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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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 1-12486

ASSOCIATED ESTATES REALTY CORPORATION

(Exact name of registrant as specified in its charter)

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

1 AEC Parkway, Richmond Hts., Ohio 44143-1467
(Address of principal executive offices)

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

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

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

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

Large accelerated filer [ ] Accelerated filer [x] Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

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

The number of shares outstanding as of July 27, 2009 was 16,705,327 shares.

ASSOCIATED ESTATES REALTY CORPORATION

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ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands, except share amounts)	June 30, 2009	December 31, 2008
ASSETS		
Real estate assets		
Land	$ 107,815	$ 110,220
Buildings and improvements	790,862	812,443
Furniture and fixtures	28,899	29,315
	927,576	951,978
Less: accumulated depreciation	(286,246)	(280,541)
	641,330	671,437
Construction in progress	3,927	745
Real estate associated with property held for sale, net	-	1,666
Real estate, net	645,257	673,848
Cash and cash equivalents	4,321	3,551
Restricted cash	7,862	6,873
Accounts and notes receivable, net		
Rents	1,056	1,320
Affiliates	455	606
Other	2,756	1,842
Goodwill	1,725	1,725
Other assets, net	7,962	10,131
Total assets	$ 671,394	$ 699,896
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgage notes payable	$ 489,135	$ 510,201
Unsecured revolving credit facility	10,000	21,500
Unsecured debt	25,780	25,780
Total debt	524,915	557,481
Accounts payable, accrued expenses and other liabilities	25,202	26,217
Dividends payable	2,979	2,920
Resident security deposits	3,211	3,360
Accrued interest	2,251	2,468
Total liabilities	558,558	592,446
Noncontrolling redeemable interest	1,829	1,829
Shareholders' equity		
Preferred shares, without par value; 9,000,000 shares authorized; 8.70% Class B Series II cumulative redeemable, $250 per share liquidation preference, 232,000 issued and 193,050 outstanding at June 30, 2009 and December 31, 2008, respectively	48,263	48,263
Common shares, without par value, $.10 stated value; 41,000,000 authorized; 22,995,763 issued and 16,705,327 and 16,556,221 outstanding at June 30, 2009 and December 31, 2008, respectively	2,300	2,300
Paid-in capital	282,480	282,501
Accumulated distributions in excess of accumulated net income	(155,560)	(159,595)
Accumulated other comprehensive loss	(2,150)	(2,899)
Less: Treasury shares, at cost, 6,290,436 and 6,439,542 shares at June 30, 2009 and December 31, 2008, respectively	(64,326)	(64,949)
Total shareholders' equity	111,007	105,621
Total liabilities and shareholders' equity	$ 671,394	$ 699,896

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

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenue				
Property revenue	$ 32,138	$ 32,166	$ 63,962	$ 62,390
Management and service company revenue:				
Fees, reimbursements and other	357	397	825	950
Painting services	253	188	350	325
Total revenue	32,748	32,751	65,137	63,665
Expenses				
Property operating and maintenance	13,812	13,711	27,566	26,377
Depreciation and amortization	8,587	9,167	17,795	17,421
Direct property management and service company expense	348	398	708	793
Painting services	322	277	535	520
General and administrative	3,165	3,183	6,304	6,711
Total expenses	26,234	26,736	52,908	51,822
Operating income	6,514	6,015	12,229	11,843
Interest income	18	92	33	106
Interest expense	(8,736)	(8,784)	(16,919)	(17,611)
(Loss) income before gain on insurance recoveries, equity in net loss of joint ventures and income from discontinued operations	(2,204)	(2,677)	(4,657)	(5,662)
Gain on insurance recoveries	544	-	544	-
Equity in net loss of joint ventures	-	(23)	-	(45)
(Loss) income from continuing operations	(1,660)	(2,700)	(4,113)	(5,707)
Income from discontinued operations:				
Operating income (loss)	267	241	569	(1,003)
Gain on disposition of properties	13,135	2,293	15,413	45,203
Income from discontinued operations	13,402	2,534	15,982	44,200
Net income (loss)	11,742	(166)	11,869	38,493
Net loss attributable to noncontrolling redeemable interest	(14)	(13)	(27)	(27)
Net income (loss) attributable to AERC	11,728	(179)	11,842	38,466
Preferred share dividends	(1,049)	(1,201)	(2,100)	(2,402)
Allocation to participating securities	(429)	-	(482)	(768)
Net income (loss) applicable to common shares	$ 10,250	$ (1,380)	$ 9,260	$ 35,296
Earnings per common share - basic and diluted:				
(Loss) income from continuing operations applicable to common shares	$ (0.16)	$ (0.24)	$ (0.38)	$ (0.50)
Income from discontinued operations	0.78	0.15	0.94	2.68
Net income (loss) applicable to common shares	$ 0.62	$ (0.09)	$ 0.56	$ 2.18
Dividends declared per common share	$ 0.17	$ 0.17	$ 0.34	$ 0.34
Weighted average number of common shares outstanding - basic and diluted	16,528	16,200	16,481	16,184

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

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Six Months Ended June 30, 2009	2008
Cash flow from operations:		
Net income	$ 11,869	$ 38,493
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization (including discontinued operations)	18,269	18,764
Loss on fixed asset replacements write-off	5	38
Gain on disposition of properties	(15,413)	(45,203)
Gain on insurance recoveries	(544)	-
Amortization of deferred financing costs and other	624	664
Share-based compensation	1,049	996
Equity in net loss of joint ventures	-	45
Net change in assets and liabilities:		
Accounts and notes receivable	408	1,505
Accounts payable and accrued expenses	(974)	(4,926)
Other operating assets and liabilities	1,011	858
Restricted cash	(989)	(150)
Total adjustments	3,446	(27,409)
Net cash flow provided by operations	15,315	11,084
Cash flow from investing activities:		
Recurring fixed asset additions	(3,872)	(3,756)
Revenue enhancing/non-recurring fixed asset additions	(691)	(360)
Acquisition fixed asset additions	(1,514)	(34,310)
Net proceeds from disposition of operating properties	32,714	88,357
Net cash flow provided by investing activities	26,637	49,931
Cash flow from financing activities:		
Principal amortization payments on mortgage notes payable	(1,421)	(1,407)
Principal repayments of mortgage notes payable	(72,096)	(42,851)
Payment of debt procurement costs	(686)	(601)
Proceeds from mortgage notes obtained	52,450	-
Revolver borrowings	95,400	77,850
Revolver repayments	(106,900)	(84,750)
Common share dividends paid	(5,625)	(5,534)
Preferred share dividends paid	(2,100)	(2,402)
Operating partnership distributions paid	(27)	(27)
Purchase of preferred and/or treasury shares	(177)	(217)
Net cash flow used for financing activities	(41,182)	(59,939)
Increase in cash and cash equivalents	770	1,076
Cash and cash equivalents, beginning of period	3,551	1,549
Cash and cash equivalents, end of period	$ 4,321	$ 2,625
Supplemental disclosure of cash flow information:		
Dividends declared but not paid	$ 2,979	$ 2,784
Cash paid for interest	16,544	20,077
Net change in accounts payable/receivable related to fixed asset additions	(287)	1,345
Assumption of debt in connection with property acquisition	-	45,002

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

ASSOCIATED ESTATES REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Except as the context otherwise requires, all references to "we," "our," "us," "AERC" and the "Company" in this report collectively refer to Associated Estates Realty Corporation and its consolidated subsidiaries.

Business

We are a self-administered and self-managed equity real estate investment trust ("REIT") specializing in multifamily property management, advisory, development, acquisition, disposition, operation and ownership activities. Our primary source of income is rental revenue. Additional income is derived primarily from property and asset management fees.

As of June 30, 2009, our property portfolio consisted of: (i) 48 apartment communities containing 12,108 units in seven states that are wholly owned, either directly or indirectly through subsidiaries; (ii) two apartment communities that we manage for third party owners consisting of 343 units; and (iii) a 186-unit apartment community and a commercial property containing approximately 145,000 square feet that we asset manage for a government sponsored pension fund.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and applicable rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal and recurring adjustments considered necessary for a fair statement, have been included. The reported results of operations are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the audited financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended December 31, 2008. We have evaluated all subsequent events through August 4, 2009, which is the date the financial statements were issued.

Noncontrolling Redeemable Interest

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an Amendment of ARB No. 51" ("SFAS 160"), which establishes and expands accounting and reporting standards for minority interests in a subsidiary and the deconsolidation of a subsidiary. SFAS 160 also requires minority interests to be recharacterized as noncontrolling interests. SFAS 160 was effective for us January 1, 2009, and as such, the operating partnership minority interest reported in our Annual Report on Form 10-K for the year ended December 31, 2008, has been recharacterized as "Noncontrolling redeemable interest" for all periods presented.

Share-Based Compensation

During the three and six months ended June 30, 2009, we recognized total share-based compensation cost of $450,000 and $1.0 million, respectively, in "General and administrative expense" in the Consolidated Statements of Operations. During the three and six months ended June 30, 2008, we recognized total share-based compensation cost of $429,000 and $900,000, respectively, in "General and administrative expense."

Stock Options. During the six months ended June 30, 2009, there were 8,000 options awarded and no options exercised. There were no stock options awarded or exercised during the six months ended June 30, 2008. We use the Black-Scholes option pricing model to estimate the fair value of share-based awards. The weighted average Black-Scholes assumptions and fair value for options awarded during the six months ended June 30, 2009, were as follows:

Expected volatility	36.5 %
Risk-free interest rate	2.0 %
Expected life of options (in years)	7.2
Dividend yield	12.2 %
Grant-date fair value	$ 0.44

The expected volatility was based upon the historical volatility of our weekly share closing prices over a period equal to the expected life of the options granted. The risk-free interest rate used was the yield from U.S. Treasury bonds on the date of grant with a maturity approximating the expected life of the options. The expected life of the options was derived using our historical experience for similar awards. The dividend yield was derived using our annual dividend rate as a percentage of the price of our shares on the date of grant.

Restricted Shares. The following table represents restricted share activity for the six months ended June 30, 2009:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at beginning of period	189,867	$ 11.33
Granted	184,070	$ 5.37
Vested	110,445	$ 9.21
Forfeited	1,672	$ 9.59
Nonvested at end of period	261,820	$ 9.75

At June 30, 2009, there was $2.5 million of unrecognized compensation cost related to nonvested restricted share awards that we expect to recognize over a weighted average period of 2.2 years. Pursuant to the terms of the Company's Elective Deferred Compensation Program, certain of our officers elected to defer the receipt of all or a portion of the restricted shares granted them during the six months ended June 30, 2009.

Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"), amends and expands the disclosure requirements of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments. SFAS 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. Hedge ineffectiveness is measured by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

We do not use derivatives for trading or speculative purposes. Further, we have a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, we have not sustained a material loss from these hedges.

We have utilized interest rate swaps and caps to add stability to interest expense and to manage our exposure to interest rate movements. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts if interest rates rise above a certain level in exchange for an up front premium.

Interest Rate Hedge Activity: During 2007, we executed two interest rate swaps to hedge the cash flows of existing variable rate debt. No hedge ineffectiveness on these cash flow hedges was recognized during the six months ended June 30, 2009. Amounts reported in "Accumulated other comprehensive loss" related to derivatives will be reclassified to "Interest expense" as interest payments are made on our variable-rate debt. During the next twelve months, we estimate that approximately $2.0 million will be reclassified from "Accumulated other comprehensive loss" as an increase to "Interest expense." The following table presents the notional amounts of the swaps as of June 30, 2009:

(Dollar amount in thousands) Interest Rate Derivative	Number of Instruments	Notional Amounts
Interest rate swaps	2	$ 63,000

The following table presents the fair value of our derivative financial instruments as well as their classification on the Consolidated Balance Sheets (see Note 7 for additional information regarding the fair value of these derivative instruments):

Fair Value of Derivative Instruments				
	Liability Derivatives			
	As of June 30, 2009		As of December 31, 2008	
(In thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS 133:				
Interest rate swaps	Accounts payable, accrued expenses and other liabilities	$ 2,150	Accounts payable, accrued expenses and other liabilities	$ 2,899

The following table presents the effect of our derivative financial instruments on the Consolidated Statements of Income (see Note 5 for additional information regarding the effect of these derivative instruments on total comprehensive income):

The Effect of Derivative Instruments on the Consolidated Statements of Operations					
(In thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
Derivatives in SFAS 133 Cash Flow Hedging Relationships	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009		Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Interest rate swaps	$ (487)	$ (215)	Interest expense	$ 546	$ 964

We have agreements with each of our derivative counterparties that contain a provision where if we either default or are capable of being declared in default on any of our indebtedness, then such counterparty can declare us to be in default on our derivative obligations.

We have an agreement with a derivative counterparty that incorporates the loan covenant provisions of our indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with the loan covenant provisions would result in our being in default on any derivative instrument obligations covered by the agreement.

As of June 30, 2009, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $2.6 million. As of June 30, 2009, we have not posted any collateral related to these agreements. If we had breached any of these provisions at June 30, 2009, we would have been required to settle our obligations under the agreements at their termination value of $2.6 million.

Classification of Fixed Asset Additions

We define recurring fixed asset additions to a property to be capital expenditures made to replace worn out assets to maintain the property's value. Revenue enhancing/non-recurring fixed asset additions are defined as capital expenditures that increase the value of the property and/or enable us to increase rents. Acquisition fixed asset additions are defined as capital expenditures for the purchase or construction of new properties to be added to our portfolio, or fixed asset additions identified at the time of purchase that are not made until subsequent periods.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation.

2. DEVELOPMENT AND DISPOSITION ACTIVITY

Development Activity

We recently commenced construction of a 60-unit expansion of the existing 240-unit River Forest apartment community located in the Richmond, Virginia metropolitan market area. Construction in progress related to this development was $1.6 million at June 30, 2009. We capitalize interest costs on funds used in construction, real estate taxes and insurance from the commencement of development activity through the time the property is ready for leasing. Capitalized interest costs for the three and six months ended June 30, 2009 were $25,000.

Disposition Activity

We report the results of operations and gain/loss related to the sale of real estate assets as discontinued operations in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). Real estate assets that are classified as held for sale are also reported as discontinued operations. We classify properties as held for sale when all significant contingencies surrounding the closing have been resolved. In most transactions, these contingencies are not satisfied until the actual closing of the transaction. Interest expense included in discontinued operations is limited to interest on mortgage debt specifically associated with properties sold or classified as held for sale.

On June 17, 2009, we completed the sale of Chestnut Ridge apartments, a 468-unit property located in Pittsburgh, Pennsylvania. The sales price was $29.8 million and we recorded a gain of $13.1 million.

On January 9, 2009, we completed the sale of Bay Club apartments, a 96-unit property located in Northeast Ohio. The sales price was $4.1 million and we recorded a gain of $2.3 million.

"Income from discontinued operations" in the accompanying Consolidated Statements of Operations for the three and six months ended June 30, 2009 and 2008, includes the operating results for the properties sold in 2009 and prior years, as well as the gains recognized on properties sold during each reporting period. The following table summarizes "Income from discontinued operations:"

(In thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
REVENUE				
Property revenue	$ 925	$ 1,339	$ 2,021	$ 6,559
EXPENSES				
Property operating and maintenance	442	594	948	3,387
Depreciation and amortization	216	306	474	1,354
Total expenses	658	900	1,422	4,741
Operating income	267	439	599	1,818
Interest income	-	-	1	5
Interest expense [1]	-	(198)	(31)	(2,826)
Gain on disposition of properties	13,135	2,293	15,413	45,203
Income from discontinued operations	$ 13,402	$ 2,534	$ 15,982	$ 44,200

(1) Interest expense for the six months ended June 30, 2008 includes $2.0 million of defeasance and other prepayment costs.

3. DEBT

The following table identifies our total debt outstanding and weighted average interest rates:

(Dollar amounts in thousands)	June 30, 2009 Balance Outstanding	June 30, 2009 Weighted Average Interest Rate	December 31, 2008 Balance Outstanding	December 31, 2008 Weighted Average Interest Rate
FIXED RATE DEBT				
Mortgages payable - CMBS	$ 116,501	7.7%	$ 154,685	7.7%
Mortgages payable - other [1]	337,524	5.8%	320,516	5.8%
Unsecured borrowings	25,780	7.9%	25,780	7.9%
Total fixed rate debt	479,805	6.4%	500,981	6.5%
VARIABLE RATE DEBT				
Mortgages payable	35,110	4.8%	35,000	1.6%
Unsecured revolving credit facility	10,000	2.0%	21,500	3.7%
Total variable rate debt	45,110	4.1%	56,500	2.4%
TOTAL DEBT	$ 524,915	6.2%	$ 557,481	6.1%

(1) Includes $63.0 million of variable rate debt swapped to fixed as of June 30, 2009 and December 31, 2008.

Mortgage Notes Payable

The following table provides information on loans repaid at par as well as loans obtained during 2009:

(Dollar amounts in thousands)	Loans Repaid			Loans Obtained			
Property	Amount	Rate		Amount	Rate		Maturity
Saw Mill Village	$ 11,119	7.5%		$ 17,220	6.0%		April 2016
Georgetown Park	16,000	1.6%	(1)	-	N/A		N/A
Chestnut Ridge	19,000	1.4%	(1)	-	N/A		N/A
Oaks at Hampton	25,977	7.5%		-	N/A		N/A
Steeplechase at Shiloh	-	N/A		13,790	4.8%	(1)	March 2016
Courtney Chase	-	N/A		21,440	4.8%	(1)	March 2016
	$ 72,096	4.6%	(2)	$ 52,450	5.2%	(2)	

(1) Denotes variable rate loans. Variable rates on loans obtained are as of June 30, 2009.
(2) Represents weighted average interest rate for the loans listed.

During 2008, 2007 and 2006, we defeased 21 loans. These loans were defeased pursuant to the terms of the underlying loan documents. Also, in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," we removed those financial assets and the mortgage loans from our financial records. All risk of loss associated with these defeasances have been transferred from us to the successor borrower and any ongoing relationship between the successor borrower and us was deemed inconsequential at the time of completion of the respective transfers. However, we subsequently learned that certain defeasance transactions, completed prior to June 2007, could enable us to receive a refund of a portion of the costs incurred in connection with the transaction. During the first quarter of 2009, we received refunds of $563,000, which were included as a reduction to interest expense. It is possible that we may receive additional refunds in the future, however such amounts cannot be estimated due to the uncertainty of future payments, and we believe that any amounts we may receive would not be material to our consolidated financial position, cash flow or results of operations.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

In June 1998, we recorded goodwill in connection with the MIG Realty Advisors, Inc. merger. We have a policy of completing our annual review of goodwill during the first quarter of each year and more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. The review that was completed during the three months ended March 31, 2009 determined that goodwill was not impaired and no other events have occurred which would require that goodwill be reevaluated and as such there were no changes to the carrying value of goodwill as of June 30, 2009. In performing this analysis, we use a multiple of revenues to the range of potential alternatives and assign a probability of the various alternatives under consideration by management. Should the estimates used to determine alternatives or the probabilities of the occurrence thereof change, impairment may result which could materially impact our results of operations for the period in which it is recorded**.**

Intangible Assets

In accordance with SFAS 141(R), "Business Combinations," we allocate a portion of the total purchase price of a property acquisition to any intangible assets identified, such as existing leases and tenant relationships. The intangible assets are amortized over the remaining lease terms or estimated life of the tenant relationship, which is approximately 12 to 16 months. Due to the short term nature of residential leases, we believe that existing lease rates approximate market rates; therefore, no allocation is made for above/below market leases.

5. SHAREHOLDERS' EQUITY

The following table provides a reconciliation of activity in Shareholders' equity accounts:

(In thousands)	Six Months Ended June 30, 2009	Twelve Months Ended December 31, 2008
Noncontrolling redeemable interest		
Balance outstanding at beginning of period	$ 1,829	$ 1,829
Balance outstanding at end of period	$ 1,829	$ 1,829
Preferred shares		
Balance outstanding at beginning of period	$ 48,263	$ 55,213
Purchase and retirement of Class B Cumulative Redeemable Preferred Shares	-	(6,950)
Balance outstanding at end of period	48,263	48,263
Common shares (at $.10 stated value)		
Balance outstanding at beginning and end of period	2,300	2,300
Paid-in capital		
Balance outstanding at beginning of period	282,501	281,152
Share based compensation	(21)	1,294
Shares issued from treasury for stock option exercises	-	(88)
Purchase and retirement of Class B Cumulative Redeemable Preferred Shares	-	143
Balance outstanding at end of period	282,480	282,501
Accumulated distributions in excess of accumulated net income		
Balance outstanding at beginning of period	(159,595)	(180,436)
Net income	11,869	34,680
Net loss attributable to noncontrolling redeemable interest	(27)	(53)
Share based compensation	2	8
Purchase and retirement of Class B Cumulative Redeemable Preferred Shares	-	2,146
Common share dividends declared	(5,709)	(11,285)
Preferred share dividends declared	(2,100)	(4,655)
Balance outstanding at end of period	(155,560)	(159,595)
Accumulated other comprehensive loss		
Balance outstanding at beginning of period	(2,899)	(1,050)
Change in fair value of hedge instruments	749	(1,849)
Balance outstanding at end of period	(2,150)	(2,899)
Treasury shares (at cost)		
Balance outstanding at beginning of period	(64,949)	(67,393)
Purchase of common shares	(178)	(221)
Share based compensation	801	734
Shares issued from treasury for stock option exercises	-	1,931
Balance outstanding at end of period	(64,326)	(64,949)
Total Shareholders' Equity	$ 111,007	$ 105,621

The following table identifies total comprehensive income:

(In thousands)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Comprehensive income:		
Net income attributable to AERC	$ 11,842	$ 38,466
Other comprehensive income (loss):		
Change in fair value of hedge instruments	749	(280)
Total comprehensive income	$ 12,591	$ 38,186

6. EARNINGS PER SHARE

Earnings per share ("EPS") have been computed pursuant to the provisions of SFAS 128, "Earnings per Share." In June 2008, the Financial Accounting Standards Board issued Staff Position FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," which was effective for us January 1, 2009. This FSP clarifies that nonvested awards containing nonforfeitable dividend rights are participating securities and are therefore required to be included in the computations of basic and diluted earnings per share. This FSP requires retrospective application to all periods presented.

There were 1.4 million and 1.6 million options to purchase common shares outstanding at June 30, 2009 and 2008, respectively. The dilutive effect of these options were not included in the calculation of diluted earnings per share for the periods presented as their inclusion would be antidilutive to the net loss applicable to common shares from continuing operations.

The exchange of operating partnership noncontrolling interests into common shares was also not included in the computation of diluted EPS because we intend to settle these OP units in cash.

The following table presents a reconciliation of basic and diluted earnings per common share:

(In thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Numerator - basic and diluted:				
(Loss) income from continuing operations	$ (1,660)	$ (2,700)	$ (4,113)	$ (5,707)
Net loss attributable to noncontrolling redeemable interest	(14)	(13)	(27)	(27)
Preferred share dividends	(1,049)	(1,201)	(2,100)	(2,402)
(Loss) income from continuing operations applicable to common shares	$ (2,723)	$ (3,914)	$ (6,240)	$ (8,136)
Income from discontinued operations	$ 13,402	$ 2,534	$ 15,982	$ 44,200
Allocation to participating securities	(429)	-	(482)	(768)
Income from discontinued operations applicable to common shares	$ 12,973	$ 2,534	$ 15,500	$ 43,432
Denominator - basic and diluted:	16,528	16,200	16,481	16,184
Net income (loss) applicable to common shares - basic and diluted:				
(Loss) income from continuing operations applicable to common shares	$ (0.16)	$ (0.24)	$ (0.38)	$ (0.50)
Income from discontinued operations	0.78	0.15	0.94	2.68
Net income (loss) applicable to common shares - basic and diluted	$ 0.62	$ (0.09)	$ 0.56	$ 2.18

7. FAIR VALUE

Fair value determined in accordance with GAAP should be based on the assumptions that market participants would use when pricing certain assets or liabilities. Inputs used in determining fair value should be from the highest level available in the following hierarchy:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access;
- Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the financial liabilities that we measured at fair value on a recurring basis as of June 30, 2009:

(In thousands)	Level 1	Level 2	Level 3	Total
Interest rate swaps	$ -	$ 2,150	$ -	$ 2,150

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and that of the respective counterparty in the fair value measurements. The credit valuation adjustments utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by either the respective counterparty or us. However, we determined that as of June 30, 2009, the impact of the credit valuation adjustments were not significant to the overall valuation of the swaps. See "Derivative Instruments and Hedging Activities" in Note 1 for additional information regarding the swaps.

Rents, accounts and notes receivable, other assets, accounts payable, accrued expenses and other liabilities are carried at amounts that reasonably approximate corresponding fair values.

In the following disclosure, we determined estimated fair value by using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Mortgage notes payable, revolving debt and other unsecured debt with an aggregate carrying value of $524.9 million and $557.5 million at June 30, 2009, and December 31, 2008, respectively, have an estimated aggregate fair value of $528.7 million and $549.0 million, respectively. Estimated fair value is based on interest rates available to us as of the dates reported on for issuance of debt with similar terms and remaining maturities.

8. GAIN ON INSURANCE RECOVERIES

In June 2009 we settled a wind storm damage insurance claim involving 13 of our central Ohio properties for the aggregate sum of $906,000, net of our deductible. In accordance with GAAP, we recorded this settlement as a gain on insurance recoveries. The roofs of five of these properties sustained extensive damage and were replaced. We reported a gain on insurance recoveries of $544,000 in the Consolidated Statements of Income for the three and six months ended June 30, 2009, which represents insurance proceeds to be received net of the carrying value of the assets written off and costs incurred to make repairs.

9. INTERIM SEGMENT REPORTING

We have three reportable segments: (1) Acquisition/Disposition Multifamily Properties; (2) Same Community Multifamily Properties; and (3) Management and Service Operations. We have identified our reportable segments based upon how management makes decisions regarding resource allocation and performance assessment. The Acquisition/Disposition properties represent acquired or developed properties which have not yet reached stabilization (we consider a property stabilized when we have owned the property for one year) and properties that have been sold or are classified as held for sale in accordance with SFAS 144. The Same Community properties are multifamily residential apartments that have been owned during the entirety of the comparison periods. The Management and Service Operations provide management and advisory services to the Acquisition/Disposition and Same Community properties that we own, as well as to third party clients and properties, both affiliate and non-affiliates, and charge a market rate fee based upon such services. All of our segments are located in the United States.

The accounting policies of the reportable segments are the same as those described in the "Basis of Presentation and Significant Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2008. We evaluate the performance of our reportable segments based on Net Operating Income ("NOI"). NOI is determined by deducting property operating and maintenance expenses from property revenue for the Acquisition/Disposition (excluding amounts classified as discontinued operations) and Same Community segments and deducting direct property management and service company expenses and painting service expenses from Management and Service Company revenue for the Management and Service Operations segment. We consider NOI to be an appropriate supplemental measure of our performance because it reflects the operating performance of our real estate portfolio and management and service companies at the property and management and service company level and is used to assess regional property level performance. NOI should not be considered (i) as an alternative to net income (determined in accordance with GAAP), (ii) as an indicator of financial performance, (iii) as an alternative to cash flow from operating activities (determined in accordance with GAAP) or (iv) as a measure of liquidity; nor is it necessarily indicative of sufficient cash flow to fund all of our needs. Other real estate companies may define NOI in a different manner.

Segment information for the three and six months ended June 30, 2009 and 2008 is as follows:

	Three Months Ended June 30, 2009			
(In thousands)	Acquisition/ Disposition	Same Community	Management and Service Operations	Total Consolidated
Total segment revenue	$ 1,672	$ 30,466	$ 2,002	$ 34,140
Elimination of intersegment revenue	-	-	(1,392)	(1,392)
Consolidated revenue	1,672	30,466	610	32,748
Operating income from discontinued operations	267	-	-	267
*NOI	1,137	17,189	(60)	18,266

*Intersegment revenue and expenses have been eliminated in the computation of NOI for each of the segments.

(In thousands)	Three Months Ended June 30, 2008			
	Acquisition/ Disposition	Same Community	Management and Service Operations	Total Consolidated
Total segment revenue	$ 1,375	$ 30,797	$ 2,033	$ 34,205
Elimination of intersegment revenue	-	(6)	(1,448)	(1,454)
Consolidated revenue	1,375	30,791	585	32,751
Operating income from discontinued operations	241	-	-	241
*NOI	924	17,531	(90)	18,365

*Intersegment revenue and expenses have been eliminated in the computation of NOI for each of the segments.

(In thousands)	Six Months Ended June 30, 2009			
	Acquisition/ Disposition	Same Community	Management and Service Operations	Total Consolidated
Total segment revenue	$ 3,373	$ 60,590	$ 3,971	$ 67,934
Elimination of intersegment revenue	(1)	-	(2,796)	(2,797)
Consolidated revenue	3,372	60,590	1,175	65,137
Operating income from discontinued operations	569	-	-	569
*NOI	2,253	34,143	(68)	36,328

*Intersegment revenue and expenses have been eliminated in the computation of NOI for each of the segments.

(In thousands)	Six Months Ended June 30, 2008			
	Acquisition/ Disposition	Same Community	Management and Service Operations	Total Consolidated
Total segment revenue	$ 1,375	$ 61,021	$ 4,365	$ 66,761
Elimination of intersegment revenue	-	(6)	(3,090)	(3,096)
Consolidated revenue	1,375	61,015	1,275	63,665
Operating loss from discontinued operations	(1,003)	-	-	(1,003)
*NOI	922	35,091	(38)	35,975

*Intersegment revenue and expenses have been eliminated in the computation of NOI for each of the segments.

Total assets for each of the reportable segments are summarized as follows:

	June 30, 2009	December 31, 2008
Assets		
Acquisition/disposition	$ 72,873	$ 75,012
Same community	585,234	610,975
Management and service operations	13,287	13,909
Total assets	$ 671,394	$ 699,896

A reconciliation of NOI to total consolidated net income (loss) attributable to AERC is as follows:

(In thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Property NOI	$ 18,326	$ 18,455	$ 36,396	$ 36,013
Management and service operations NOI	(60)	(90)	(68)	(38)
Depreciation and amortization	(8,587)	(9,167)	(17,795)	(17,421)
General and administrative expense	(3,165)	(3,183)	(6,304)	(6,711)
Interest income	18	92	33	106
Interest expense	(8,736)	(8,784)	(16,919)	(17,611)
Gain on insurance recoveries	544	-	544	-
Equity in net loss of joint ventures	-	(23)	-	(45)
Income from discontinued operations:				
Operating income (loss)	267	241	569	(1,003)
Gain on disposition of properties	13,135	2,293	15,413	45,203
Income from discontinued operations	13,402	2,534	15,982	44,200
Net income (loss)	11,742	(166)	11,869	38,493
Net loss attributable to noncontrolling redeemable interest	(14)	(13)	(27)	(27)
Consolidated net income (loss) attributable to AERC	$ 11,728	$ (179)	$ 11,842	$ 38,466

10. CONTINGENCIES

Legal Proceedings

We are subject to legal proceedings, lawsuits and other claims, including proceedings by government authorities (collectively "Litigation"). Litigation is subject to uncertainties and outcomes are difficult to predict. Consequently, we are unable to estimate ultimate aggregate monetary liability or financial impact with respect to the Litigation matter described in the following paragraph as of June 30, 2009, and no accrual has been made for this matter. We believe that other Litigation will not have a material adverse impact on us after final disposition. However, because of the uncertainties of Litigation, one or more lawsuits could ultimately result in a material obligation.

Pending Lawsuits

On or about April 14, 2002, Melanie and Kyle Kopp commenced an action against us in the Franklin County, Ohio Court of Common Pleas seeking undetermined damages, injunctive relief and class action certification. This case arose out of our Suredeposit program. This program allowed cash short prospective residents to purchase a bond in lieu of paying a security deposit. The bond serves as a fund to pay those resident obligations that would otherwise have been funded by the security deposit. Plaintiffs allege that the nonrefundable premium paid for the bond is a disguised form of security deposit, which is otherwise required to be refundable in accordance with Ohio's Landlord-Tenant Act. Plaintiffs further allege that certain pet deposits and other nonrefundable deposits required by us are similarly security deposits that must be refundable in accordance with Ohio's Landlord-Tenant Act. On or about January 15, 2004, the Plaintiffs filed a motion for class certification. We subsequently filed a motion for summary judgment. On or about September 3, 2008, the court granted our motion for summary judgment thereby dismissing all Plaintiff claims against us. However, Plaintiff subsequently appealed the court's ruling to the Ohio Court of Appeals for the 10th District, which dismissed the appeal on technical grounds. The technical issues have now been resolved and we anticipate that Plaintiff will refile its appeal.

11. SUBSEQUENT EVENTS

Dividends.

On August 3, 2009, we paid a dividend of $0.17 per common share to shareholders of record on July 15, 2009, which was declared on June 15, 2009.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Part I, Item 1 of this report on Form 10-Q. This discussion may contain forward-looking statements based on current judgments and current knowledge of management, which are subject to certain risks, trends and uncertainties that could cause actual results to vary from those projected, including but not limited to, expectations regarding our 2009 performance which are based on certain assumptions. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements that speak only as of the dates of the document. These forward-looking statements are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "expects," "projects," "believes," "plans," "anticipates" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that these forward-looking statements involve risks and uncertainty that could cause actual results to differ from estimates or projections contained in these forward-looking statements, including without limitation the following:

- changes in the economic climate in the markets in which we own and manage properties, including interest rates, our ability to consummate the sale of properties pursuant to our current plan, the overall level of economic activity, the availability of consumer credit and mortgage financing, unemployment rates and other factors;
- our ability to refinance debt on favorable terms at maturity;
- our ability to defease or prepay debt pursuant to our current plan;
- risks of a lessening of demand for the multifamily units that we own or manage;
- competition from other available multifamily units and changes in market rental rates;
- increases in property and liability insurance costs;
- unanticipated increases in real estate taxes and other operating expenses;
- weather conditions that adversely affect operating expenses;
- expenditures that cannot be anticipated such as utility rate and usage increases, unanticipated repairs and real estate tax valuation reassessments or millage rate increases;
- our inability to control operating expenses or achieve increases in revenue;
- the results of litigation filed or to be filed against us;
- changes in tax legislation;
- risks of personal injury claims and property damage related to mold claims because of diminished insurance coverage;
- catastrophic property damage losses that are not covered by our insurance;
- our ability to acquire properties at prices consistent with our investment criteria;
- risks associated with property acquisitions such as environmental liabilities, among others;
- changes in or termination of contracts relating to third party management and advisory business; and
- risks related to the perception of residents and prospective residents as to the attractiveness, convenience and safety of our properties or the neighborhoods in which they are located.

Overview.

We are engaged primarily in the ownership and operation of multifamily residential units. We also provide asset and property management services to third party owners of multifamily residential units. Our primary source of cash and revenue from operations is rents from the leasing of owned apartment units, which represented 98.2% of our consolidated revenue for the six months ended June 30, 2009.

The operating performance of our properties is affected by general economic trends including, but not limited to, factors such as household formation, job growth, unemployment rates, population growth, immigration, the supply of new multifamily rental communities and the supply of other housing alternatives, such as condominiums, single and multifamily rental homes and owner occupied single and multifamily homes. Additionally, our performance may be affected by access to, and the cost of capital.

Rental revenue collections are a combination of rental rates, occupancy levels and rent concessions. We attempt to adjust these factors to adapt to changing market conditions, thus allowing us to maximize rental income. Indicators that we use in measuring these factors include physical occupancy and net rents. These indicators are more fully described in the Results of Operations comparison. Additionally, we consider property NOI to be an important indicator of our overall performance. Property NOI (property operating revenue less property operating and maintenance expenses) is a measure of the profitability of our properties and has the largest impact on our financial condition and operating results. See Note 9 of the Notes to Consolidated Financial Statements presented in Part I, Item 1 of this report on Form 10-Q for additional information regarding property NOI and total NOI, in addition to a reconciliation of NOI to consolidated net income (loss) attributable to AERC in accordance with GAAP.

We have three reportable segments: (1) Acquisition/Disposition Multifamily Properties; (2) Same Community Multifamily Properties; and (3) Management and Service Operations. Our Same Community portfolio consists of 46 properties containing 11,572 units and accounted for 94.7% of total property revenue and 93.8% of our property NOI during the six months ended June 30, 2009. NOI for the Same Community portfolio decreased $948,000 or 2.7% during the six months ended June 30, 2009 when compared to the six months ended June 30, 2008. This decrease was primarily attributable to a $1.7 million or 16.1% reduction in NOI at our Southeast properties, while NOI at our Midwest portfolio increased $754,000 or 3.8%.

Updated 2009 Expectations.

- ***Portfolio performance*** – Our updated guidance reflects Same Community property NOI decreasing in the range of -3.5% to -2.5% in 2009.
- ***Property acquisitions, sales and development*** – Our updated guidance reflects the acquisition of $40.0 million of properties during the second half of the year, rather than the $80.0 million we originally anticipated. We completed the disposition of two properties for $33.9 million through June 30, 2009, and we expect no further property sales during 2009. We also began construction of a 60-unit expansion of our River Forest apartment community, which is located in the Richmond, Virginia metropolitan area. The cost of this expansion project is expected to be approximately $7.0 million. We expect to incur approximately $5.0 million in costs related to this development during 2009, with the remaining $2.0 million to be expended in 2010.
- ***Debt repayment*** – We have already repaid all our loans maturing in 2009.

Forecast Qualification. The uncertainties caused by the current economic turndown and the unprecedented financial crisis complicate our ability to forecast future performance and disposition/acquisition activity. We believe that the apartment industry is better situated to weather the recession and financial crisis than other real estate sectors, because people will normally choose shelter over discretionary spending such as going to the mall or hotel stays and because government sponsored agencies such as Fannie Mae and Freddie Mac continue to provide needed financing and refinancing credit facilities, which are otherwise unavailable to other commercial real estate sectors. However, our 2009 expectations may be adversely impacted if recessionary forces accelerate or Congress curtails Fannie Mae or Freddie Mac financing support to the apartment industry.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Liquidity. Significant sources and uses of cash during the six months ended June 30, 2009 and 2008 are summarized as follows:

	Six Months Ended June 30,	
(In thousands)	2009	2008
Net cash provided by operations	$ 15,315	$ 11,084
Fixed assets:		
Property/land acquisitions and development expenditures, net	(1,514)	(34,310)
Net property disposition proceeds	32,714	88,357
Recurring, revenue enhancing and non-recurring capital expenditures	(4,563)	(4,116)
Debt:		
Decrease in mortgage notes	(21,067)	(44,258)
Decrease in revolver borrowings	(11,500)	(6,900)
Cash dividends and operating partnership distributions paid	(7,752)	(7,963)

Our primary sources of liquidity are cash flow provided by operations, short-term borrowings on the revolver and proceeds from property sales. We believe that we are well positioned to weather the recent turmoil in the financial markets. Four mortgage loans totaling approximately $72.2 million were scheduled to mature in 2009. During the six months ended June 30, 2009, we repaid $52.5 million of the maturing debt with funds from new mortgage loans that mature in 2016 and we utilized short term funding from our revolver for the remaining $19.7 million. The revolver borrowing was repaid with funds received from the sale of a 468-unit property located in Pennsylvania in June 2009. As of June 30, 2009, our revolver had $140.0 million available for borrowing and matures on March 11, 2011.

While we expect rental revenue to remain flat or decline due to increased concessions in some of our markets, we anticipate that cash flow provided by operations for the remainder of the year should remain consistent with current levels and should be adequate to fund our cash needs, other than the $5.0 million that we anticipate spending in 2009 to develop a 60-unit expansion of a Richmond, Virginia property, which we intend to fund with borrowings on our revolver.

Cash flow provided by operations increased during 2009 compared to 2008 primarily due to changes in accounts payable and accrued expenses and an increase in cash flow from property operations of $2.1 million.

In addition to the development costs of $5.0 million, we anticipate funding approximately $6.3 million for recurring, revenue enhancing and nonrecurring capital expenditures for the remainder of 2009. These expenditures are expected to be funded largely from cash flow provided by operations.

Any future multifamily property acquisitions or developments would be financed with the most appropriate sources of capital, which may include secured or unsecured debt financings, borrowings on the revolver, the assumption of mortgage indebtedness, bank and other institutional borrowings, the exchange of properties, undistributed earnings and debt or equity issuances under our effective shelf registration.

We anticipate that we will meet our 2009 liquidity requirements through cash flow provided by operations. We believe that this and other sources, such as the revolver, should be sufficient to meet operating requirements, capital additions, mortgage amortization payments and the payment of dividends in accordance with REIT requirements. We anticipate that we will continue paying our regular quarterly dividends in cash.

RESULTS OF OPERATIONS

Comparison of the three and six months ended June 30, 2009 to the three and six months ended June 30, 2008.

In the following discussion, Same Community properties represent 46 properties that we have owned during the entirety of the comparison periods. Acquired properties represent two properties acquired in April 2008.

The net loss from continuing operations decreased $1.0 million and $1.6 million during the three and six month comparison periods, respectively. The decrease in the three month comparison period was primarily due to a reduction in depreciation and amortization expense and a gain on insurance recoveries recognized during 2009. The decrease in the six month comparison period was primarily due to a reduction in interest expense, the gain on insurance recoveries and an increase in property NOI recognized during 2009. The following table presents property NOI results for both comparison periods:

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2009 Property NOI	2008 Property NOI	Increase/ (Decrease)	2009 Property NOI	2008 Property NOI	Increase/ (Decrease)
Same Community Properties:						
Midwest	$ 10,426	$ 9,957	$ 469	$ 20,717	$ 19,963	$ 754
Mid-Atlantic	2,477	2,428	49	4,786	4,824	(38)
Southeast	4,288	5,146	(858)	8,640	10,304	(1,664)
Total Same Community	17,191	17,531	(340)	34,143	35,091	(948)
Acquired Properties	1,135	924	211	2,253	922	1,331
Total Property NOI	$ 18,326	$ 18,455	$ (129)	$ 36,396	$ 36,013	$ 383

The decrease in Same Community NOI during the three month comparison period was primarily due to a decrease in property revenue of $325,000 or 1.1%, combined with a slight increase in operating expenses. The decrease in Same Community NOI during the six month comparison period was primarily due to a decrease in property revenue of $425,000 or 0.7%, combined with an increase in operating expenses of $523,000 or 2.0%.

The following chart reflects the amount and percentage change in line items that are relevant to the changes in overall operating performance:

(In thousands)	Increase (decrease) when comparing the three months ended June 30, 2009 to June 30, 2008		Increase (decrease) when comparing the six months ended June 30, 2009 to June 30, 2008	
Property revenue	$ (28)	(0.1)%	$ 1,572	2.5%
Property operating and maintenance expense	101	0.7%	1,189	4.5%
Depreciation and amortization	(580)	(6.3)%	374	2.1%
Interest expense	(48)	(0.5)%	(692)	(3.9)%
Gain on insurance recoveries	544	N/A	544	N/A
Income from discontinued operations	10,868	428.9%	(28,218)	(63.8)%

Property revenue. Property revenue is impacted by a combination of rental rates, rent concessions and occupancy levels, i.e., net collected rent per unit. We measure these factors using indicators such as physical occupancy (number of units occupied divided by total number of units at the end of the period) and average monthly net rent per unit (gross potential rents less concessions divided by total number of units). This information is presented in the following tables for the three and six months ended June 30, 2009 and 2008:

	Physical Occupancy June 30,	
	2009	2008
Same Community Properties:		
Midwest	97.1%	97.1%
Mid-Atlantic	97.6%	97.3%
Southeast	90.4%	94.2%
Total Same Community	95.4%	96.3%
Acquired Properties	94.0%	98.9%

	Average Monthly Net Collected Rent Per Unit			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Same Community Properties:				
Midwest	$ 788	$ 775	$ 783	$ 766
Mid-Atlantic	$ 1,270	$ 1,237	$ 1,254	$ 1,232
Southeast	$ 874	$ 948	$ 874	$ 946
Total Same Community	$ 849	$ 857	$ 845	$ 850
Acquired Properties	$ 986	$ 1,015	$ 992	N/A

The following table presents property revenue results for both comparison periods:

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2009 Property Revenue	2008 Property Revenue	Increase/ (Decrease)	2009 Property Revenue	2008 Property Revenue	Increase/ (Decrease)
Same Community Properties:						
Midwest	$ 18,785	$ 18,523	$ 262	$ 37,321	$ 36,554	$ 767
Mid-Atlantic	3,632	3,530	102	7,180	7,018	162
Southeast	8,049	8,738	(689)	16,089	17,443	(1,354)
Total Same Community	30,466	30,791	(325)	60,590	61,015	(425)
Acquired Properties	1,672	1,375	297	3,372	1,375	1,997
Total Property Revenue	$ 32,138	$ 32,166	$ (28)	$ 63,962	$ 62,390	$ 1,572

The increases in property revenue for the Midwest portfolio during 2009 are primarily a result of an increase in net rents (gross potential rents less concessions) combined with a reduction in the amount of vacancy losses over both comparison periods. Property revenue in the Mid-Atlantic properties increased during 2009 primarily due to net rent increases which were partially offset by an increase in the amount of vacancy losses over both comparison periods. Property revenue for the Southeast portfolio decreased during 2009 primarily because of increases in concessions being offered and increases in the amount of vacancy losses over both comparison periods.

Property operating and maintenance expenses. Property operating and maintenance expenses increased during both comparison periods primarily as a result of expenses related to the Acquired properties. Property operating and maintenance expenses in the Same Community segment were flat during the three month comparison period and increased $523,000 during the six month comparison period primarily as a result of increases in utilities expense, real estate tax expense and repairs and maintenance expense in the Southeast and Mid-Atlantic properties.

Depreciation and amortization. Depreciation and amortization expense decreased during the three month comparison period primarily due to a decrease in amortization of intangible assets in 2009 related to properties acquired in 2007, which was partially offset by an increase in depreciation and amortization of intangible assets related to the properties acquired in 2008. Depreciation and amortization expense increased during the six month comparison period primarily due to an increase in depreciation and amortization of intangible assets related to the properties acquired in 2008.

Interest expense. Interest expense decreased in 2009 during the six month comparison period primarily due to the receipt in the first quarter of 2009 of refunds totaling $563,000 in defeasance costs in connection with certain previously defeased loans and decreased interest expense of $125,000 for borrowings on our revolver.

Income from Discontinued Operations. Discontinued operations include the operating results and gains related to the sales of two properties sold in 2009 and 15 properties that were sold during 2008. Defeasance/prepayment costs recognized in 2008 totaling $2.0 million were included in discontinued operations. For further details on "Income from discontinued operations," see Note 2 of the Notes to Consolidated Financial Statements presented in Part I, Item 1 of this report on Form 10-Q.

CONTINGENCIES

For a discussion of contingencies, see Note 10 of the Notes to Consolidated Financial Statements presented in Part I, Item 1 of this report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate changes associated with variable rate debt and the refinancing risk on our fixed-rate debt. Based on our variable rate debt outstanding at June 30, 2009 and 2008, an interest rate change of 100 basis points would impact interest expense approximately $450,000 and $480,000 on an annual basis, respectively. We occasionally use derivative instruments to manage our exposure to interest rates. See Note 1 of the Notes to Consolidated Financial Statements presented in Part I, Item 1 of this report on Form 10-Q for additional information regarding derivative instruments and "Item 7A Qualitative and Quantitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the year ended December 31, 2008, for a more complete discussion of interest rate sensitive assets and liabilities.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. We have evaluated the design and operations of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Securities Exchange Act of 1934 ("Exchange Act") and the rules and forms of the Securities and Exchange Commission. This evaluation was made under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as of the end of the period covered by this report on Form 10-Q. The CEO and CFO have concluded, based on their review, that our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), are effective to ensure that information required to be disclosed in reports that we file under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting during the second quarter of 2009 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

We believe that because of its inherent limitations, internal control over financial reporting may not always 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information related to legal proceedings, see Note 10 of the Notes to Consolidated Financial Statements presented in Part I, Item 1 of this report on Form 10-Q.

ITEM 1A. RISK FACTORS

See "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities for the Three Months Ended June 30, 2009

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
April 1 through April 30	3	$ 5.84	-	$ 26,288
May 1 through May 31	148	6.12	-	26,288
June 1 through June 30	-	-	-	26,288
Total	151	$ 6.12	-	

In December 2008, our Board of Directors authorized the repurchase of up to $25.0 million of our common and/or preferred shares. This authorization is in addition to the $1.3 million remaining on our $50.0 million authorization, which was originally approved by our Board of Directors in July 2005 and October 2006. Additionally, we have a policy, which allows employees to pay their portion of the income taxes related to restricted share vesting by surrendering a number of shares to us equal in value on the day of vesting to the amount of taxes due up to the minimum statutory withholding amount.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 6, 2009, we held our Annual Meeting of Shareholders. All of the directors were elected. Following are the matters our shareholders voted upon and the results of the vote:

(1) The election of directors.

	For	Withheld Authority
Albert T. Adams	6,980,489	8,226,813
James M. Delaney	7,861,235	7,346,067
Jeffrey I. Friedman	8,331,021	6,876,281
Michael E. Gibbons	8,421,483	6,785,819
Mark L. Milstein	8,418,593	6,788,709
James A. Schoff	8,414,154	6,793,148
Richard T. Schwarz	8,417,671	6,789,631

(2) Ratification of the appointment of PricewaterhouseCoopers LLP as the Company's Independent Registered Public Accounting Firm.

For	Against	Abstain
15,056,264	105,099	45,941

ITEM 6. EXHIBITS

Number	Title	Filed herewith or incorporated herein by reference
3.1	Amendment to Second Amended and Restated Articles of Incorporation.	Exhibit 3.1 to Form 8-K filed December 8, 2004.
3.2	Second Amended and Restated Articles of Incorporation.	Exhibit 3.2 to Form 10-Q filed July 31, 2007.
3.3	Amended and Restated Code of Regulations of the Company.	Exhibit 3.3 to Form 10-Q filed August 1, 2006.
4.1	Specimen Common Share Certificate.	Exhibit 3.1 to Form S-11 filed September 2, 1993 (File No. 33-68276 as amended).
4.1a	Amended and Restated Shareholders Rights Agreement dated December 30 2008.	Exhibit 4.1 to Form 8-K filed December 30, 2008.
4.2	Specimen 8.70% Class B Series II Cumulative Redeemable Preferred Shares.	Exhibit 4.3 to Form 8-A filed December 8, 2004.
4.3	Deposit Agreement by and among Associated Estates Realty Corporation and National City Bank and Depositary Receipts.	Exhibit 4.5 to Form 8-A filed December 8, 2004.
4.5	Form of Promissory Note and Form of Mortgage and Security Agreement dated May 10, 1999 from AERC to The Chase Manhattan Bank.	Exhibit 4.5 to Form 10-Q filed August 13, 1999.
4.5a	Form of Promissory Note and Form of Mortgage and Security Agreement dated September 10, 1999 from AERC to The Chase Manhattan Bank.	Exhibit 4.5a to Form 10-Q filed November 12, 1999.
4.5b	Form of Promissory Note and Form of Mortgage and Security Agreement dated November 18, 1999 from AERC to The Chase Manhattan Bank.	Exhibit 4.5b to Form 10-K filed March 15, 2000.
4.13	Credit Agreement Dated As of April 24, 2007 among Associated Estates Realty Corporation, as Borrower and National City Bank as Administrative Agent, Lead Arranger, and Book Manager and The Several Lenders From Time to Time Parties Hereto, as Lenders.	Exhibit 4.13 to Form 10-Q filed July 31, 2007.
4.15	First Amendment to Credit Agreement dated March 20, 2008 by and among Associated Estates Realty Corporation (the Borrower), National City Bank and other banks and financial institutions (the Lenders) and National City Bank (the Administrative Agent).	Exhibit 4.15 to Form 10-Q filed May 6, 2008.
4.16	Joinder to Subsidiary Guaranty dated March 20, 2008 for the benefit of National City Bank, as agent for itself and certain other lenders, with respect to a loan from the Lenders to Associated Estates Realty Corporation.	Exhibit 4.16 to Form 10-Q filed May 6, 2008.
	Certain of the Registrant's assets are subject to mortgage obligations each of which individually relates to indebtedness totaling less than 10.0% of the total assets of the Registrant. The Registrant hereby agrees to furnish a copy of such agreements to the Commission upon its request.	
	The Registrant issued unsecured debt in the form of Trust Preferred Securities on March 15, 2005 in a private placement in an amount less than 10.0% of the total assets of the Registrant. The Registrant hereby agrees to furnish a copy of the Purchase Agreement dated March 15, 2005 between Associated Estates Realty Corporation, AERC Delaware Trust and Taberna Preferred Funding 1, Ltd. And a specimen Preferred Securities Certificate to the Commission upon its request.	
10	Associated Estates Realty Corporation Directors' Deferred Compensation Plan.	Exhibit 10 to Form 10-Q filed November 14, 1996.

Number	Title	Filed herewith or incorporated herein by reference
10a	Associated Estates Realty Corporation Directors' Deferred Compensation Plan (January 1, 2005 Restatement).	Exhibit 10a to Form 10-K filed February 25, 2009.
10.1	Stock Option Plan.	Exhibit 10.2 to Form S-11 filed September 2, 1993 (File No. 33-68276 as amended).
10.2	Amended and Restated Employment Agreement between the Company and Jeffrey I. Friedman.	Exhibit 10.1 to Form 10-Q filed May 13, 1996.
10.3	Equity-Based Incentive Compensation Plan.	Exhibit 10.4 to Form 10-K filed March 29, 1995.
10.4	Form of Restricted Agreement by and among the Company and its Independent Directors.	Exhibit 10.9 to Form 10-K filed March 28, 1996.
10.5	Form of Indemnification Agreement.	Exhibit 4.2 to Form S-11 filed September 2, 1993 (File No. 33-68276 as amended).
10.6	Amended 2008 Equity-Based Award Plan.	Exhibit 10.1 to Form 8-K filed May 13, 2008.
10.7	Amendment to Associated Estates Realty Corporation 2008 Equity-Based Award Plan.	Exhibit 10.7 to Form 10-K filed February 25, 2009.
10.7a	Amendment to Associated Estates Realty Corporation Amended and Restated Equity-Based Award Plan.	Exhibit 10.7a to Form 10-K filed February 25, 2009.
10.7b	Associated Estates Realty Corporation Supplemental Executive Retirement Plan (Restated).	Exhibit 10.7b to Form 10-K filed February 25, 2009.
10.8	Form of Share Option Agreement by and among the Company and its Independent Directors.	Exhibit 10.14 to Form 10-K filed March 30, 1993.
10.10	Associated Estates Realty Corporation Amended and Restated 2001 Equity-Based Plan (as amended on May 4, 2005). Incorporated by reference to Appendix 1 to the Definitive Proxy Statement filed March 28, 2005.	Exhibit 99.01 to Form S-8 filed May 26, 2005.
10.11	Form of Equity Award Agreement.	Exhibit 10.11 to Form 10-Q filed August 2, 2005.
10.12	Long Term Incentive Compensation Plan.	Exhibit 10.12 to Form 10-Q filed November 1, 2005.
10.13	Associated Estates Realty Corporation Elective Deferred Compensation Plan.	Exhibit 10.13 to Form 10-Q filed July 31, 2007.
10.14	Agreement of Purchase and Sale dated August 31, 2007 between River Forest Properties, LLC, and Associated Estates Realty Corporation.	Exhibit 10.14 to Form 10-Q filed August 5, 2008.
10.15	Agreement of Purchase and Sale dated August 31, 2007 between Belvedere Properties, LLC, and Associated Estates Realty Corporation.	Exhibit 10.15 to Form 10-Q filed August 5, 2008.
31	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act.	Exhibit 31 to Form 10-Q filed herewith.
31.1	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act.	Exhibit 31.1 to Form 10-Q filed herewith.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act.	Exhibit 32 to Form 10-Q filed herewith.

SIGNATURES

Pursuant to the requirements 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.

ASSOCIATED ESTATES REALTY CORPORATION

August 4, 2009	/s/ Lou Fatica
(Date)	Lou Fatica, Vice President Chief Financial Officer and Treasurer