,000 shares of common stock. On May 6, 2003, 36,800 shares of Series E Preferred Shares were converted into 116,456 shares of common stock. On August 26, 2003 the remaining 200,000 shares of Series E Preferred Shares were converted into 632,911 of common stock. On September 9, 2003, 17,100 warrants were exercised, resulting in the issuance of 17,100 shares of common stock. During the fourth quarter of 2003, the remaining 267,900 common stock warrants were exercised, resulting in the issuance of 267,900 shares of common stock. Neither the conversions nor the warrant exercise had an effect on the reported results of operations. As of December 31, 2003, there were no Series E Preferred Shares outstanding.

In March 2002, the Company issued 2,400,000 shares of its 9.00% Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Shares"), with a $25.00 liquidation preference per share. This offering generated net proceeds of approximately $58,000. The net proceeds were used to fund the repurchase of the Company's Series B preferred stock, property acquisitions, and property upgrades. The Series F Preferred Shares are redeemable by the Company at anytime on or after March 25, 2007 at a redemption price of $25.00 per share, plus any accumulated, accrued and unpaid dividends. Each Series F Preferred share will receive an annual dividend equal to 9.00% of the liquidation preference per share (equivalent to a fixed annual amount of $2.25 per share).

Common Stock

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action did not establish a target price or a specific timetable for repurchase. At December 31, 2003, there was approval remaining to purchase 3,135,800 shares. During 2004, the Company repurchased 1,135,800 shares at a total cost of $47,400. At December 31, 2004 the Company had authorization to repurchase 2,000,000 shares of common stock and UPREIT Units under the stock repurchase program. On each of February 16, and November 4, 2005, the Board of Directors approved 2,000,000-share increases in the stock repurchase program. During 2005, the Company repurchased 2,779,805 additional shares at a cost of $111,700, leaving a remaining share authorization level of 3,220,195 shares as of December 31, 2005.

In January 2006, the Company repurchased 107,800 additional shares at a cost of $4,500, leaving a remaining share authorization level of 3,112,395 shares as of February 21, 2006.

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (the "DRIP"). The DRIP provides the stockholders of the Company an opportunity to automatically invest their cash dividends in common stock. In addition, eligible participants may make monthly payments or other voluntary cash investments in shares of common stock. The maximum monthly investment without prior Company approval is currently $1. Effective December 10, 2004, the discount was reduced from 2% to 0%. In addition, in the fourth quarter of 2004 and year ended 2005, the Company has met share demand in the program through share repurchase by the transfer agent in the open market on the Company's behalf instead of new share issuance. This removes essentially 100% of the dilution caused by issuing new shares at a price less than the net asset value in an economic and efficient manner. A total of $18,000 was raised through this program during 2004.

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7 PREFERRED STOCK AND STOCKHOLDERS' EQUITY (Continued)

Dividends

Stockholders are taxed on dividends and must report such dividends as either ordinary income, capital gains, or as return of capital. The Company has declared a $2.53 distribution per common share (CUSIP 437306103) and a $2.25 distribution per Series F preferred share (CUSIP 437306509) during its most recent fiscal year. Pursuant to Internal Revenue Code Section 857 (b) (3) (C), for the years ended December 31, 2005, 2004 and 2003, the Company designates the taxable composition of the following cash distributions to holders of common and preferred shares in the amounts set forth in the tables below :

Common

Distribution Type

Declaration Dates	Record Dates	Payable Dates	Distributions Per Share	Ordinary Taxable Dividend	Return of Capital	Long-Te Capital
2/7/2005	2/17/2005	2/28/2005	$0.63	42.95%	55.34%	0.00%
5/6/2005	5/17/2005	5/27/2005	$0.63	42.95%	55.34%	0.00%
8/3/2005	8/15/2005	8/26/2005	$0.63	42.95%	55.34%	0.00%
11/4/2005	11/15/2005	11/25/2005	$0.64	42.95%	55.34%	0.00%
		TOTALS	$2.53	42.95%	55.34%	0.00%

The taxable composition of cash distributions for each common share for 2004 and 2003 is as follo

Year			Distributions Per Share	Distribution Type Ordinary Taxable Dividend	Return of Capital	Long-Te Capital
2004			$2.49	41.83%	55.24%	0.00
2003			$2.45	55.67%	38.12%	0.00

Series F Preferred

Declaration Dates	Record Dates	Payable Dates	Distributions Per Share	Distribution Type Ordinary Taxable Dividend	Return of Capital	Long-Te Capital
2/7/2005	2/17/2005	2/28/2005	$0.5625	96.16%	0%	0%
5/6/2005	5/17/2005	5/31/2005	$0.5625	96.16%	0%	0%
8/3/2005	8/15/2005	8/31/2005	$0.5625	96.16%	0%	0%
11/4/2005	11/15/2005	11/30/2005	$0.5625	96.16%	0%	0%
		TOTALS	$2.2500	96.16%	0%	0%

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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7 PREFERRED STOCK AND STOCKHOLDERS' EQUITY (Continued)

The taxable composition of cash distributions for each preferred share for 2004 and 2003 is as follows:

Year			Distributions Per Share	Distribution Type: Ordinary Taxable Dividend	Return of Capital	Long-Te Capital
2004			$2.25	93.44%	0.00%	0.00
2003			$2.25	89.96%	0.00%	0.00

Total Shares/Units Outstanding

At December 31, 2005, 31,184,256 common shares, and 16,716,724 UPREIT Units were outstanding for a total of 47,900,980 common share equivalents.

In addition, 2,400,000 shares of Series F Cumulative Redeemable Preferred shares were outstanding as of December 31, 2005.

8 STOCK BENEFIT PLAN

The Company has adopted the 1994 Stock Benefit Plan, as amended (the "Plan"). Plan participants include officers, non-employee directors, and key employees of the Company. The Plan provided for the issuance of up to 1,596,000 shares to officers and employees and 154,000 shares for issuance to non-employee directors. Options granted to officers and employees of the Company vest 20% for each year of service until 100% vested on the fifth anniversary. Certain officers' options (264,000) and directors' options (149,100) vest immediately upon grant. The exercise price per share for stock options may not be less than 100% of the fair market value of a share of common stock on the date the stock option is granted (110% of the fair market value in the case of incentive stock options granted to employees who hold more than 10% of the voting power of the Company's common stock). Options granted to directors and employees who hold more than 10% of the voting power of the Company expire after five years from the date of grant.

All other options expire after ten years from the date of grant. The Plan also allowed for the grant of stock appreciation rights and restricted stock awards. No additional options will be granted under this Plan.

On February 1, 2000, the Company adopted the 2000 Stock Benefit Plan (the "2000 Plan"). The 2000 Plan participants include directors, officers, regional managers and on-site property managers. The 2000 Plan limits the number of shares issuable under the plan to 2,755,000, of which 205,000 were to be available for issuance to the non-employee directors. No additional options will be granted under the 2000 Plan.

On May 6, 2003, the Company adopted the 2003 Stock Benefit Plan (the "2003 Plan"). Plan participants include directors, officers, regional managers and on-site property managers. The 2003 Plan limits the number of shares issuable under the plan to 2,859,475, of which 249,475 are to be available for issuance to the non-employee directors. At December 31, 2005, 1,121,250 and 90,000 common shares were available for future grant of options or awards under the 2003 plan for officers and employees and non-employee directors, respectively.

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8 STOCK BENEFIT PLAN (Continued)

Details of stock option activity during 2005, 2004, and 2003 are as follows:

	Number of Options	W
Options outstanding at December 31, 2002 (921,781 shares exercisable at a weighted average price of $28.75 per share)	2,427,353	
Granted, 2003	678,370	
Exercised, 2003	(255,502)	
Cancelled, 2003	(221,088)	
Options outstanding at December 31, 2003 (1,070,995 shares exercisable at a weighted average price of $29.74 per share)	2,629,133	
Granted, 2004	607,160	
Exercised, 2004	(605,053)	
Cancelled, 2004	(177,524)	
Options outstanding at December 31, 2004 (959,292 shares exercisable at a weighted average price of $31.55 per share)	2,453,716	
Granted, 2005	556,600	
Exercised	(225,605)	
Cancelled	(122,130)	
Options outstanding at December 31,2005	2,662,581	
(1,173,605 shares exercisable at a weighted average price of $33.02 per share)		

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8 STOCK BENEFIT PLAN (Continued)

The following table summarizes information about options outstanding at December 31, 2005:

Year Granted	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Fair Value of Options on Grant Date	Weighted Average Exercise Price Outstanding	Weighted Average Exercise Price Exercisable	Number Exercisabl
1996	2,501	0.32	$1.15	$19.600	$19.600	2,50
1997	3,500	1.83	$1.55	26.500	26.500	3,50

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

1998	8,280	2.67	$1.32	25.125	25.125	8,28
1999	52,872	3.67	$1.57	27.125	27.125	52,87
2000	168,574	4.67	$1.88	31.375	31.375	168,81
2001	401,835	5.45	$1.63	29.286	29.092	329,20
2002	430,884	6.55	$1.96	34.796	34.877	284,66
2003	509,515	7.55	$1.79	36.780	36.779	202,97
2004	538,120	8.56	$3.33	38.743	38.748	114,79
2005	546,500	9.33	$3.52	41.931	$41.950	6,00
Totals	2,662,581	7.35	$2.46	$36.182	$33.019	1,173,60

In 2005, 2004 and 2003, the Company granted a total of 57,375, 65,932 and 198,420 shares of restricted stock to both employees and directors, respectively. The director grants included above for 2005, 2004 and 2003 were 7,875, 3,600 and 2,700 shares, respectively. All the director shares vest 100% on the fifth anniversary of the date of grant. All of the 49,500 and 62,332 shares of restricted stock granted to key employees during 2005 and 2004 vest 25% on each anniversary of the date of grant for a period of four years. For 65,850 of the shares of restricted stock granted to key employees during 2003, the shares vest 100% on the fifth anniversary of the date of grant. In addition, in the fourth quarter of 2003, $5,000 of restricted stock was granted to the Leenhoutses (129,870 shares at $37.75 per share). The total amount of the grant was expensed in the fourth quarter of 2003 as it was part of their retirement award and was fully earned at that date. The restrictions on this restricted stock granted to the Leenhoutses vests 20% on each anniversary of the grant date. The restricted shares were granted during 2005, 2004 and 2003 at a weighted average price of $41.47, $40.10 and $35.64 per share, respectively. Total compensation cost recorded for the years ended December 31, 2005, 2004 and 2003 for the restricted share grants was $1,557, $1,171, and $5,537, respectively. The restricted stock outstanding at December 31, 2005 and 2004 was 277,822 and 267,928 shares, respectively.

In January 2003, the Company adopted the fair value method of recording stock compensation awards in accordance with SFAS 148 Accounting for Stock Based Compensation - An Amendment of SFAS 123 ("SFAS 148") using the Modified Prospective approach of adoption as outlined in the pronouncement. In 2005, 2004 and 2003, the Company recognized $872, $948 and $804 in stock compensation costs related to its outstanding stock options.

9 SEGMENT REPORTING

The Company is engaged in the ownership and management of market rate apartment communities. Each apartment community is considered a separate operating segment. Each segment on a stand alone basis is less than 10% of the revenues, profit or loss, and assets of the combined reported operating segments and meets all of the aggregation criteria under SFAS No. 131. The operating segments are aggregated as Core and Non-core properties.

9 SEGMENT REPORTING (Continued)

Non-segment revenue to reconcile total revenue consists of interest and dividend income and other income. Non-segment assets to reconcile to total assets include cash and cash equivalents, cash in escrows, accounts receivable, prepaid expenses, deferred charges, other assets and other assets held for sale.

Core properties consist of all apartment communities owned throughout 2004 and 2005 where comparable operating results are available. Therefore, the Core Properties represent communities owned as of January 1, 2004. Non-core properties consist of apartment communities acquired during 2004 and 2005, such that full year comparable operating results are not available. In addition, core properties does not include assets held for sale as of December 31, 2005, 2004 and 2003.

The Company assesses and measures segment operating results based on a performance measure referred to as net operating income. Net operating income is defined as total revenues less operating and maintenance expenses.

The accounting policies of the segments are the same as those described in Notes 1 and 2.

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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9 SEGMENT REPORTING (Continued)

The revenues, net operating income, and assets for each of the reportable segments are summarized as follows for the years ended December 31, 2005, 2004, and 2003.

	2005	2004
Revenues		
Apartments owned		
Core properties	$396,722	$384,098
Non-core properties	44,475	22,708
Reconciling items	2,604	3,263
Total Revenue	$443,801	$410,069
Net operating income		
Apartments owned		
Core properties	$220,383	$214,144
Non-core properties	21,840	11,456
Reconciling items	2,604	3,263
Combined segment net operating income	244,827	228,863
General & administrative expenses	(19,652)	(23,978)
Interest expense	(97,898)	(83,078)
Depreciation and amortization	(90,232)	(79,683)
Impairment of assets held as General Partner	(400)	(1,116)
Equity in earnings (losses) of unconsolidated affiliates	-	(538)
Minority interest in limited partnership	-	441
Minority interest in operating partnership	(10,015)	(10,702)

Income from continuing operations	$ 26,630	$ 30,209
Assets		
Apartments owned		
Core properties	$2,082,413	$2,082,312
Held for sale properties	219,776	78,711
Non-core properties	582,362	556,959
Reconciling items	93,319	98,814
Total Assets	$2,977,870	$2,816,796

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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10 DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered into interest rate swaps to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Company does not utilize these arrangements for trading or speculative purposes. The principal risk to the Company through its interest rate hedging strategy is the potential inability of the financial institutions from which the interest rate protection was purchased to cover all of their obligations. To mitigate this exposure, the Company purchases its interest rate swaps from either the institution that holds the debt or from institutions with a minimum A- credit rating.

All derivatives, which have historically been limited to interest rates swaps designated as cash flow hedges, are recognized on the balance sheet at their fair value. On the date that the Company enters into an interest rate swap, it designates the derivative as a hedge of the variability of cash flows that are to be received or paid in connection with a recognized liability. To the extent effective, subsequent changes in the fair value of a derivative designated as a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. Any hedge ineffectiveness will be reported in interest expense in the consolidated statement of operations.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of the hedged items and whether those derivatives may be expected to remain highly effective in future periods. Should it be determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company will discontinue hedge accounting prospectively.

The Company has four interest rate swaps that effectively convert variable rate debt to fixed rate debt. The notional amount amortizes in conjunction with the principal payments of the hedged items. The terms as follows:

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

Original Notional Amount	Fixed Interest Rate	Variable Interest Rate
$16,384,396	5.35%	LIBOR + 1.50%
$10,000,000	5.39%	LIBOR + 1.50%
$3,000,000	8.22%	LIBOR + 1.40%
$4,625,000	8.40%	LIBOR + 1.40%

On January 1, 2001, the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 131"). At that time, the Company designated all of its interest rate swaps as cash flow hedges in accordance with the requirements of SFAS 133. The aggregate fair value of the derivatives on January 1, 2001 was $583, prior to the allocation of minority interest, and was recorded as a liability on the consolidated balance sheet with an offset to other comprehensive income representing the cumulative effect of the transition adjustment pursuant to the provisions of Accounting Principles Board Opinion No. 20, Accounting Changes.

10 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

As of December 31, 2005, the aggregate fair value of the Company's interest rate swaps was $186 prior to the allocation of minority interest, and is included in accrued expenses and other liabilities in the consolidated balance sheets. For the twelve months ending December 31, 2005, as the critical terms of the interest rate swaps and the hedged items are the same, no ineffectiveness was recorded in the consolidated statements of operations. All components of the interest rate swaps were included in the assessment of hedge effectiveness. The Company expects that within the next twelve months it will reclassify as a charge to earnings $123, prior to the allocation of minority interest, of the amount recorded in accumulated other comprehensive income. The fair value of the interest rate swaps is based upon the estimate of amounts the Company would receive or pay to terminate the contract at the reporting date and is estimated using interest rate market pricing models.

11 TRANSACTIONS WITH AFFILIATES

The Company and the Management Companies recognized management and development fee revenue, interest income and other miscellaneous income from affiliated entities of $190, $696, and $3,679 for the years ended December 31, 2005, 2004, and 2003, respectively. The Company had accounts receivable outstanding due from affiliated entities of $157, $12 and $162 at December 31, 2005, 2004 and 2003, respectively.

On January 1, 2004, the Company sold certain assets of its commercial property management division to Home Leasing, LLC, which is owned by Nelson and Norman Leenhouts. This division managed approximately 2.2 million square feet of gross leasable area, as well as certain planned communities. The initial amount paid was $82. In addition, the Company is entitled to receive a percentage of the management fee received by Home Leasing in connection with the management of one of the commercial properties for a period not to exceed 36 months. The expected monthly fee as outlined in the contract is approximately $3.4, or $40 per year. If Home Leasing continues to manage the property for three years, the Company is expected to receive total additional deferred purchase price of $135, of which $40 has been received for the year ended December 31, 2005. The cumulative gain recognized on the sale of these assets through December 31, 2005 amounts to $64. If the management of this property is retained for the entire three years, the

Company expects to receive an additional $40 for the period January 1, 2006 through January 1, 2007. The gain on sale would then be approximately $104.

On March 2, 2004, the Company acquired Wellington Trace Apartments for $27,100 from an entity owned in part by an individual who subsequently became one of the Company's directors.

The Company leases its corporate office space from an affiliate. The lease requires an annual base rent of $895 for the years ended 2006 through 2009. The lease also requires the Company to pay a pro rata portion of property improvements, real estate taxes and common area maintenance. Rental expense was $1,693, $1,694, and $1,609 for the years ended December 31, 2005, 2004, and 2003, respectively.

During 2004, the loan balances aggregating $315, outstanding as of December 31, 2003, under the officer and director share purchase program were repaid in full. On August 5, 2002, the Board of Directors of the Company prohibited any further loans to officers and directors in accordance with the Sarbanes-Oxley Act of 2002.

HOME PROPERTIES, INC.

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12 COMMITMENTS AND CONTINGENCIES

Property Lease

On December 1, 2004 the Company entered in to a lease agreement with a third party owner to manage the operations of one of their communities with 1,387 apartment units. The lease has a term of five years, but after two years (from the 24th month to the 36th month), the owner may require the Company to buy the property. From the 36th month to the end of the lease term, the Company has the right to require the owner to sell the property to the Company. It is the Company's expectation that closing on the acquisition of the property will occur no later than 36 months after the commencement of the lease. The estimated future acquisition price of the property is $141,000. The agreement required an initial deposit of $5,000, a deposit in 2005 of $1,230, with an additional $1,000 estimated deposit requirement during 2006, representing capital improvements paid by the owner. The net operating income of the property (as defined in the lease agreement) is remitted back to the owner as rent on a monthly basis. In exchange for services, the Company is entitled to receive monthly; a management fee equal to 5% of Collected Income, as defined in the lease, an incentive fee of $25, and interest payments equal to 3% annual interest on the outstanding deposit. Including interest, the total income recognized by the Company amounted to $1,278 and $98, for the years ended December 31, 2005 and 2004, respectively.

Ground Lease

The Company has a non-cancelable operating ground lease for one of its properties. The lease expires May 1, 2020, with options to extend the term of the lease for two successive terms of twenty-five years each. The lease provides for contingent rental payments based on certain variable factors. The lease also requires the Company to pay real estate taxes, insurance and certain other operating expenses applicable to the leased property. Ground lease expense was $210, $226, and $219, including contingent rents of $140, $156, and $149, for the years ended December 31, 2005, 2004 and 2003, respectively. At December 31, 2005, future minimum rental payments required under the lease are $70 per year until the lease expires.

401(k) Savings Plan

The Company sponsors a contributory savings plan. Under the plan, the Company will match 75% of the first 4% of participant contributions. The matching expense under this plan was $802, $690, and $1,010 for the years ended December 31, 2005, 2004 and 2003, respectively.

Incentive Compensation Plan

In 2005, the Incentive Compensation Plan provided that eligible officers and key employees may earn a cash bonus based upon two performance measures: the percentage of growth in the Company's funds from operations ("FFO") on a per share/unit diluted basis from the previous year and the percentage of growth in same store net operating income from the previous year as compared to industry peers. In 2004 and 2003, the performance measure was based on the percentage growth in the Company's FFO per share/unit on the diluted basis as compared against the industry average growth. The bonus expense charged to operations was $2,582, $3,414, and $1,729 for the years ended December 31, 2005, 2004 and 2003, respectively.

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12 COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

In 2001, the Company underwent a state capital stock tax audit. The state had assessed taxes of $469 for the 1998 and 1999 tax years under audit. If the state's position was applied to all tax years through December 31, 2001, the assessment would be $1,300. At the time, the Company believed the assessment and the state's underlying position were neither supportable by the law nor consistent with previously provided interpretative guidance from the office of the State Secretary of Revenue. After two subsequent enactments by the state legislation during 2002 affecting the pertinent tax statute, the Company was advised by outside tax counsel that its filing position for 1998-2001 should prevail. During December 2003, the state's governor signed legislation which included the REIT tax provisions. Based upon this, Company's tax counsel expects that the outstanding litigation should now be able to be resolved. Effective January 1, 2003, the Company reorganized the ownership of Home Properties Trust, which should subject the Company to a much lower level of tax going forward. In September 2004, the Company settled the 1998 year under audit for a total of $39, including interest. During the first quarter of 2005, the Company filed a protest with the State Commonwealth Court concerning the 1999 tax year. Settlement discussions have occurred during the third and fourth quarters of 2005 for the open years 1999-2001. The Company has made a settlement offer for the 1999, 2000 and 2001 tax years which, if accepted, would result in a payment of $160. The Company believes, and has been advised by counsel, that this settlement should be acceptable to the Department of Revenue and is awaiting final approval of the offer. The Company has accrued $160 at December 31, 2005.

During April, 2004, the Company finalized negotiations with New York State settling a sales and use tax audit covering the period June 1, 1999 through May 31, 2002. The total cost to the Company as a result of the audit amounted to $861. This was included in the first quarter 2004 results and allocated $448 to expense and $413 capitalized to real estate assets for improvements.

As a result of this audit, during the second quarter of 2004, the Company examined its sales and use tax compliance in the other states in which the Company operates. Based upon its internal analysis, the Company estimated its liability as of June 30, 2004 in those states where it found non-compliance of $1,712. This was included in the second quarter of 2004 results and allocated $761 to expense and $951 capitalized to real estate assets for improvements. The liability recorded relates to the period beginning on the later of: (i) the date the Company first purchased property in the applicable state; or (ii) January 1, 1997 and ending on June 30, 2004. In addition, the Company increased the liability for sales tax exposure by $68 for the six-month period ended December 31, 2004. The Company had filed Voluntary Disclosure Agreements ("VDAs") with the four states where it had significant financial exposure. During the first six months of 2005, the Company signed VDAs with these states limiting the VDA filing period back to January 1, 2001, and the Company has satisfied all financial obligations under the VDAs. For the three- and six-month periods ended June 30, 2005, the Company has recorded adjustments to the liability for both the effects of signing the VDAs as well as for the results of the Company's additional testing for the first six months. The net impact of these adjustments resulted in a decrease in real estate assets of $175, interest expense of $115 and operating expenses of $108 for a net decrease to the accrued liability of $398. During the third quarter of 2005, the Company finalized negotiations with New York State settling a sales tax audit covering the period June 1, 2002 through November 30, 2004. The settlement was not materially different from what had been accrued. The result of the recent payments on the VDAs and this New York State audit is that the sales tax accrual which had been over $1,712 (as referenced above) has been fully paid as of December 31, 2005.

In connection with various UPREIT transactions, the Company has agreed to maintain certain levels of nonrecourse debt for a period of 5 to 10 years associated with the contributed properties acquired. In addition, the Company is restricted in its ability to sell certain contributed properties (47% of the owned portfolio) for a period of 5 to 15 years except through a tax deferred Internal Revenue Code Section 1031 like-kind exchange.

HOME PROPERTIES, INC.

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12 COMMITMENTS AND CONTINGENCIES (Continued)

Debt Covenants

The line of credit loan agreement contains restrictions which, among other things, require maintenance of certain financial ratios (See Note 5).

In connection with the issuance of the Series F Preferred Stock, the Company is required to maintain for each fiscal quarterly period a fixed charge coverage ratio, as defined in the Series F Cumulative Redeemable Preferred Stock Article Supplementary, of 1.75 to 1.0. For the fiscal quarterly periods ended December 31, 2005, the Company maintained the required fixed charge coverage ratio.

Guarantees

As of December 31, 2005, the Company, through its general partnership interest in an affordable property limited partnership, has guaranteed the Low Income Housing Tax Credits to limited partners totaling approximately $3,000. As of December 31, 2005, there were no known conditions that would make such payments necessary relating to these guarantees. In addition, the Company, acting as general partner in this partnership, is obligated to advance funds to meet partnership operating deficits.

Executive Retention Plan

Effective February 2, 1999, the Executive Retention Plan provides for severance benefits and other compensation to be received by certain employees in the event of a change in control of the Company and a subsequent termination of their employment without cause or voluntarily with good cause.

HOME PROPERTIES, INC.

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13 PROPERTY ACQUISITIONS

For the years ended December 31, 2005, 2004, and 2003, the Company has acquired the communities listed below (see Note15):

Apartment Community	Market Area	Date Acquired	Year Constructed	Number of Units	Cost Acquis
Stone Ends	Boston	2/12/03	1972	280	$ 3
Falkland Chase	Northern VA	9/10/03	1937	450	$ 5
Chatham Hill	New Jersey	1/30/04	1967	308	$ 4
Northwood	New Jersey	1/30/04	1965	134	$ 1
Fairmount	New Jersey	1/30/04	1943	54	$
Kensington	New Jersey	1/30/04	1943	38	$
Wellington Trace	Northern VA	3/2/04	2002	240	$ 2
Village at Marshfield	Boston	3/17/04	1972	276	$ 3
Woodleaf	Northern VA	3/19/04	1985	228	$ 2
The Hamptons	Southeast Florida	7/7/04	1986-1987	668	$ 5
Vinings	Southeast Florida	7/7/04	1989	168	$ 1
Regency Club	New Jersey	9/24/04	1974	372	$ 3
Ridgeview at Wakefield Valley	Baltimore	1/13/05	1988	204	$ 1
Hackensack Gardens	New Jersey	3/1/05	1948	198	$ 1
Barrington Gardens	New Jersey	3/1/05	1973	148	$
Sayville Commons	Long Island	7/15/05	2001-2003	342	$ 6
The Brooke at Peachtree	Philadelphia	8/15/05	1986-1989	146	$ 1
Peppertree Farm	Northern VA	12/28/05	1972-1978	881	$ 9
Cinnamon Run	Northern VA	12/28/05	1979-1982	511	$ 6

14 DISCONTINUED OPERATIONS

The Company adopted the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"), effective January 1, 2002. This standard addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It also retains the basic provisions for presenting discontinued operations in the income statement but broadened the scope to include a component of an entity rather than a segment of a business. Pursuant to the definition of a component of an entity in SFAS 144, assuming no significant continuing involvement by the former owner after the sale, the sale of an apartment community is now considered a discontinued operation. In addition, apartment communities classified as held for sale are also considered a discontinued operation. The Company generally considers assets to be held for sale when all significant contingencies surrounding the closing have been resolved, which often corresponds with the actual closing date. However, the Company has classified as held for sale an entire region portfolio (Detroit) of 19 apartment communities containing 5,046 apartment units. The

Company has announced its intention to sell the portfolio and has met all of the requirements under SFAS 144. Properties classified in this manner through December 31, 2005, as discussed below, were reclassified as such in the accompanying Consolidated Statements of Operations for each of the three years ended December 31, 2005.

Included in discontinued operations for the three years ended December 31, 2005 are the operating results, net of minority interest, of sixteen apartment community dispositions (four sold in 2005, five sold in 2004 and seven sold in 2003). In addition, discontinued operations for the year ended December 31, 2005 includes the operating results of four VIEs sold during 2005 and nineteen apartment communities held for sale as of December 31, 2005. For purposes of the discontinued operations presentation, the Company only includes interest expense associated with specific mortgage indebtedness of the properties that are considered discontinued operations.

HOME PROPERTIES, INC.

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14 DISCONTINUED OPERATIONS (Continued)

The operating results of discontinued operations are summarized as follows for the years ended December 31, 2005, 2004, and 2003:

	2005	20
Revenues:		
Rental Income	$52,799	$7
Property other income	3,363	
Total Revenues	56,162	7
Operating and Maintenance	30,087	4
Interest expense	7,495	1
Depreciation and amortization	9,883	1
Impairment of real property	7,325	
Total Expenses	54,790	7
Income from discontinued operations before minority interest and gain on disposition of property	1,372	
Minority interest in limited partnerships	(23)	
Minority interest in operating partnerships	(442)	(
Income from discontinued operations	$ 907	$

The table below provides a more detailed presentation of the components of discontinued operations for year-ended December 31, 2005.

	Owned Communities
Revenues:	

Rental Income	$49,585
Property other income	3,222
Total Revenues	52,807
Expenses:	
Operating and Maintenance	27,466
Interest expense	7,484
Depreciation and amortization	9,883
Impairment of real property	-
Total Expenses	44,833
Income (loss) from discontinued operations before minority interest and gain on disposition of property	7,974
Minority interest in limited partnerships	-
Minority interest in operating partnerships	(2,635)
Income (loss) from discontinued operations	$ 5,339

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

14 DISCONTINUED OPERATIONS (Continued)

The table below provides a more detailed presentation of the components of discontinued operations for year-ended December 31, 2004.

	Owned Communities	VI
Revenues:		
Rental Income	$63,107	$1
Property other income	3,358	
Total Revenues	66,465	1
Expenses:		
Operating and Maintenance	31,884	
Interest expense	10,437	
Depreciation and amortization	12,993	
Impairment of real property	1,100	
Total Expenses	56,414	1
Income (loss) from discontinued operations before minority interest and gain on disposition of property	10,051	(
Minority interest in limited partnerships	-	
Minority interest in operating partnerships	(3,253)	
Income (loss) from discontinued operations	$ 6,798	$ (

The results of discontinued operations in the table above have been presented for the years ended December 31, 2005 and 2004 only, as the discontinued operations for 2003 solely represents the results from owned communities.

The major classes of assets and liabilities held for sale as of December 31, 2005 and 2004 were as follows:

	2005
Real estate:	
Land	$ 27,820
Buildings, improvements and equipment	246,181
	274,001
Less: accumulated depreciation	(54,225)
Real estate held for sale or disposal, net	219,776
Other assets:	
Cash in escrows	348
Accounts receivable	650
Prepaid expenses and other assets	2,951
Deferred charges	-
Other assets held for sale	3,949
Liabilities:	
Mortgage notes payable	73,603
Accounts payable	-
Accrued expenses and other liabilities	431
Security deposits	1,233
Liabilities held for sale	75,267
Net assets held for sale	$148,458

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

15 PROFORMA CONDENSED FINANCIAL INFORMATION

The Company acquired seven apartment communities ("2005 Acquired Communities") with a combined 2,430 units in six unrelated transactions during the twelve-month period ended December 31, 2005. The total combined purchase price (including closing costs) of $283,400 equates to approximately $117 per unit. Consideration for the communities was funded through the assumption or placement of new debt of $184,300 of debt, $43,500 from the Company's line of credit and $55,600 of UPREIT Units.

The following unaudited proforma information was prepared as if: (i) the 2005 transactions related to the acquisition of the "2005 Acquired Communities" occurred as of the beginning of each period, and (ii) the 2004 transactions related to the acquisition of ten apartment communities in six separate transactions had occurred as of the beginning of each period. The proforma financial information is based upon the historical consolidated financial statements and is not necessarily indicative of the consolidated results which actually would have occurred if the transactions had been consummated at January 1, 2003 or 2004, nor does it purport to represent the results of operations for future periods. Adjustments to the proforma condensed combined statement of operations for the twelve months ended December 31, 2005, 2004, and 2003 consist principally of providing net operating activity and recording interest, depreciation and amortization from January 1, 2003 or 2004 to the acquisition date as appropriate.

	For Decemb
	200
Total revenues	$465
Net income available to common shareholders before cumulative effect of change in accounting principle	20
Net income available to common shareholders	20
Per common share data:	
Net income available to common shareholders before cumulative effect of change in accounting principle	
Basic	$0
Diluted	$0
Net income available to common shareholders:	
Basic	$0
Diluted	$0
Weighted average numbers of shares outstanding:	
Basic	3
Diluted	3

	For Decemb
	200
Total revenues	$419
Net income available to common shareholders	22
Per common share data:	
Net income available to common shareholders:	
Basic	$0
Diluted	$0
Weighted average numbers of shares outstanding:	
Basic	3
Diluted	3

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

16 SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow information including non cash financing and investing activities for the years ended December 31, 2005, 2004, and 2003 are as follows:

	2005	2
Cash paid for interest	$104,674	$ 9
Mortgage loans assumed associated with property acquisitions	7,916	9
Issuance of UPREIT Units associated with property and other acquisitions	55,598	1
Increase in real estate associated with the purchase of UPREIT Units	5,220	1
Exchange of UPREIT Units for common shares	4,010	1
Fair value of hedge instruments	845	
Net real estate assumed in connection with FIN 46R consolidation	-	15
Other assets assumed in connection with FIN 46R consolidation	-	1
Mortgage debt assumed in connection with FIN 46R consolidation	-	12
Other liabilities assumed in connection with FIN 46R consolidation	-	
Net real estate disposed in connection with FIN 46R consolidation	(50,467)	(6
Other assets disposed in connection with FIN 46R consolidation	(6,940)	(
Mortgage debt disposed in connection with FIN 46R consolidation	(59,339)	(4
Other liabilities disposed in connection with FIN 46R consolidation	(1,187)	(

17 GAIN (LOSS) ON DISPOSITION OF PROPERTY AND BUSINESS

During 2005, the Company disposed of four apartment communities with 816 units in three unrelated transactions. The total sales price of $142,600 equates to $175 per unit. The total gain on sale of these transactions amounted to approximately $73,200.

During 2004, the Company disposed of five apartment communities with 1,646 units in four unrelated transactions. The total sales price of $92,500 equates to $56 per unit. The total gain on sale of these transactions amounted to approximately $26,600.

During 2003, the Company disposed of seven apartment communities with 1,568 units in seven unrelated transactions. The total sales price of $59,000 equates to $38 per unit. The total gain on sale of these transactions amounted to approximately $4,000.

HOME PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

18 QUARTERLY FINANCIAL STATEMENT INFORMATION (UNAUDITED)

Quarterly financial information for the years ended December 31, 2005 and 2004 are as follows:

			2005
	First	Second	Third
Total revenue	$ 106,287	$ 109,167	$ 113
Net income available to common shareholders	28	9,719	16
Per share data:			
Basic earnings per share data:			
Net income (loss) available to common shareholders	$ (0.06)	$ 0.25	$

Diluted earnings per share data:			
Net income (loss) available to common shareholders	$ (0.06)	$ 0.25	$

	2004		
	First	Second	Thi
Total revenue	$ 96,643	$ 102,004	$ 104
Net income before cumulative effect of change in accounting principle	6,799	10,641	4
Net income available to common shareholders	6,478	10,641	4
Per share data:			
Basic earnings per share data:			
Net income available to common shareholders	$ 0.14	$ 0.27	$
Diluted earnings per share data:			
Net income available to common shareholders	$ 0.14	$ 0.26	$

Full year per share data does not equal the sum of the quarterly data due to the impact of the convertible securities on the quarterly results and not the year to date amounts. The quarterly reports for the years ended December 31, 2005 and 2004 have been reclassified to reflect discontinued operations in accordance with SFAS 144.

19 SUBSEQUENT EVENTS

On February 7, 2006, the Board of Directors approved a dividend of $.64 per share for the quarter ended December 31, 2005. This is the equivalent of an annual distribution of $2.56 per share. The dividend is payable February 28, 2006 to shareholders of record on February 17, 2006.

On February 7, 2006, the Company also declared a regular dividend of $.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending February 28, 2006. The dividend on the preferred shares is payable on February 28, 2006 to shareholders of record on February 17, 2006. This dividend is equivalent to an annualized rate of $2.25 per share.

SCHEDULE II

HOME PROPERTIES, INC.

VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31:
(IN THOUSANDS)

	Balance at Beginning of year	Charged to Costs and Expenses	Amounts Written Off	B e
Allowance for Doubtful Receivables				

December 31, 2005:	$ 567	$3,472	($3,526)
December 31, 2004:	241	3,527	(3,201)
December 31, 2003:	125	2,954	(2,838)
Deferred Tax Asset Valuation Allowance			
December 31, 2005:	8,680	-	(259)
December 31, 2004:	8,185	495	-
December 31, 2003:	559	7,626	-

HOME PROPERTIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATI
DECEMBER 31, 2005
(IN THOUSANDS)

Community	Encum- brances	Land	Initial Cost Buildings, Improve- ments & Equip- ment	Adjust- ments(a)	Costs Capital- ized Subse- quent to Acqui- sition	Land	Total Cost Buildings, Improve- ments & Equip- ment	Total
1600 East Avenue		$ 1,000	$ 8,527		$ 5,226	$ 1,000	$ 13,753	$ 14,
1600 Elmwood	$ 10,870	299	5,698	$3,339	4,739	299	13,776	14,
Barrington Gardens	4,350	888	6,556		1,029	888	7,585	8,
Bayview & Colonial	11,669	1,600	8,471		4,046	1,600	12,517	14,
Beechwood Gardens		560	3,442		2,568	560	6,010	6,
Blackhawk Apts	13,507	2,968	14,568		5,166	2,968	19,734	22,
Bonnie Ridge Apts	35,065	4,830	42,769		22,992	4,830	65,761	70,
Braddock Lee Aps	21,596	3,810	8,842		5,245	3,810	14,087	17,
Brittany Place	18,207	4,728	39,608		9,830	4,728	49,438	54,
Brook Hill Village Apts	8,404	330	7,920		4,995	330	12,915	13,
Cambridge Village Assoc	3,148	2,460	3,188		1,816	2,460	5,004	7,
Canterbury Apts	29,582	4,944	21,384		6,709	4,944	28,093	33,
Canterbury Square(e)	5,788	2,352	10,791		5,200	2,352	15,991	18,
Carriage Hill-MI(e)	7,073	840	5,974		2,081	840	8,055	8,
Carriage Hill Apt	5,767	570	3,827		3,306	570	7,133	7,
Carriage Park(e)	9,304	1,280	8,184		3,442	1,280	11,626	12,
Castle Club Apts	6,720	948	8,909		2,768	948	11,677	12,
Charter Square(e)	9,777	3,952	18,247		8,819	3,952	27,066	31,

Chatham Hill Apts	26,065	1,848	46,150		3,566	1,848	49,716	51,
Cherry Hill Club Apartments(e)		492	4,096		3,296	492	7,392	7,
Cherry Hill Village(e)	5,123	1,120	6,835		2,731	1,120	9,566	10,
Chesterfield Apts	8,137	1,482	8,206		4,738	1,482	12,944	14,
Cider Mill	62,933	15,552	65,938		5,847	15,552	71,785	87,
Cinnamon Run Apts	52,300	7,731	59,646		1	7,731	59,647	67,
Cornwall Park	5,574	439	2,947		4,348	439	7,295	7,
Country Village Apts	6,087	2,236	11,149		7,610	2,236	18,759	20,
Courtyards Village	4,851	3,360	9,824		2,518	3,360	12,342	15,
Coventry Village Apts		784	2,328		2,773	784	5,101	5,
Curren Terrace	14,774	1,908	10,957		6,221	1,908	17,178	19,
Cypress Place	6,109	2,304	7,861		3,342	2,304	11,203	13,
Deerfield Woods Apts(e)	3,068	864	4,877		2,115	864	6,992	7,
Devonshire Hills	23,009	14,850	32,934		4,632	14,850	37,566	52,
East Hill Gardens		231	1,560		1,069	231	2,629	2,
East Meadow Apts	7,140	2,250	10,803		1,010	2,250	11,813	14,
East Winds Apts	6,626	960	5,079		2,556	960	7,635	8,
Elmwood Terrace	21,415	6,048	14,680		4,959	6,048	19,639	25,
Emerson Square	2,201	384	2,019		1,163	384	3,182	3,
Executive House Apts	3,313	600	3,420		2,667	600	6,087	6,
Fairmount Apts		324	1,914		159	324	2,073	2,
Fairview Apts	7,406	580	5,305	2,828	4,267	580	12,400	12,
Falcon Crest Townhomes	16,030	2,772	11,116		6,876	2,772	17,992	20,
Falkland Chase Apts	39,499	9,000	49,705		2,537	9,000	52,242	61,
Fenland Field	12,090	3,510	11,050		3,505	3,510	14,555	18,
Fordham Green (e)	2,679	802	5,280		2,951	802	8,231	9,
Gardencrest Apts		24,360	61,525		13,648	24,360	75,173	99,
Gateway Village Apts	6,976	1,320	6,621		1,521	1,320	8,142	9,
Glen Brook Apts		1,414	4,816		2,401	1,414	7,217	8,
Glen Manor Apts	5,900	1,044	4,564		2,161	1,044	6,725	7,
Golf Club Apts	15,664	3,990	21,236		10,768	3,990	32,004	35,
Greentrees(e)	4,298	1,152	8,608		3,676	1,152	12,284	13,
Hackensack Gardens	9,426	2,376	10,916		811	2,376	11,727	14,
Hampton Court Apt(e)	3,208	1,252	4,615		3,625	1,252	8,240	9,
Harborside Manor	8,445	250	6,113		4,885	250	10,998	11,
Hawthorne Court	37,781	8,940	23,447		13,731	8,940	37,178	46,
Heritage Square	6,386	2,000	4,805		1,778	2,000	6,583	8,
Hill Brook Place Apts	11,381	2,192	9,118		4,242	2,192	13,360	15,
Holiday Square	3,488	3,575	6,109		1,101	3,575	7,210	10,
Home Properties of Bryn Mawr	14,747	3,160	17,907		9,180	3,160	27,087	30,
Home Properties of Devon	28,892	6,280	35,545		19,688	6,280	55,233	61,
Home Properties of Newark	16,567	2,592	12,713		11,753	2,592	24,466	27,
Idylwood Resort Apts		700	16,927		10,599	700	27,526	28,
Kensington Apts		228	1,593		152	228	1,745	1,
Kingsley (e)	5,859	1,640	11,671		4,602	1,640	16,273	17,
Lake Grove Apts	37,610	7,360	11,952		12,269	7,360	24,221	31,
Lakeshore Villa Apts	4,983	573	3,849		4,269	573	8,118	8,
Lakeview Apts	8,787	636	4,552		2,656	636	7,208	7,
Liberty Commons(f)		506			5,272	506	5,272	5,
Macomb Manor Apts(e)	3,575	1,296	7,357		1,750	1,296	9,107	10,
Maple Tree		840	4,445		2,033	840	6,478	7,
Mid-Island Apts	6,675	4,160	6,567		4,848	4,160	11,415	15,
Mill Company Gardens	2,646	384	1,671		1,082	384	2,753	3,
Mill Towne Village	8,530	3,840	13,747		8,800	3,840	22,547	26,
Morningside Heights Apts	17,555	6,147	28,699		20,515	6,147	49,214	55,

New Orleans Park Apts	19,478	2,920	13,215		8,135	2,920	21,350	24,
Newcastle Apts		197	4,007	3,684	4,031	197	11,722	11,
Northwood Apts	8,084	804	14,286		457	804	14,743	15,
Oak Manor Apts	6,344	616	4,111		2,370	616	6,481	7,
Oak Park (e)	4,577	1,192	9,188		4,900	1,192	14,088	15,
Orleans Village	65,993	8,510	58,912		14,178	8,510	73,090	81,
Owings Run Consolidation	31,212	5,537	32,622		3,243	5,537	35,865	41,
Paradise Lane Apt	8,639	972	7,134		4,400	972	11,534	12,
Park Shirlington Apts	15,255	4,410	10,180		6,944	4,410	17,124	21,
Patricia Apartments	5,285	600	4,196		2,461	600	6,657	7,
Pearl Street	1,091	49	1,189		883	49	2,072	2,
Peppertree Farm Apts	80,500	12,571	83,751		2	12,571	83,753	96,
Perinton Manor Apts	9,161	224	6,120	3,629	3,494	224	13,243	13,
Pleasant View Gardens	51,370	5,710	47,816		18,443	5,710	66,259	71,
Pleasure Bay Apts	15,276	1,620	6,234		6,221	1,620	12,455	14,
Racquet Club East Apts	32,162	1,868	23,107		5,853	1,868	28,960	30,
Racquet Club South	2,834	309	3,891		1,790	309	5,681	5,
Raintree Island Apts	6,691	-	6,654	3,217	9,855	-	19,726	19,
Redbank Village Apts	16,324	2,000	14,030		7,799	2,000	21,829	23,
Regency Club Apts	26,675	2,604	34,825		1,452	2,604	36,277	38,
Rider Terrace		240	1,270		510	240	1,780	2,
Ridgeview at Wakefield Village		2,300	17,107		1,199	2,300	18,306	20,
Ridley Brook Apts	9,841	1,952	7,719		2,956	1,952	10,675	12,
Riverton Knolls	5,954	240	6,640	2,523	5,650	240	14,813	15,
Royal Gardens Apt	32,368	5,500	14,067		12,621	5,500	26,688	32,
Sayville Commons	43,389	8,005	55,379		75	8,005	55,454	63,
Scotsdale (e)	9,104	1,692	11,920		4,201	1,692	16,121	17,
Selford Townhomes	3,960	1,224	4,200		2,141	1,224	6,341	7,
Seminary Hill Apts	9,900	2,960	10,194		7,200	2,960	17,394	20,
Seminary Towers Apts	28,617	5,480	19,348		12,782	5,480	32,130	37,
Shakespeare Park Apts	2,338	492	3,433		691	492	4,124	4,
Sherry Lake Apts	19,793	2,428	15,618		8,073	2,428	23,691	26,
Sherwood Consolidation	7,626	3,255	10,735		3,395	3,255	14,130	17,
South Bay Manor	8,000	1,098	1,958		3,730	1,098	5,688	6,
Southern Meadows	19,102	9,040	31,874		4,766	9,040	36,640	45,
Southpointe Square(e)	2,425	896	4,610		2,771	896	7,381	8,
Spanish Gardens	5,600	398	9,263		4,712	398	13,975	14,
Springwells Park(e)		1,515	16,840		4,981	1,515	21,821	23,
Stephenson House(e)	1,343	640	2,407		1,359	640	3,766	4,
Stone Ends Apts	23,236	5,600	28,428		1,350	5,600	29,778	35,
Stratford Greens Assoc	33,522	12,565	33,779		4,970	12,565	38,749	51,
Sunset Gardens Apts	8,685	696	4,663		4,046	696	8,709	9,
Tamarron Apts	5,200	1,320	8,474		1,169	1,320	9,643	10,
Terry Apts		650	3,439		836	650	4,275	4,
The Apts at Wellington Trace	25,968	3,060	23,904		2,537	3,060	26,441	29,
The Brooke at Peachtree		992	15,145		104	992	15,249	16,
The Colony		7,830	34,121		9,733	7,830	43,854	51,
The Hamptons	54,871	5,749	50,647		2,944	5,749	53,591	59,
The Lakes Apts(e)		2,821	23,086		4,353	2,821	27,439	30,
The Landings	12,722	2,459	16,753		7,587	2,459	24,340	26,
The Manor Apts(MD)	22,578	8,700	27,703		6,234	8,700	33,937	42,
The Manor Apts (VA)	5,600	1,386	5,738		3,667	1,386	9,405	10,
The Meadows Apts	3,334	208	2,776	1,216	1,781	208	5,773	5,
The New Colonies	20,820	1,680	21,350		9,761	1,680	31,111	32,
The Sycamores		4,625	15,725		1,404	4,625	17,129	21,
The Village								

at Marshfield	24,274	3,158	28,351		580	3,158	28,931	32,
Timbercroft Consolidation	6,269	1,704	6,826		2,963	1,704	9,789	11,
Trexler Park Apts	10,140	2,490	13,802		5,355	2,490	19,157	21,
Valley View Apts	3,788	1,056	4,960		3,962	1,056	8,922	9,
Village Green Apt	9,120	1,103	13,223		6,643	1,103	19,866	20,
Village Square(PA)	4,026	768	3,582		3,254	768	6,836	7,
Village Square Apts(MD)	21,075	2,590	13,306		6,275	2,590	19,581	22,
Vinings at Hampton Village		1,772	12,214		911	1,772	13,125	14,
Virginia Village	8,949	5,160	21,918		6,115	5,160	28,033	33,
Wayne Village	14,939	1,925	12,895		5,689	1,925	18,584	20,
West Springfield Terrace		2,440	31,758		2,014	2,440	33,772	36,
Westminster Place	6,536	861	5,763		3,627	861	9,390	10,
Westwood Village Apts	34,370	7,260	22,757		7,887	7,260	30,644	37,
William Henry Apts	22,940	4,666	22,220		8,519	4,666	30,739	35,
Windsor Realty Co	4,730	402	3,300		1,650	402	4,950	5,
Woodgate Place	3,127	480	3,797		2,374	480	6,171	6,
Woodholme Manor Apts	3,751	1,232	4,599		3,491	1,232	8,090	9,
Woodland Gardens(e)	5,506	2,022	10,480		4,263	2,022	14,743	16,
Woodleaf Apts		2,862	17,716		670	2,862	18,386	21,
Woodmont Village Apts		2,880	5,699		1,890	2,880	7,589	10,
Yorkshire Village Apts	1,490	1,200	2,016		681	1,200	2,697	3,
Other Assets(d)	585	3,479			22,214	3,479	22,214	25,
Limited Partnerships(c)	16,989	1,203	9,963		17,913	1,203	27,876	29,
	$1,842,086	$430,119	$2,191,198	$20,436	$743,390	$430,119	$2,955,024	$3,385
Less Held for Sale (Note 14)	73,603	27,820	175,066	-	71,115	27,820	246,181	274,
	$1,768,483	$402,299	$2,016,132	$20,436	$672,275	$402,299	$2,708,843	$3,111

(a) Represents the excess of fair value over the historical cost of partnership interests as a result of the application of purchase accounting for the acquisition of non-controlled interests.

(b) The aggregate cost for Federal Income Tax purposes was approximately $2,766,561.

(c) The net real-estate related to the limited partnership is presented on the Consolidated Balance Sheet as held and used.

(d) The $585 in Other Assets Encumbrances consists of a note payable.

(e) Represents properties within the Detroit Portfolio that are presented on the Consolidated Balance Sheet as held for sale.

(f) Construction completed August 1, 2005.

HOME PROPERTIES, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATI
DECEMBER 31, 2005

(IN THOUSANDS)

Depreciation and amortization of the Company's investments in buildings and improvements reflected in the consolidated statements of operations are calculated over the estimated useful lives of the assets as follows:

Buildings and improvements 3-40 years

The changes in total real estate assets are as follows:

	2005	2004
Balance, beginning of year	$3,123,901	$2,752
Management Companies	-	
New property acquisition	283,363	256
Additions	100,013	102
Increase in real estate associated with the conversion of UPREIT Units	5,220	11
Assets held for sale associated with consolidated affordable limited partnerships	-	78
Disposals of assets held for sale associated with consolidated affordable limited partnerships	(50,627)	
Disposals, retirements and impairments	(76,727)	(78
Balance, end of year	$3,385,143	$3,123

The changes in accumulated depreciation are as follows:

	2005	2004
Balance, beginning of year	$405,919	$330,
Management Companies	-	
Properties previously held for sale, changed to held and used	6,999	
Depreciation for the year	99,322	90,
Disposals and retirements	(11,648)	(14,
Balance, end of year	$500,592	$405,

HOME PROPERTIES, INC.
FORM 10-K
For Fiscal Year Ended December 31, 20
Exhibit Index

Exhibit Number	Exhibit	Location
2.1	Agreement among Home Properties of New York, Inc. and Philip J. Solondz, Daniel Solondz and Julia Weinstein Relating to Royal Gardens I, together with Amendment No. 1	Incorporated by ref 8- K filed by Home York, Inc. dated 6/ 8-K")
2.2	Agreement among Home Properties of New York, Inc and Philip Solondz and Daniel Solondz relating to Royal Gardens II,	Incorporated by ref 6/6/97 8-K

	together with Amendment No. 1	
2.15	Contribution Agreement, dated October __, 1997 between Home Properties of New York between Home Properties of New York, L.P. and Berger/Lewiston Associates Limited Partnership; Stephenson-Madison Heights Company Limited Partnership; Kingsley- Moravian Company Limited Partnership; Woodland Garden Apartments Limited Partnership; B&L Realty Investments Limited Partnership; Southpointe Square Apartments Limited Partnership; Greentrees Apartments Limited Partnership; Big Beaver-Rochester Properties Limited Partnership; Century Realty Investment Company Limited Partnership	Incorporated by ref 8-K filed by Home P York, Inc. dated 10
2.24	Contribution Agreement dated March 2, 1998 among Home Properties of New York, L.P., Braddock Lee Limited Partnership and Tower Construction Group, LLC	Incorporated by ref 8-K filed by Home P York, Inc., dated 3 "3/24/98 8-K")
2.25	Contribution Agreement dated March 2, 1998 among Home Properties of New York, L.P., Park Shirlington Limited Partnership and Tower Construction Group, LLC	Incorporated by ref 3/24/98 8-K
2.27	Form of Contribution Agreement among Home Properties of New York, L.P. and Strawberry Hill Apartment Company LLLP, Country Village Limited Partnership, Morningside Six, LLLP, Morningside North Limited Partnership and Morningside Heights Apartment Company Limited Partnership with schedule setting forth material details in which documents differ from form	Incorporated by ref 8-K filed by Home P York, Inc. on 5/22/ 8-K")
2.29	Form of Contribution Agreement dated June 7, 1999, relating to the CRC Portfolio with schedule setting forth material details in which documents differ from form	Incorporated by ref 8-K filed by Home P York, Inc. on 7/2/9
2.30	Form of Contribution Agreement relating to the Mid-Atlantic Portfolio with schedule setting forth material details in which documents differ from form	Incorporated by ref 8-K filed by Home P York, Inc. on 7/30/
2.31	Contribution Agreement among Home Properties of New York, L.P., Leonard Klorfine, Ridley Brook Associates and the Greenacres Associates	Incorporated by ref 8-K filed by Home P York, Inc. on 10/5/ 8-K")
2.33	Contribution Agreement among Home Properties of New York, L.P., Gateside-Bryn Mawr Company, L.P., Willgold Company, Gateside-Trexler Company, Gateside-Five Points Company, Stafford Arms, Gateside-Queensgate Company, Gateside Malvern Company, King Road Associates and Cottonwood Associates	Incorporated by ref 8-K filed by Home P York, Inc. on 4/5/0
2.34	Contribution Agreement between Old Friends Limited Partnership and Home Properties of New York, L.P. and Home Properties of New York, Inc., along with Amendments Number 1 and 2 thereto	Incorporated by ref 8-K/A filed by Home York, Inc. on 12/5/ 8-K")
2.35	Contribution Agreement between Deerfield Woods Venture Limited Partnership and Home Properties of New York, L.P.	Incorporated by ref 12/5/00 8-K/A
2.36	Contribution Agreement between Macomb Apartments Limited Partnership and Home Properties of New York, L.P.	Incorporated by ref 12/5/00 8-K/A
2.37	Contribution Agreement between Home Properties of New York, L.P. and Elmwood Venture Limited Partnership	Incorporated by ref 12/5/00 8-K/A

2.38	Sale Purchase and Escrow Agreement between Bank of America as Trustee and Home Properties of New York, L.P.	Incorporated by ref 12/5/00 8-K/A
2.39	Contribution Agreement between Home Properties of New York, L.P., Home Properties of New York, Inc. and S&S Realty, a New York General Partnership (South Bay)	Incorporated by ref 12/5/00 8-K/A
2.40	Contribution Agreement between Hampton Glen Apartments Limited Partnership and Home Properties of New York, L.P.	Incorporated by ref 12/5/00 8-K/A
2.41	Contribution Agreement between Home Properties of New York, L.P. and Axtell Road Limited Partnership	Incorporated by ref 12/5/00 8-K/A
2.42	Contribution Agreement between Elk Grove Terrace II and III, L.P., Elk Grove Terrace, L.P. and Home Properties of New York, L.P.	Incorporated by ref 8-K filed by Home P York, Inc. on 1/10/
3.1	Articles of Amendment and Restatement of Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by ref Properties of New Y Statement on Form S 33-78862 (the "S-11 Statement")
3.2	Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by ref Properties of New Y Registration Statem File No. 333-52601 (the "5/14/98 S-3")
3.3	Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by ref
3.4	Amended and Restated Articles Supplementary of Series A Senior Convertible Preferred Stock of Home Properties of New York, Inc.	Incorporated by ref Properties of New Y Registration Statem File No. 333-93761, (the "12/29/99 S-3"
3.5	Series B Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by ref Properties of New Y Registration Statem File No. 333-92023,
3.6	Series C Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by ref 8-K filed by Home f Properties of New Y 5/22/00 (the "5/22/
3.7	Series D Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by ref 8-K filed by Home P York, Inc. on 6/12/ 8-K")
3.8	Series E Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by ref 8-K filed by Home P York, Inc. on 12/22 8-K)
3.9	Amended and Restated By-Laws of Home Properties of New York, Inc. (Revised 12/30/96)	Incorporated by ref 8-K filed by Home P York, Inc. dated De (the "12/23/96 8- K

3.10	Series F Cumulative Redeemable Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by ref 8-A12B filed by Hom York, Inc. on March
3.11	Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by ref 10-Q filed by Home for the quarter end "3/31/04 10-Q")
3.12	Amendment Number One to Home Properties of New York, Inc. Amended and Restated By-laws	Incorporated by ref 3/31/04 10-Q
4.1	Form of certificate representing Shares of Common Stock	Incorporated by ref 10- K filed by Home York, Inc. for the 12/31/94 (the "12/3
4.2	Agreement of Home Properties of New York, Inc. to file instruments defining the rights of holders of long-term debt of it or its subsidiaries with the Commission upon request	Incorporated by ref 12/31/94 10-K
4.7	Spreader, Consolidation, Modification and Extension Agreement between Home Properties of New York, L.P. and John Hancock Mutual Life Insurance Company, dated as of October 26, 1995, relating to indebtedness in the principal amount of $20,500,000	Incorporated by ref 10-K filed by Home York, Inc. for the 12/31/95 (the "12/3
4.8	Amended and Restated Stock Benefit Plan of Home Properties of New York, Inc.	Incorporated by ref 6/6/97 8-K
4.9	Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by ref 8-K filed by Home P York, Inc., dated 1
4.10	Amendment No. One to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by ref Properties of New Y Registration Statem File No. 333-49781, (the "4/9/98 S-3")
4.11	Amendment No. Two to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by ref Properties of New Y Registration Statem File No. 333-58799, (the "7/9/98 S-3")
4.12	Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by ref Properties of New Y for the Quarter end "6/30/98 10-Q")
4.13	Amendment No. Three to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by ref Properties of New Y Registration Statem Registration No. 33 11/23/98 (the "11/2
4.14	Directors' Stock Grant Plan	Incorporated by ref 5/22/98 8-K
4.16	Home Properties of New York, Inc., Home Properties of New	Incorporated by ref

	York, L.P. Executive Retention Plan	7/2/99 8-K
4.17	Home Properties of New York, Inc. Deferred Bonus Plan	Incorporated by ref 7/2/99 8-K
4.18	Fourth Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by ref Registration Statem File No. 333-94815
4.19	Directors Deferred Compensation Plan	Incorporated by ref Properties of New Y for the period ende "12/31/99 10-K")
4.23	Home Properties of New York, Inc. Amendment Number One to the Amended and Restated Stock Benefit Plan	Incorporated by ref 10-Q of Home Proper Inc. for the quarte (the "3/31/00 10-Q"
4.24	Fifth Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by ref Registration Statem file No. 333-54160,
4.25	Sixth Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan	Incorporated by ref 10-K filed by Home York, Inc., for the ended 12/31/00 (the
4.26	Home Properties of New York, Inc. Amendment Number Two to the Amended and Restated Stock Benefit Plan	Incorporated by ref 10-K filed by Home York, Inc. for the 12/31/01 (the "12/3
4.27	Amendment No. One to Home Properties of New York, Inc. Deferred Bonus Plan	Incorporated by ref 12/31/01 10-K
4.28	Amended and Restated Director Deferred Compensation Plan	Incorporated by ref 10-K of Home Proper Inc. filed for the ended 12/31/02 (th
4.29	Amendment No. Two to Deferred Bonus Plan	Incorporated by ref 12/31/02 10-K
4.30	Amendment Number One to Sixth Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan	Incorporated by ref of Home Properties, period ended 12/31/ "12/31/0510-K")
4.31	Amended and Restated 2003 Stock Benefit Plan	Incorporated by ref 8-K filed by Home P dated May 6, 2005 (
4.32	Second Amended and Restated Director Deferred Compensation Plan	Incorporated by ref 5/6/05 8-K
10.1	Second Amended and Restated Agreement Limited Partnership of Home Properties of New York, L.P.	Incorporated by ref 8-K filed by Home P York, Inc. dated 9/ 8-K")
10.2	Amendments No. One through Eight to the Second Amended and	Incorporated by ref

	Restated Agreement of Limited Partnership of Home Properties of New York, L.P.	of Home Properties for the period ende "12/31/97 10-K")
10.3	Articles of Incorporation of Home Properties Management, Inc.	Incorporated by ref Registration Statem
10.4	By-Laws of Home Properties Management, Inc.	Incorporated by ref Registration Statem
10.5	Articles of Incorporation of Conifer Realty Corporation	Incorporated by ref 10-K
10.6	Articles of Amendment to the Articles of Incorporation of Conifer Realty Corporation Changing the name to Home Properties Resident Services, Inc.	Incorporated by ref 12/31/00 10-K
10.7	By-Laws of Conifer Realty Corporation (now Home Properties Resident Services, Inc.)	Incorporated by ref 12/31/95 10-K
10.8	Home Properties Trust Declaration of Trust, dated September 19, 1997	Incorporated by ref 8-K filed by Home P York, Inc. dated 9/ 10-K")
10.13	Indemnification Agreement between Home Properties of New York, Inc. and certain officers and directors	Incorporated by ref 10-Q filed by Home York, Inc. for the 6/30/94 (the "6/30/
10.15	Indemnification Agreement between Home Properties of New York, Inc. and Alan L. Gosule	Incorporated by ref 10-K filed by Home York, Inc. for the 12/31/96 (the 12/31
10.17	Agreement of Operating Sublease, dated October 1, 1986, among KAM, Inc., Morris Massry and Raintree Island Associates, as amended by Letter Agreement Supplementing Operating Sublease dated October 1, 1986	Incorporated by ref Registration Statem
10.26	Amendment No. Nine to the Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership	Incorporated by ref S-3
10.27	Master Credit Facility Agreement by and among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp., dated as of August 28, 1998	Incorporated by ref Properties of New Y for the quarter end "9/30/98 10-Q")
10.28	First Amendment to Master Credit Facility Agreement, dated as of December 11, 1998 among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp. and Fannie Mae	Incorporated by ref 10-K filed by Home York, Inc. for the 12/31/98 (the "12/
10.29	Second Amendment to Master Credit Facility Agreement, dated as of August 30, 1999 among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court	Incorporated by ref 12/31/99 10-K

	and WMF Washington Mortgage Corp. and Fannie Mae	
10.30	Amendments Nos. Ten through Seventeen to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 12/31/98 10-K
10.31	Amendments Nos. Eighteen through Twenty- Five to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref Properties of New Y for the quarter end "9/30/99 10-Q")
10.32	Credit Agreement, dated 8/23/99 between Home Properties of New York, L.P., certain Lenders and Manufacturers and Traders Trust Company as Administrative Agent	Incorporated by ref 9/30/99 10-Q
10.33	Amendment No. Twenty-Seven to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 12/29/99 S-3
10.34	Amendments Nos. Twenty-Six and Twenty-Eight through Thirty to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 12/31/99 10-K
10.37	2000 Stock Benefit Plan	Incorporated by ref 12/31/99 10-K
10.39	Purchase Agreement between Home Properties of New York, Inc. and The Equitable Life Assurance Society of the United States	Incorporated by ref 6/12/00 8-K
10.41	Home Properties of New York, L.P. Amendment Number One to Executive Retention Plan	Incorporated by ref 3/31/00 10-Q
10.42	Amendments No. Thirty-One and Thirty-Two to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 3/31/00 10-Q
10.49	Amendment No. Thirty Three to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 12/31/00 10-K
10.50	Amendment No. Thirty Five to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 12/31/00 10-K
10.51	Amendment No. Forty Two to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 12/31/00 10-K
10.52	Amendments Nos. Thirty Four, Thirty Six through Forty One, Forty Three and Forty Four to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 12/31/00 10-K
10.57	Amendment Nos. Forty-Five through Fifty-One to the Second Amendment and Restated Limited Partnership Agreement	Incorporated by ref 12/31/01 10-K
10.58	Home Properties of New York, Inc. Amendment No. One to 2000 Stock Benefit Plan	Incorporated by ref 12/31/01 10-K
10.59	Home Properties of New York, Inc. Amendment No. Two to 2000 Stock Benefit Plan	Incorporated by ref 12/31/01 10-K
10.60	Amendment Nos. Fifty-Two to Fifty-Five to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 10-Q filed by Home York, Inc. for the 9/30/02 (the "9/30/
10.61	Amendment Nos. Fifty-Six to Fifty-Eight to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 10-K filed by Home York, Inc. for the

		12/31/02 (the "12/3
10.62	Amendment No. Two to Credit Agreement	Incorporated by ref 9/30/02 10Q
10.63	Purchase and Sale Agreement, dated as of January 1, 2004 among Home Properties of New York, L.P., Home Properties Management, Inc. and Home Leasing, LLC, dated January 1, 2004	Incorporated by ref 10-K filed by Home for the period ende "12/31/2003 10-K")
10.64	Amendment Nos. Fifty-Nine through Sixty-Seven to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 12/31/2003 10-K
10.65	Home Properties of New York, Inc. Amendment No. Three to 2000 Stock Benefit Plan	Incorporated by ref 12/31/2003 10-K
10.66	Employment Agreement, dated as of October 28, 2003 between Home Properties, L.P., Home Properties, Inc., and Nelson B. Leenhouts	Incorporated by ref 8-K filed by Home P York, Inc. on 10/29 8-K")
10.67	Employment Agreement, dated as of October 28, 2003 between Home Properties, L.P., Home Properties, Inc. and Norman B. Leenhouts	Incorporated by ref 10/29/03 8-K
10.68	Home Properties of New York, Inc. 2003 Stock Benefit Plan	Incorporated by ref 14A filed by Home York, Inc. on Marc
10.69	Amendment Number Two to Home Properties of New York, Inc. and Home Properties of New York, L.P. Executive Retention Plan	Incorporated by ref 12/31/2003 10-K
10.70	Employment Agreement, dated as of May 17, 2004, between Home Properties, L.P., Home Properties, Inc. and Edward J. Pettinella	Incorporated by ref 12/31/05 10-K
10.71	Amendment Nos. Sixty-Eight through Seventy-Three to the Second Amended and Restated Limited Partnership Agreement	Incorporated by ref 12/31/05 10-K
10.72	Summary of Non-Employee Director Compensation Effective January 1, 2006	Incorporated by ref 8-K/A filed by Home on January 6, 2006
10.73	Summary of Named Executive Compensation for 2006	Filed herewith
10.74	Amendment No. Three to Credit Agreement, dated April 1, 2004, between Home Properties, L.P., certain Lenders, and Manufacturers and Traders Trust Company as Administrative Agent	Incorporated by ref 12/31/05 10-K
10.75	Amended and Restated Incentive Compensation Plan	Incorporated by ref 12/31/05 10-K
10.76	LIBOR Grid Note, dated November 23, 2004 from Home Properties, L.P. to Manufacturers and Traders Trust Company	Incorporated by ref 12/31/05 10-K
10.77	Mutual Release, dated January 24, 2005, given by Home Properties, L.P. and Home Properties, Inc. and Boston Capital Tax Credit Fund XIV, a Limited Partnership, Boston Capital Tax Credit Fund XV, a Limited Partnership, and BCCC, Inc. relating to certain obligations pertaining to Green Meadows	Incorporated by ref 8-K filed by Home P dated January 24, 2

	and related Letter Agreement.	
10.78	Amendment No. Four to Credit Agreement, dated September 8, 2005 between Home Properties, L.P., certain Lenders, and Manufacturers and Traders Trust Company, as Administrative Agent	Incorporated by ref filed by Home Prope "9/30/05 10-Q")
10.79	Agreement, dated September 30, 2005, between General Electric Credit Equities, Inc. and H.P. Knolls I Associates, L.P.	Incorporated by ref 9/30/05 10-Q
10.80	Agreement, dated September 30, 2005, between General Electric Credit Equities, Inc. and H.P. Knolls II Associates, L.P.	Incorporated by ref 9/30/05 10-Q
10.81	Amendments Nos. Seventy-Four to through Seventy-Nine to the Second Amended and Restated Limited Partnership	Filed herewith
11	Computation of Per Share Earnings Schedule	Filed herewith
14.1	Home Properties , Inc. Code of Ethics for Senior Finance Officers	Incorporated by ref 12/31/2003 10-K
14.2	Home Properties, Inc. Code of Business Conduct and Ethics	Incorporated by ref 12/31/2003 10-K
21	List of Subsidiaries of Home Properties, Inc.	Filed herewith
23	Consent of PricewaterhouseCoopers LLP	Filed herewith
31.1	Section 302 Certification of Chief Executive Officer	Furnished herewith
31.2	Section 302 Certification of Chief Financial Officer	Furnished herewith
32.1	Section 906 Certification of Chief Executive Officer	Filed herewith
32.2	Section 906 Certification of Chief Financial Officer	Filed herewith
99	Additional Exhibits - Debt Summary Schedule	Filed herewith

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14 PROMULGATED BY
THE SECURITIES AND EXCHANGE COMMISSION
(Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Edward J Pettinella, certify that:

1. I have reviewed this annual report on Form 10-K of Home Properties, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Edward J. Pettinella
Edward J. Pettinella
President and Chief Executive Officer
March 13, 2006

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14 PROMULGATED BY
THE SECURITIES AND EXCHANGE COMMISSION
(Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, David P. Gardner, certify that:

1. I have reviewed this annual report on Form 10-K of Home Properties, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions): (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David P. Gardner

David P. Gardner
Executive Vice President and Chief Financial Officer
March 13, 2006