

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

OR

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

Commission File Number 1-13136

HOME PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

MARYLAND

(State or other jurisdiction of
incorporation or organization)

16-1455126

(IRS Employer Identification
Number)

850 Clinton Square, Rochester, New York 14604
(Address of principal executive offices) (Zip Code)

(585) 546-4900

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether 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 is an accelerated filer (as defined in Rule 12b-2 of the Act).

YES X No

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

Class of Common Stock
\$.01 par value

Outstanding at October 31, 2003
30,839,400

HOME PROPERTIES, INC.

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HOME PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2003 AND DECEMBER 31, 2002
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2003 (Unaudited)	2002 (Note1)
ASSETS		
Real estate:		
Land	\$ 389,513	\$ 376,998
Buildings, improvements and equipment	2,347,624	2,220,280
	2,737,137	2,597,278
Less: accumulated depreciation	(311,795)	(257,284)
Real estate, net	2,425,342	2,339,994
Cash and cash equivalents	7,251	8,782
Cash in escrows	41,089	45,735
Accounts receivable	5,683	7,576
Prepaid expenses	18,685	19,046
Investment in and advances to affiliates	5,967	19,475
Deferred charges	8,759	9,093
Other assets	10,163	6,565
Total assets	<u>\$2,522,939</u>	<u>\$2,456,266</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage notes payable	\$1,346,470	\$1,300,807
Line of credit	64,000	35,000
Accounts payable	15,716	19,880
Accrued interest payable	6,999	6,612
Accrued expenses and other liabilities	15,545	12,412
Security deposits	22,229	22,252
Total liabilities	<u>1,470,959</u>	<u>1,396,963</u>
Commitments and contingencies		
Minority interest	<u>330,045</u>	<u>333,061</u>
Stockholders' equity:		
Cumulative redeemable preferred stock, \$.01 par value; 3,000,000 shares authorized; 2,400,000 shares issued and outstanding at September 30, 2003 and December 31, 2002	60,000	60,000
Convertible cumulative preferred stock, \$.01 par value; 10,000,000 shares authorized; 350,000 and 1,086,800 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	34,500	107,680
Common stock, \$.01 par value; 80,000,000 shares authorized; 30,605,627 and 27,027,003 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	306	270
Excess stock, \$.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	746,854	649,489
Accumulated other comprehensive income (loss)	(707)	(972)
Distributions in excess of accumulated earnings	(118,698)	(89,452)
Officer and director notes for stock purchases	(320)	(773)
Total stockholders' equity	<u>721,935</u>	<u>726,242</u>
Total liabilities and stockholders' equity	<u>\$2,522,939</u>	<u>\$2,456,266</u>

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	<u>2003</u>	<u>2002</u>
Revenues:		
Rental income	\$310,371	\$272,237
Property other income	11,716	10,698
Interest and dividend income	402	1,079
Other income	<u>3,349</u>	<u>1,630</u>
Total Revenues	<u>325,838</u>	<u>285,644</u>
Expenses:		
Operating and maintenance	141,230	118,866
General and administrative	14,371	8,758
Interest	64,026	56,112
Prepayment penalty	1,610	-
Depreciation and amortization	58,177	47,453
Impairment of assets held as General Partner	<u>2,408</u>	<u>350</u>
Total Expenses	<u>281,822</u>	<u>231,539</u>
Income from operations	44,016	54,105
Equity in earnings (losses) of unconsolidated affiliates	<u>(1,497)</u>	<u>(1,408)</u>
Income before minority interest and discontinued operations	42,519	52,697
Minority interest	<u>11,935</u>	<u>13,965</u>
Income from continuing operations	<u>30,584</u>	<u>38,732</u>
Discontinued operations		
Income from operations, net of \$105 in 2003 and \$868 in 2002 allocated to minority interest	191	1,372
Gain on disposition of property, net of \$207 in 2003 and \$3,402 in 2002 allocated to minority interest	<u>355</u>	<u>5,601</u>
Discontinued operations	<u>546</u>	<u>6,973</u>
Income before loss on disposition of property	31,130	45,705
Loss on disposition of property, net of \$1 in 2003 and \$157 in 2002 allocated to minority interest	<u>(2)</u>	<u>(245)</u>
Net income	31,128	45,460
Preferred dividends	<u>(9,356)</u>	<u>(11,027)</u>
Premium on Series B preferred stock repurchase	<u>-</u>	<u>(5,025)</u>
Net income available to common shareholders	<u>\$ 21,772</u>	<u>\$ 29,408</u>
Basic earnings per share data:		
Income from continuing operations	\$.74	\$.87
Discontinued operations	<u>.02</u>	<u>.27</u>
Net income available to common shareholders	<u>\$.76</u>	<u>\$1.14</u>
Diluted earnings per share data:		
Income from continuing operations	\$.73	\$.86
Discontinued operations	<u>.02</u>	<u>.27</u>
Net income available to common shareholders	<u>\$.75</u>	<u>\$1.13</u>
Weighted average number of shares outstanding:		
Basic	<u>28,485,398</u>	<u>25,780,578</u>
Diluted	<u>28,874,160</u>	<u>26,099,471</u>

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2003	2002
Revenues:		
Rental income	\$106,091	\$ 95,957
Property other income	3,978	4,120
Interest and dividend income	103	284
Other income	<u>1,028</u>	<u>546</u>
Total Revenues	<u>111,200</u>	<u>100,907</u>
Expenses:		
Operating and maintenance	46,472	39,923
General and administrative	4,670	2,837
Interest	21,456	19,713
Prepayment penalty	261	-
Depreciation and amortization	19,976	16,992
Impairment of assets held as General Partner	<u>1,888</u>	<u>350</u>
Total Expenses	<u>94,723</u>	<u>79,815</u>
Income from operations	16,477	21,092
Equity in earnings (losses) of unconsolidated affiliates	<u>(313)</u>	<u>(308)</u>
Income before minority interest and discontinued operations	16,164	20,784
Minority interest	<u>4,776</u>	<u>6,391</u>
Income from continuing operations	<u>11,388</u>	<u>14,393</u>
Discontinued operations		
Income (loss) from operations, net of \$95 in 2003 and (\$271) in 2002 allocated to minority interest	173	(449)
Gain on disposition of property, net of \$19 in 2003 and \$1,756 in 2002 allocated to minority interest	<u>35</u>	<u>2,912</u>
Discontinued operations	<u>208</u>	<u>2,463</u>
Income before loss on disposition of property	11,596	16,856
Gain on disposition of property, net of \$5 allocated to minority interest	<u>8</u>	<u>-</u>
Net income	11,604	16,856
Preferred dividends	<u>(2,646)</u>	<u>(3,793)</u>
Net income available to common shareholders	<u>\$ 8,958</u>	<u>\$ 13,063</u>
Basic earnings per share data:		
Income from continuing operations	\$.30	\$.40
Discontinued operations	<u>-</u>	<u>.09</u>
Net income available to common shareholders	<u>\$.30</u>	<u>\$.49</u>
Diluted earnings per share data:		
Income from continuing operations	\$.30	\$.40
Discontinued operations	<u>-</u>	<u>.09</u>
Net income available to common shareholders	<u>\$.30</u>	<u>\$.49</u>
Weighted average number of shares outstanding:		
Basic	<u>29,522,274</u>	<u>26,428,655</u>
Diluted	<u>30,037,671</u>	<u>26,755,132</u>

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED, IN THOUSANDS)

	<u>2003</u>	<u>2002</u>
Net income	\$31,128	\$45,460
Other comprehensive income (net of minority interest):		
Change in fair value of hedge instruments	<u>265</u>	<u>(67)</u>
Comprehensive income	<u>\$31,393</u>	<u>\$45,393</u>

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED, IN THOUSANDS)

	<u>2003</u>	<u>2002</u>
Net income	\$11,604	\$16,856
Other comprehensive income (net of minority interest):		
Change in fair value of hedge instruments	<u>173</u>	<u>(348)</u>
Comprehensive income	<u>\$11,777</u>	<u>\$16,508</u>

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

HOME PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED, IN THOUSANDS)

	2003	2002
Cash flows from operating activities:		
Net income	<u>\$ 31,128</u>	<u>\$ 45,460</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in (earnings) losses of unconsolidated affiliates	1,497	1,408
Income allocated to minority interest	12,246	18,078
Depreciation and amortization	59,681	50,181
Impairment of assets held as General Partner	2,408	350
Impairment of real property	423	1,565
Gain on disposition of property	(559)	(8,601)
Loss from early extinguishment of debt	1,610	-
Changes in assets and liabilities:		
Other assets	517	(1,301)
Accounts payable and accrued liabilities	(418)	(1,145)
Total adjustments	<u>77,405</u>	<u>60,535</u>
Net cash provided by operating activities	<u>108,533</u>	<u>105,995</u>
Cash flows used in investing activities:		
Purchase of properties and other assets, net of mortgage notes assumed and UPREIT Units issued	(66,760)	(222,345)
Additions to properties	(78,658)	(83,838)
Proceeds from sale of properties, net	38,313	79,374
Advances to affiliates	(2,445)	(8,244)
Payments on advances to affiliates	<u>7,411</u>	<u>12,733</u>
Net cash used in investing activities	<u>(102,139)</u>	<u>(222,320)</u>
Cash flows from financing activities:		
Proceeds from sale of preferred stock, net	-	58,098
Proceeds from sale of common stock, net	29,688	47,451
Repurchase of Series B preferred stock	-	(29,392)
Proceeds from mortgage notes payable	77,367	118,472
Payments of mortgage notes payable	(56,939)	(46,229)
Payment of prepayment penalty in connection with the early extinguishment of debt	(1,610)	-
Proceeds from line of credit	154,000	161,000
Payments on line of credit	(125,000)	(107,500)
Payments of deferred loan costs	(822)	(3,001)
Additions to cash escrows, net	4,646	(4,685)
Repayment of officer loans	453	4,555
Dividends and distributions paid	<u>(89,708)</u>	<u>(85,349)</u>
Net cash provided by (used in) financing activities	<u>(7,925)</u>	<u>113,420</u>
Net decrease in cash and cash equivalents	(1,531)	(2,905)
Cash and cash equivalents:		
Beginning of year	<u>8,782</u>	<u>10,719</u>
End of year	<u>\$ 7,251</u>	<u>\$ 7,814</u>
<u>Supplemental disclosure of non-cash operating, investing and financing activities:</u>		
Mortgage loans assumed associated with property acquisitions	\$ 25,235	\$128,678
Conversion of preferred to common stock	73,180	6,320
Exchange of UPREIT Units/partnership interest for common shares	4,686	1,929
Fair value of hedge instruments	1,205	1,611
Issuance of UPREIT Units associated with property and other acquisitions	4,806	11,526
Increase in real estate associated with the purchase of UPREIT units	3,000	-
Compensation cost of stock options issued	675	-

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

HOME PROPERTIES, INC.

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

1. Unaudited Interim Financial Statements

The interim consolidated financial statements of Home Properties, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair presentation of the consolidated financial statements for the interim periods have been included. The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2002.

2. Organization and Basis of Presentation

Organization

The Company is engaged primarily in the ownership, management, acquisition, and rehabilitation of residential apartment communities in the Northeastern, Mid-Atlantic and Midwestern United States. As of September 30, 2003, the Company operated 250 apartment communities with 49,688 apartments. Of this total, the Company owned 149 communities, consisting of 41,576 apartments, managed as general partner 6,303 apartments and fee managed 1,809 apartments for affiliates and third parties. The Company also fee manages 2.2 million square feet of office and retail properties.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its 65.5% (62.2% at September 30, 2002) partnership 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 34.5% (37.8% at September 30, 2002) 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 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.

Effective January 1, 2003, the accompanying consolidated financial statements include the accounts of Home Properties Management, Inc. and Home Properties Resident Services, Inc. (the "Management Companies"). The Operating Partnership acquired all of the shares held by Nelson and Norman Leenhouts ("the Leenhouts") in the first quarter of 2003. The value of the Leenhouts shares was based upon an internal valuation and amounted to approximately \$81.

HOME PROPERTIES, INC.

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

2. Organization and Basis of Presentation (continued)

As a result, the Management Companies are now wholly owned subsidiaries of the Company. Prior to January 1, 2003, investments in these entities were accounted for using the equity method. All significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

The Company accounts for its investment as managing general partner ("GP") in unconsolidated affordable housing limited partnerships ("LP") using the equity method of accounting. As managing GP of the LP, the Company has the ability to exercise significant influence over operating and financial policies. This influence is evident in the terms of the respective partnership agreements, participation in policy-making processes, and the employment of its management personnel. However, the Company does not have a controlling interest in the respective LPs. The limited partners have significant rights, such as the right to replace the general partner (for cause) and the right to approve the sale or refinancing of the assets of the respective partnership in accordance with the partnership agreement.

The Company records its allocable share of the respective partnership's income or loss based on the terms of the agreement. To the extent it is determined that the LPs cannot absorb their share of the losses, if any, the GP will record the LPs share of such losses. In addition to the extent the Company has outstanding loans or advances and the limited partner has no remaining capital account, the Company will absorb such losses.

Reclassifications

Certain reclassifications have been made to the 2002 consolidated financial statements to conform to the 2003 presentation.

New Accounting Standards

In January 2003, the FASB issued Interpretation No. 46 – "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"). 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. The consolidation requirements of this interpretation apply immediately to variable interest entities created after January 31, 2003 but a deferral has been granted until the end of the first fiscal year or interim period ending after December 15, 2003 for VIE's existing before February 1, 2003. Therefore it is effective on December 31, 2003 for the Company. Management is uncertain but is assuming it is reasonably possible that each of the limited partnerships in which it holds the general partnership interest as of December 31, 2003 would be considered a VIE. The Company is determining where it is the primary beneficiary, and as a result the Company may consolidate all or a certain number of the limited partnership's assets and liabilities.

HOME PROPERTIES, INC.

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

2. Organization and Basis of Presentation (continued)

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003. The provisions of FAS 149 are not expected to have a material impact on the Company's financial statements.

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. On October 29, 2003 the FASB indefinitely deferred the provisions of paragraphs 9 and 10 of SFAS 150 as they apply to mandatorily redeemable noncontrolling interests. This deferral applies to minority interest ownerships in limited partnerships which are mandatorily redeemable upon termination of the partnership and therefore is potentially applicable to the affordable portfolio.

3. Adoption of New Accounting Policy

Effective January 1, 2003, the Company adopted the provisions of SFAS 148 "Accounting for Stock Based Compensation – An Amendment of SFAS 123." Under the transition provisions of this Statement, the Company has elected the "Modified Prospective Method" for recognizing stock-based compensation costs for the three and nine-month periods ended September 30, 2003. Under this method the Company recognizes stock-based 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 the three and nine-months ended September 30, 2003, the Company recognized \$424 and \$1,076, respectively, in stock compensation costs related to its stock compensation plans. Of this total, \$266 and \$675, for the three and nine-month periods ended September 30, 2003, respectively, related to the expensing of stock compensation costs associated with stock options granted by the Company. The remaining \$158 and \$401, for the three and nine-month periods ended September 30, 2003, respectively, pertains to the stock compensation costs recognized by the Company relative to its restricted stock grants.

For the three and nine-months ended September 30, 2002, the Company used the intrinsic value method in accordance with the Accounting Principle Board Opinion No. 25 ("APB No. 25") to account for stock-based employee compensation arrangements. Under this method, the Company did not recognize compensation cost for stock options when the option exercise price equals or exceeded the market value on the date of grant. Restricted stock grants were recognized as compensation expense over the vesting period based upon the market value on the date of grant. Had the Company determined compensation cost based upon the fair value of the stock option grants under SFAS No. 123, "Accounting for Stock-Based Compensation," the fair values of the options granted at the grant dates would be recognized as compensation expense over the vesting periods, and the Company's net income and earnings per share for the three and nine-month periods ended September 30, 2002 would have been as follows:

HOME PROPERTIES, INC.

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

3. Adoption of New Accounting Policy (continued)

	<u>Nine Months</u>	<u>Three Months</u>
	<u>2002</u>	<u>2002</u>
Net income, as reported	\$45,460	\$16,856
Total stock compensation cost recognized	180	64
Total stock compensation cost had SFAS 123 been adopted	(813)	(322)
Proforma net income had SFAS 123 been adopted	<u>\$44,827</u>	<u>\$16,598</u>
Per share data:		
Basic - as reported	<u>\$1.14</u>	<u>\$0.49</u>
Basic – proforma	<u>\$1.12</u>	<u>\$0.48</u>
Diluted - as reported	<u>\$1.13</u>	<u>\$0.49</u>
Diluted – proforma	<u>\$1.10</u>	<u>\$0.48</u>

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2003 and 2002: dividend yields ranging from 8.40% to 9.40%; expected volatility of 19.17%; and expected lives of 7.5 years for the options with a lifetime of ten years, and five years for options with a lifetime of five years. The interest rate used in the option-pricing model is based on a risk free interest rate ranging from 4.29% to 6.87%.

4. Earnings Per Common 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, restricted stock, phantom shares under the Company's incentive compensation plan, warrants and the conversion of any cumulative convertible preferred stock. The exchange of an Operating Partnership 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 calculation.

HOME PROPERTIES, INC.

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

4. Earnings Per Common Share (continued)

The reconciliation of the basic weighted average shares outstanding and diluted weighted average shares outstanding for the nine and three-months ended September 30, 2003 and 2002 is as follows:

	<u>Nine Months</u>		<u>Three Months</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Income from continuing operations	\$30,584	\$38,732	\$11,388	\$14,393
Add (Less): Gain (loss) on disposal of property	(2)	(245)	8	-
Less: Preferred dividends	(9,356)	(11,027)	(2,646)	(3,793)
Less: Premium on Series B preferred stock repurchase	<u>-</u>	<u>(5,025)</u>	<u>-</u>	<u>-</u>
Basic and Diluted – Income from continuing operations applicable to common shareholders	\$21,226	\$22,435	\$ 8,750	\$10,600
Discontinued operations	<u>546</u>	<u>6,973</u>	<u>208</u>	<u>2,463</u>
Net income available to common shareholders	<u>\$21,772</u>	<u>\$29,408</u>	<u>\$ 8,958</u>	<u>\$13,063</u>
Basic weighted average number of shares outstanding	28,485,398	25,780,578	29,522,274	26,428,655
Effect of dilutive stock options	322,176	318,893	451,260	326,427
Effect of phantom and restricted shares	<u>66,586</u>	<u>-</u>	<u>64,137</u>	<u>-</u>
Diluted weighted average number of shares outstanding	<u>28,874,160</u>	<u>26,099,471</u>	<u>30,037,671</u>	<u>26,755,132</u>
Basic earnings per share				
Income from continuing operations	\$.74	\$.87	\$.30	\$.40
Discontinued operations	<u>.02</u>	<u>.27</u>	<u>-</u>	<u>.09</u>
Net Income available to common shareholders	<u>\$.76</u>	<u>\$1.14</u>	<u>\$.30</u>	<u>\$.49</u>
Diluted earnings per share				
Income from continuing operations	\$.73	\$.86	\$.30	\$.40
Discontinued operations	<u>.02</u>	<u>.27</u>	<u>-</u>	<u>.09</u>
Net Income available to common shareholders	<u>\$.75</u>	<u>\$1.13</u>	<u>\$.30</u>	<u>\$.49</u>

For the nine and three-month periods ended September 30, 2003, unexercised stock options and warrants to purchase 1,873,453 and 1,334,399 shares (excluding 733,970 and 1,273,024 anti-dilutive shares), respectively, of the Company's common stock are dilutive and included in diluted weighted average number of shares outstanding as of September 30, 2003. For both the nine and three-month periods ended September 30, 2002, unexercised stock options and warrants to purchase 2,355,705 shares (excluding 678,490 anti-dilutive shares) of the Company's common stock are dilutive and included in diluted weighted average number of shares outstanding as of September 30, 2002. For the nine and three-months periods ended September 30, 2003 (as applicable and on a weighted average basis), the 810,073 and 593,478, respectively, of the Series C, D and E Convertible Cumulative Preferred Stock (2,657,914 and 1,951,605 common stock equivalents, respectively) have an anti-dilutive effect and are not included in the computation of diluted EPS. In addition, for the nine and three-months periods ended September 30, 2002 (as applicable and on a weighted average basis), the 1,788,629 and 1,121,148, respectively, of the Series B, C, D and E Convertible Cumulative Preferred Stock (4,317,515 and 3,677,041 common stock equivalents, respectively) on an as-converted basis have an anti-dilutive effect and are not included in the computation of diluted EPS.

HOME PROPERTIES, INC.

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

5. Stockholders Equity

On January 9, 2003, 100,000 shares of Series C Preferred Shares were converted into 330,579 shares of common stock. The conversion had no effect on the reported results of operations of the Company.

On May 6, 2003, 36,800 shares of Series E Preferred Shares were converted into 116,456 shares of common stock. The conversion had no effect on the reported results of operations of the Company.

On May 8, 2003, 200,000 shares of Series C Preferred Shares were converted into 661,157 shares of common stock. The conversion had no effect on the reported results of operations of the Company.

On August 26, 2003, 200,000 shares of Series C and 200,000 shares of Series E preferred stock were converted into 661,157 and 632,911 common shares, respectively. The conversion had no effect on the reported results of operations of the Company.

On September 9, 2003, 17,780 and 17,100 warrants issued in connection with the Series C and Series E Cumulative Preferred Stock, respectively, were exercised. This exercise had no effect on the reported results of operations of the Company.

6. Other income

Other income for the nine and three-month periods ended September 30, 2003 and 2002 is summarized as follows:

	Nine Months		Three-months	
	2003	2002	2003	2002
Management fees	\$3,262	\$ 1,506	\$1,003	\$537
Other	<u>87</u>	<u>124</u>	<u>25</u>	<u>9</u>
	<u>\$3,349</u>	<u>\$1,630</u>	<u>\$1,028</u>	<u>\$546</u>

7. Equity in earnings (losses) of unconsolidated affiliates

Certain property management, leasing and development activities are performed by the Management Companies. Both are Maryland corporations and, effective January 1, 2001, have elected to convert to taxable REIT subsidiaries under the Tax Relief Extension Act of 1999. Through December 31, 2002, the Operating Partnership owned non-voting common stock in the Management Companies which entitled the Operating Partnership to receive 95% and 99% of the economic interest in Home Properties Management, Inc. and Home Properties Resident Services, respectively. Effective January 1, 2003, the Operating Partnership acquired all of the remaining shares held by the Leenhouts. As a result of this transaction, the Management Companies are now wholly owned subsidiaries of the Company and are reflected in the consolidated financial statements from January 1, 2003. Prior to January 1, 2003, the operations of the Management Companies were recorded using the equity method of accounting.

In addition, the Company accounts for its investment as managing general partner in unconsolidated affordable housing limited partnerships using the equity method of accounting.

HOME PROPERTIES, INC.

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

7. Equity in earnings (losses) of unconsolidated affiliates (continued)

The Company's share of earnings (losses) from these investments are included in this line item. The Company assesses the financial status and cash flow of each of the partnerships at each balance sheet date in order to assess recoverability of its investment in and advances to these affiliates.

The Company's share of earnings (losses) from the Management Companies and investment in limited partnerships for the nine and three-months ended September 30, 2003 and 2002 is summarized as follows:

	Nine Months		Three Months	
	2003	2002	2003	2002
Management fees	\$ -	\$ 2,134	\$ -	\$ 717
Interest income	-	637	-	260
Miscellaneous	-	31	-	(2)
General and administrative	-	(2,720)	-	(978)
Interest expense	-	(562)	-	(176)
Other expense	—	(349)	—	(150)
Net loss	—	(\$ 829)	—	(\$ 329)
Company's share	-	(\$ 829)	-	(\$ 326)
Company's share of earnings (losses) from investment in limited partnerships	(1,497)	(579)	(313)	18
Equity in earnings (losses) of unconsolidated affiliates	(\$ 1,497)	(\$ 1,408)	(\$ 313)	(\$ 308)

The general and administrative expenses reflected above represent an allocation of direct and indirect costs incurred by the Company estimated by management to be associated with the operations of the management companies.

In December 2002, the Company, including its equity affiliates, determined that it would market for sale virtually all of the assets associated with its interest in various affordable housing limited partnerships. Such assets include the equity interest in the affordable housing partnerships, loans, advances and management contracts.

The Company intends to sell the assets in three phases:

Phase I consisting of the Company's interest in 35 properties containing 1,119 units, of which all were New York State Rural Development properties, was sold on September 5, 2003. The sale price of \$1,540 resulted in a gain on sale of approximately \$72 that was recorded in the third quarter. Not included in the above closing but part of the Phase I contract is one property with 24 units expected to close in the first quarter of 2004.

Phase II consists of the Company's interest in 51 properties with 1,519 units, all Pennsylvania, New York and Ohio Rural Development properties. An offer has been accepted for approximately book value and the final contract has been negotiated. The Company anticipates closing on this phase during the fourth quarter of 2003.

Phase III consists of the Company's interest in the remaining 37 properties with 3,583 units, primarily located in Upstate New York, Ohio and Maryland. The Company has received competitive bids and has selected a qualified buyer and is working towards a closing anticipated in the first quarter of 2004.

HOME PROPERTIES, INC.

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

7. Equity in earnings (losses) of unconsolidated affiliates (continued)

The Company has one property with 24 units in Rochester, New York under contract and is expected to close in the fourth quarter of 2003. In addition, the Company has two partnerships in Pittsburgh, Pennsylvania with 1,072 units that are being marketed for sale separately.

The Company plans on retaining the general partner interest in one 77-unit property located in Rochester, New York. The property is 80% market rate and is managed as a market rate community.

In the third quarter of 2003, the Company recorded an impairment charge of \$2,233 to adjust these assets to management's estimate of fair market value, \$1,888 classified in the financial statements as "Impairment of assets held as general partner" and \$345 included in "Equity in earnings (losses) of unconsolidated affiliates." A portion of the total \$2,233 charge, or \$537, represents monies loaned to certain affordable properties during the third quarter of 2003 to fund operating shortfalls, which are not anticipated to be recovered from projected sale proceeds. The remaining balance of \$1,696 pertains to an additional net impairment charge taken on Phase III to reduce the assets to fair market value. For the nine-month period ended September 30, 2003, the Company has recorded impairment charges totaling \$3,099, \$1,403 of which relates to cash advances to fund operating shortfalls.

The Company's ability to sell the affordable assets on the timelines described above is dependent on a variety of factors, some of which are outside of the Company's control, such as the receipt of the approvals of various partners, lenders and governmental agencies necessary for the sale.

8. 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 the majority of the aggregation criteria under SFAS No. 131. The operating segments are aggregated and segregated as Core and Non-core properties.

Non-segment revenue to reconcile to 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, investments in and advances to affiliates, deferred charges and other assets.

Core properties consist of all apartment communities which have been owned more than one full calendar year. Therefore, the Core Properties represent communities owned as of January 1, 2002. Non-core properties consist of apartment communities acquired during 2002 and 2003, such that full year comparable operating results are not available.

HOME PROPERTIES, INC.

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

8. Segment Reporting (continued)

The accounting policies of the segments are the same as those described in Notes 1 and 2 of the Company's Form 10-K.

The Company assesses and measures segment operating results based on a performance measure referred to as Funds from Operations ("FFO"). FFO is generally defined as net income (loss), before gains (losses) from the sale of property, impairment charges on depreciable property or investments, extraordinary items, plus real estate depreciation including adjustments for unconsolidated partnerships and joint ventures less dividends from non-convertible preferred shares. The Company considers debt extinguishment costs, which are incurred as a result of repaying property specific debt, as a component of the gain or loss on sale of the property. FFO is not a measure of operating results or cash flows from operating activities as measured by generally accepted accounting principles and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. Other companies may calculate similarly titled performance measures in a different manner.

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)8. Segment Reporting (continued)

The revenues, profit (loss), and assets for each of the reportable segments are summarized as follows as of and for the nine and three-month periods ended September 30, 2003, and 2002.

	<u>Nine Months</u>		<u>Three Months</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<u>Revenues</u>				
Apartments owned				
Core properties	\$278,001	\$269,724	\$ 94,657	\$ 92,228
Non-core properties	44,086	13,211	15,412	7,849
Reconciling items	<u>3,751</u>	<u>2,709</u>	<u>1,131</u>	<u>830</u>
Total Revenue	<u>\$325,838</u>	<u>\$285,644</u>	<u>\$111,200</u>	<u>\$ 100,907</u>
<u>Profit (loss)</u>				
Funds from operations:				
Apartments owned				
Core properties	\$153,832	\$155,445	\$ 53,685	\$ 54,913
Non-core properties	27,025	8,624	9,912	5,241
Reconciling items	<u>3,751</u>	<u>2,709</u>	<u>1,131</u>	<u>830</u>
Segment contribution to FFO	184,608	166,778	64,728	60,984
General & administrative expenses	(14,371)	(8,758)	(4,670)	(2,837)
Interest expense	(64,026)	(56,112)	(21,456)	(19,713)
Depreciation of unconsolidated affiliates	1,837	505	725	68
Non-real estate depreciation/amortization	(1,687)	(823)	(540)	(420)
Redeemable preferred dividend (Series F)	(4,050)	(2,805)	(1,350)	(1,350)
Equity in earnings (losses) of unconsolidated affiliates	(1,497)	(1,408)	(313)	(308)
Impairment of assets held as General Partner	(2,408)	(350)	(1,888)	(350)
Impairment of affordable assets not in FFO	1,862	-	1,862	-
Income from discontinued operations before minority interest, depreciation and loss on disposition of property	<u>1,118</u>	<u>5,801</u>	<u>344</u>	<u>1,293</u>
Funds from Operations	101,386	102,828	37,442	37,367
Depreciation – apartments owned	(56,889)	(48,626)	(19,512)	(17,020)
Depreciation of unconsolidated affiliates	(1,837)	(505)	(725)	(68)
Redeemable preferred dividend	4,050	2,805	1,350	1,350
Prepayment penalty	(1,610)	-	(261)	-
Impairment of real property	(423)	(1,565)	-	(1,565)
Impairment of affordable assets not in FFO	(1,862)	-	(1,862)	-
(Income) loss from discontinued operations before minority interest and loss on disposition of property	(296)	(2,240)	(268)	720
Minority interest	<u>(11,935)</u>	<u>(13,965)</u>	<u>(4,776)</u>	<u>(6,391)</u>
Income from continuing operations	<u>\$ 30,584</u>	<u>\$38,732</u>	<u>\$ 11,388</u>	<u>\$ 14,393</u>
<u>Assets - As of September 30, 2003 and December 31, 2002</u>				
Apartments owned:				
- Core			\$1,877,204	\$1,872,424
- Non-core			548,138	467,570
Reconciling items			<u>97,597</u>	<u>116,272</u>
Total Assets			<u>\$2,522,939</u>	<u>\$2,456,266</u>

HOME PROPERTIES, INC.

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

9. Pro Forma Condensed Financial Information

The Company acquired two apartment communities ("2003 Acquired Communities") with a combined 730 units in two unrelated transactions during the nine-month period ended September 30, 2003. The total combined purchase price (including closing costs) of \$92,876 equates to approximately \$127 per unit. Consideration for the community was funded through the assumption of \$24,695 in debt and \$68,181 from the Company's line of credit.

In addition, the Company disposed of five apartment communities ("2003 Disposed Properties") with 934 units in five unrelated transactions during the first three quarters of 2003. The total selling price (including closing costs) of \$40,597 resulted in a \$634 gain on disposition of property, net of minority interest. Due to the prepayment of debt associated with the sale of two of the properties, a \$1,610 charge was recorded during the first three quarters of 2003. During the second and third quarters of 2003, the Company reported a combined \$279 loss, net of minority interest, relating to additional expenses incurred in the same quarters for sales which took place during 2002. These costs represent a change in estimate from those accrued at the time of sale.

The following proforma information was prepared as if (i) the 2003 transaction related to the acquisition of the "2003 Acquired Communities" had occurred on January 1, 2002, (ii) the 2002 transactions related to the acquisition of 20 apartment communities in seven separate transactions had occurred on January 1, 2002, (iii) the disposition of the "2003 Disposed Properties" had occurred on January 1, 2002, (iv) the 2002 transactions related to the disposition of twelve apartment communities in eight separate transactions had occurred on January 1, 2002, and (v) the 2002 Series F Preferred Share offering and the two common equity offerings had occurred on January 1, 2002. 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 the beginning of 2002, nor does it purport to represent the results of operations for future periods. Adjustments to the proforma condensed combined statement of operations for the nine and three-months ended September 30, 2003 and 2002, consist principally of providing net operating activity and recording interest, depreciation and amortization from January 1, 2002 to the earlier of September 30, 2003 or 2002, as applicable, or the acquisition date.

	For the Nine-months Ended September 30		For the Three-months Ended September 30	
	2003	2002	2003	2002
Total revenues	\$330,193	\$318,257	\$113,639	\$108,800
Net income available to common shareholders	22,309	30,331	9,562	12,297
Per common share data:				
Net income available to common shareholders				
Basic	<u>\$0.78</u>	<u>\$1.15</u>	<u>\$0.32</u>	<u>\$0.47</u>
Diluted	<u>\$0.77</u>	<u>\$1.13</u>	<u>\$0.32</u>	<u>\$0.46</u>
Weighted average numbers of shares outstanding:				
Basic	<u>28,485.4</u>	<u>26,405.2</u>	<u>29,522.3</u>	<u>26,428.7</u>
Diluted	<u>28,874.2</u>	<u>26,724.1</u>	<u>30,037.7</u>	<u>26,755.1</u>

HOME PROPERTIES, INC.

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

10. Derivative Financial Instruments

The Company has three interest rate swaps that effectively convert variable rate debt to fixed rate debt. As of September 30, 2003, the aggregate fair value of the Company's interest rate swaps was \$1,205 prior to the allocation of minority interest and is included in accrued expenses and other liabilities in the consolidated balance sheets. For the nine-months ending September 30, 2003, 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 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. Disposition of Property and Discontinued Operations

Included in discontinued operations for the nine-month period ended September 30, 2002 are seventeen apartment community dispositions (five and twelve sold in 2003 and 2002, respectively) and five properties sold in 2003 for the nine-month period ended September 30, 2003 and one property held for sale for both the nine-month periods ended September 30, 2003 and 2002. For purposes of the discontinued operations presentation, the Company only includes interest expense associated with specific mortgage indebtedness of the properties that are sold or classified as held for sale. Properties classified in this manner through September 30, 2003, have been reflected on a comparative basis for the period ended September 30, 2002.

Assets and liabilities for the one apartment community held for sale at September 30, 2003 of \$3,282 and \$2,875, respectively, are included in the Consolidated Balance Sheet and relate primarily to real estate and mortgage debt, respectively. This apartment community was previously classified in the Company's Core Properties Segment.

As part of its strategic disposition program, during 2002, the Company sold twelve properties with a total of 1,724 units for total consideration of \$87,287, or an average of \$51 per unit. During the nine-months ended September 30, 2003, the Company sold the five apartment communities referred to above having 934 units in five unrelated transactions. The total sales price of \$40,597 equates to \$43.4 per unit. A gain on sale of approximately \$634, net of minority interest, was recorded in the first three quarters from these transactions and is reflected in discontinued operations. Due to the prepayment of debt associated with the sale of two of the properties, a \$1,610 charge was recorded during the first three quarters. During the second and third quarters, the Company reported a combined \$279 loss, net of minority interest, relating to additional expenses incurred in the same quarters for sales which took place during 2002. These costs represent a change in estimate from those accrued at the time of sale.

In connection with the Company's strategic asset disposition program, management is constantly reevaluating the performance of its portfolio on a property-by-property basis. The Company from time to time determines that it is in the best interest of the Company to dispose of assets that have reached their potential or are less efficient to operate due to their size or remote location and reinvest such proceeds in higher performing assets located in targeted geographic markets. It is possible that the Company will sell such properties at a loss. In addition, it is possible that for assets held for use, certain holding period assumptions made by the Company may change which could result in the Company's recording of an impairment charge.

HOME PROPERTIES, INC.

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

11. Disposition of Property and Discontinued Operations (continued)

The operating results of the components of discontinued operations are summarized as follows for the nine and three-month periods ended September 30, 2003 and 2002.

	<u>Nine months</u>		<u>Three months</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenues:				
Rental Income	\$2,783	\$11,144	\$ 639	\$ 2,627
Property other income	<u>101</u>	<u>304</u>	<u>25</u>	<u>79</u>
Total Revenues	<u>2,884</u>	<u>11,448</u>	<u>664</u>	<u>2,706</u>
Operating and Maintenance	1,253	4,561	204	1,136
Interest expense	513	1,086	116	277
Depreciation and amortization	399	1,996	76	448
Impairment of real property	<u>423</u>	<u>1,565</u>	<u>-</u>	<u>1,565</u>
Total Expenses	<u>2,588</u>	<u>9,208</u>	<u>396</u>	<u>3,426</u>
Income (loss) from discontinued operations before minority interest and gain (loss) on disposition of property	296	2,240	268	(720)
Minority interest	<u>105</u>	<u>868</u>	<u>95</u>	<u>(271)</u>
Income from discontinued operations before gain (loss) on disposition of property and related minority interest	191	1,372	173	(449)
Gain (loss) on disposition of property	<u>355</u>	<u>5,601</u>	<u>35</u>	<u>2,912</u>
Income (loss) from discontinued operations	<u>\$ 546</u>	<u>\$ 6,973</u>	<u>\$ 208</u>	<u>\$ 2,463</u>

12. Commitments and Contingencies

Contingencies

In 2001, the Company underwent a state tax audit. The state has assessed taxes of \$469 for the 1998 and 1999 tax years under audit. If the state's position is 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 was 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 legislature during 2002 affecting the pertinent tax statute, the Company has been advised by its third party legal counsel that its filing position for 1998-2001 should prevail. Based upon this information as of September 30, 2003, the Company has recorded an accrual of \$525, representing only its 2002 liability. Effective January 1, 2003, the Company reorganized the ownership of Home Properties Trust, subjecting the Company to a much lower level of tax going forward.

HOME PROPERTIES, INC.

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

12. Commitments and Contingencies (continued)

Guarantees

The Company has guaranteed a total of \$596 of debt associated with two entities where the Company is the general partner. All other mortgage notes payable of affiliates are non-recourse debt to the limited partnerships and the Company. In addition, the Company, through its general partnership interests in certain affordable property limited partnerships, has guaranteed the Low Income Housing Tax Credits to limited partners in 75 partnerships totaling approximately \$63.8 million. As of September 30, 2003, there were no known conditions that would make such payments necessary, and no amounts have been recorded. In addition, the Company, acting as general partner in certain partnerships, is obligated to advance funds to meet partnership operating deficits.

13. Subsequent events

Subsequent to the end of the third quarter, the Company announced that effective January 1, 2004, Norman and Nelson Leenhouts were retiring as Co-CEO's and Edward Pettinella will become President and CEO. In recognition of the value created under their leadership, Norman and Nelson received restricted stock grants with a combined value of approximately \$5 million. A one time, non-recurring charge equal to this \$5 million will be recorded in the fourth quarter of 2003 and included in general and administrative expense.

In addition, the Company announced that on January 1, 2004, the commercial property management division of Home Properties will be sold to Home Leasing LLC, which is owned by Norman and Nelson Leenhouts, in order to avoid conflicts of interest and focus Home Properties solely on the direct ownership and management of market rate apartment communities. The commercial property management division consists of the business of managing under contract six commercial properties, three single-family land developments and one affordable multifamily apartment community. The majority of these properties were all managed by Home Leasing Corporation, also owned by Norman and Nelson Leenhouts, prior to the Companies IPO. The right to manage these properties would revert to Home Leasing Corporation for no consideration upon termination of the Leenhouts' employment on December 31, 2006. The consideration to be paid is \$68 plus a percentage of the management fee received by Home Leasing in connection with the management of one of the commercial properties for so long as the management of that property is retained. If Home Leasing continues to manage that property for three years, the consideration would increase \$166. This division currently contributes approximately \$130 annually to operations. The revenue from this division is reflected in other income and the majority of the expenses are included in general and administrative.

Also subsequent to the end of the quarter, holders of the remaining 100,000 shares of Series C Preferred Shares elected to convert those shares into 330,579 shares of common stock.

HOME PROPERTIES, INC.
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

The following discussion should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

Forward-Looking Statements

This discussion contains forward-looking statements. Although the Company believes expectations reflected in such forward-looking statements are based on 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 continued access to capital to fund growth.

Liquidity and Capital Resources

The Company's principal liquidity demands are expected to be distributions to the common and preferred stockholders and Operating Partnership Unitholders, capital improvements and repairs and maintenance for the properties, acquisition of additional properties, property development and debt repayments.

The Company intends to meet its short-term liquidity requirements through net cash flows provided by operating activities and its unsecured line of credit. 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.

As of September 30, 2003, the Company had an unsecured line of credit from M & T Bank of \$115 million. The Company's outstanding balance as of September 30, 2003, was \$64 million. Borrowings under the line of credit bear interest at 1.15% 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 line of credit expires on September 1, 2005.

To the extent that the Company does not satisfy its long-term liquidity requirements through net cash flows provided by operating activities and its credit facility, it intends to satisfy such requirements through the issuance of UPREIT units, proceeds from the Dividend Reinvestment Plan ("DRIP"), proceeds from the sale of properties, additional long term secured or unsecured indebtedness, or the issuance of additional equity securities. As of September 30, 2003, the Company owned 22 properties with 3,563 apartment units, which were unencumbered by debt.

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. The available balance on the shelf registration statement at September 30, 2003 was \$144.4 million.

In September 1999, the Company completed the sale of \$50 million of Series B Preferred Stock in a private transaction with GE Capital. The Series B Preferred stock carried an annual dividend rate equal to the greater of 8.36% or the actual dividend paid on the Company's common shares into which the preferred shares could be converted. The stock had a liquidation preference of \$25.00 per share, a conversion price of \$29.77 per share, and a five-year, non-call provision. On February 14, 2002, 1,000,000 shares of the Series B Preferred stock were converted to 839,771 common shares. The conversion had no effect on the reported results of operations. On May 24, 2002 the Company repurchased the remaining 1.0 million shares outstanding at an amount equivalent to 839,772 common shares (as if the preferred shares had been converted). The Company repurchased the shares for \$29,392 equal to the \$35.00 common stock trading price when the transaction was consummated. A premium of \$5,025 was incurred on the repurchase.

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 carries 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 can be converted. The stock has 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 September 9, 2003, 17,780 warrants were exercised, resulting in the issuance of 17,780 shares of common stock. Neither the conversions nor the warrant exercise had an effect on the reported results of operations.

Subsequent to the end of the quarter, holders of the remaining 100,000 shares of Series C Preferred Shares elected to convert those shares into 330,579 shares of common stock.

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.

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 carries 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 can be converted. The stock has 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. The conversions had no effect on the reported results of operations. 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. Neither the conversions nor the warrant exercise had an effect on the reported results of operations.

On February 28, 2002, the Company closed on two common equity offerings totaling 704,602 shares of the Company's common stock, at a weighted average price of \$30.99 per share, resulting in net proceeds to the Company of approximately \$21.8 million.

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 Series B preferred stock repurchase, 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).

The issuance of UPREIT Units for property acquisitions continues to be a source of capital for the Company. During 2003, the Company exercised an option to acquire approximately 10 acres of land adjacent to one of its existing properties for \$2.8 million. In connection with this transaction, the Company issued UPREIT units valued at approximately \$2.8 million. In addition, \$2 million of UPREIT units were issued to satisfy an existing liability. During 2002, the Company acquired an 864-unit property for a total purchase price of \$81.5 million. The Company issued UPREIT units valued at approximately \$11.5 million, with the balance funded by the assumption of debt and cash.

During 2002, \$27.4 million of common stock was issued under the Company's DRIP. An additional \$22.8 million has been raised through the DRIP program during the first nine months of 2003.

The DRIP was amended, effective April 10, 2001, in order to reduce management's perceived dilution from issuing new shares at or below the underlying net asset value. The discount on reinvested dividends and optional cash purchases was reduced from 3% to 2%. The maximum monthly investment (without receiving approval from the Company) was reduced from \$5 thousand to \$1 thousand. As expected, these changes significantly reduced participation in the plan. Management will continue to monitor the relationship between the Company's stock price and estimated net asset value. During times when this difference is small, management has the flexibility to issue waivers to DRIP participants to provide for investments in excess of the \$1 thousand maximum monthly investment. In connection with the announcement of the February, 2002 dividend, the Company announced such waivers will be considered beginning with the March 2002 optional cash purchase, as management believed the stock was trading at or above its estimate of net asset value. During the first quarter of 2002, the Company granted 53 waivers for purchases aggregating a total of \$3.9 million. No waivers were granted during the balance of 2002 or the first nine months of 2003.

On August 6, 2002 the Board of Directors increased its authorization by 2,000,000 shares to repurchase its common stock or UPREIT units in connection with the Company's stock repurchase program. 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 target stock price or a specific timetable for share repurchase. During the nine months of 2003, there were no shares or UPREIT Units repurchased by the Company. At September 30, 2003 the Company had authorization to repurchase 3,135,800 shares of common stock and UPREIT Units under the stock repurchase program.

As of September 30, 2003, the weighted average rate of interest on mortgage debt is 6.40% and the weighted average maturity is approximately 8 years. Approximately 93% of the debt is fixed rate. This limits the exposure to changes in interest rates, minimizing the effect on results of operations and financial condition.

Off-Balance Sheet Investments

The Company has investments in and advances to approximately 93 affordable housing limited partnerships where the Company acts as the managing general partner. The Company accounts for these investments on the equity method of accounting, recording its share of the net income or loss based upon the terms of the partnership agreement. To the extent that it is determined that the limited partners cannot absorb their share of the losses, if any, the general partner will record the limited partners' share of such losses.

The Company guaranteed the low income housing tax credits to the limited partners for a period of five years (from the date of property development under the tax credit program) in 75 partnerships totaling approximately \$63.8 million. Such guarantee requires the Company to operate the properties in compliance with Internal Revenue Code Section 42 for 15 years. The weighted average number of compliance years remaining is approximately 10 years. In addition, acting as the general partner in certain partnerships, the Company is obligated to advance funds to meet partnership operating deficits. However, such funding requirements cease after a five-year period. If operating deficits continue to occur after the expiration of the five-year period, the Company would determine on an individual partnership basis if it is in the best interest of the Company to continue to fund these deficits. The Company believes the properties' operations conform to the applicable requirements as set forth above and do not anticipate any payment on the tax credit guarantees described above.

These partnerships are funded with non-recourse financing. The Company's proportionate share of non-recourse financing was \$2.6 million at September 30, 2003. The Company has guaranteed a total of \$596 of debt associated with two of these partnerships. In addition, the Company, including the Management Companies, has provided loans and advances to certain of the partnerships aggregating \$6.3 million at September 30, 2003. The Company assesses the financial status and cash flow of each of the partnerships at each balance sheet date in order to assess recoverability of its investment in and advances to these affiliates.

In December 2002, the Company, including its equity affiliates, determined that it would market for sale virtually all of the assets associated with its interest in the aforementioned affordable housing limited partnerships. Such assets include the equity interest in the affordable housing partnerships, loans, advances and management contracts.

The Company intends to sell the assets in three phases:

Phase I consisting of the Company's interest in 35 properties containing 1,119 units, of which all were New York State Rural Development properties, was sold on September 5, 2003. The sale price of \$1,540 resulted in a gain on sale of approximately \$72 that was recorded in the third quarter. Not included in the above closing but part of the Phase I contract is one property with 24 units expected to close in the first quarter of 2004.

Phase II consists of the Company's interest in 51 properties with 1,519 units, all Pennsylvania, New York and Ohio Rural Development properties. An offer has been accepted for approximately book value and the final contract has been negotiated. The Company anticipates closing on this phase during the fourth quarter of 2003.

Phase III consists of the Company's interest in the remaining 37 properties with 3,583 units, primarily located in Upstate New York, Ohio and Maryland. The Company has received competitive bids and has selected a qualified buyer and is working towards a closing anticipated in the first quarter of 2004.

The Company has one property with 24 units in Rochester, New York under contract and is expected to close in the fourth quarter of 2003. In addition, the Company has two partnerships in Pittsburgh, Pennsylvania with 1,072 units that are being marketed for sale separately.

The Company plans on retaining the general partner interest in one 77-unit property located in Rochester, New York. The property is 80% market rate and is managed as a market rate community.

The Company recorded impairment charges aggregating \$3,099 during the first nine months of 2003. Of this balance, \$1,403 relates to monies loaned to certain equity affiliates to fund operating shortfalls, which are not anticipated to be recovered from projected sale proceeds. The remaining \$1,696 pertains to an additional net impairment charge taken on Phase III to reduce the assets to fair market value.

The Company's ability to sell the affordable assets on the timelines described above is dependent on a variety of factors, some of which are outside of the Company's control, such as the receipt of the approvals of various partners, lenders and governmental agencies necessary for the sale.

Acquisitions and Dispositions

In connection with the acquisition of an apartment community, the Company performs a valuation and allocation to each asset and liability acquired in such transaction, based on their estimated fair values at the date of acquisition in accordance with SFAS No. 141 "Business Combinations." The valuation of assets acquired includes both tangible and intangible assets. Tangible asset values, consisting of land, buildings and appliances, are reflected in real estate assets and depreciated over their estimated useful lives. Intangible asset values, consisting of above/below market in place leases, leasehold interest costs, and resident relationships, are reflected in other assets and other liabilities and amortized over the weighted average remaining lease term for in place leases and leasehold interest costs, and over the average turnover rate for resident relationships.

During the first quarter of 2003, the Company acquired its second property in the Boston area with 280 units in Stoughton, MA. The total purchase price of \$34,000, including closing costs, equates to approximately \$121 per apartment unit. The weighted average expected first year capitalization rate on this acquisition is 7.7%. 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. Management generally considers NOI to be an appropriate measure of operating performance because it helps investors to understand the operations of a community. In addition the apartment communities are valued and sold in the market by using a multiple of NOI.

During the third quarter of 2003, the Company acquired a 450-unit community in Silver Spring, Maryland. The total purchase price of \$58,876, including closing costs, equates to approximately \$131 per apartment unit. Management anticipates a 7.1% weighted average expected first year capitalization rate on this acquisition.

During the first nine months of 2003, the Company sold five communities with a total of 934 apartment units in Indiana, Ohio, Pennsylvania, Maryland, and Michigan for total consideration of \$40,597, or an average of \$43.4 per unit. A gain on sale of approximately \$634, net of minority interest, was recorded for the nine-months ended September 30, 2003 from these transactions and is reflected in discontinued operations. Due to the prepayment of debt associated with the sale of two of these communities, a combined \$1,610 charge was recorded during the first nine-months.

Contractual Obligations and Other Commitments

The primary obligations of the Company relate to its mortgage notes payable and its borrowings under the line of credit. The Company's mortgage notes payable and line of credit outstanding at September 30, 2003 and December 31, 2002 are summarized as follows (in thousands):

	September 30, <u>2003</u>	December 31, <u>2002</u>
Fixed rate mortgage notes payable	\$1,315,720	\$1,279,752
Variable rate mortgage notes payable	<u>30,750</u>	<u>21,055</u>
Total mortgage notes payable	1,346,470	1,300,807
Variable rate line of credit facility	<u>64,000</u>	<u>35,000</u>
Total mortgage notes payable and line of credit facility	<u>\$1,410,470</u>	<u>\$1,335,807</u>

Mortgage notes payable are collateralized by certain apartment communities and mature at various dates from July, 2004 through June, 2036. The weighted average interest rate of the Company's variable rate notes and credit facility was 2.22% and 2.83% at September 30, 2003 and December 31, 2002, respectively. The weighted average interest rate of the Company's fixed rate notes was 6.45% and 6.50% at September 30, 2003 and December 31, 2002, respectively.

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. At September 30, 2003, future minimum rental payments required under the lease are \$70 per year until the lease expires. The lease also provides for contingent rental payments based on collected rents. The contingent rent expense for the nine-month period ended September 30, 2003 amounted to \$110.

As discussed in the section entitled "Off-Balance Sheet Investments," the Company has the following guarantees or commitments relating to its equity method partnership investments: a) guarantee for a total of \$596 of debt associated with two of partnerships, b) guarantee of the low income housing tax credits to the limited partners for a period of five years in 75 partnerships totaling approximately \$63.8 million, and c) the obligation to advance funds to meet partnership operating deficits for a five year period for certain partnerships. The Company believes the properties' operations conform to the applicable requirements as set forth above and do not anticipate any payment on these tax credit guarantees.

Capital Improvements

The Company's policy is 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, revenue generating capital improvements include, among other items: community centers, new windows, and kitchen/ bath

apartment upgrades. Revenue generating capital improvements will directly result in rental earnings or expense savings. The Company capitalizes interest and certain internal personnel costs related to the communities under rehabilitation and construction.

The Company estimates that on an annual basis \$525 per unit is spent on recurring capital expenditures. During the three and nine-month periods ended September 30, 2003 approximately \$131 and \$393 per unit was estimated to be spent on recurring capital expenditures. The table below summarizes the actual total capital improvements incurred by major categories for the three and nine-month periods ended September 30, 2003 and 2002 and an estimate of the breakdown of total capital improvements by major categories between recurring and non-recurring, revenue generating capital improvements for the three and nine-month periods ended September 30, 2003 as follows:

For the three-month period ended September 30, (in thousands, except per unit data)								
2003							2002	
	Recurring Cap Ex	Per Unit(a)	Non- Recurring Cap Ex	Per Unit(a)	Total Capital Improvements	Per Unit(a)	Total Capital Improvements	Per Unit(a)
New Buildings	\$ -	\$ -	\$ 530	\$ 13	\$ 530	\$ 13	\$ 605	\$ 15
Major building improvements	943	23	4,925	119	5,868	142	4,859	124
Roof replacements	360	9	1,582	38	1,942	47	1,353	34
Site improvements	345	8	2,700	65	3,045	73	2,860	73
Apartment upgrades	680	16	9,178	221	9,858	237	9,930	253
Appliances	565	14	793	19	1,358	33	1,349	34
Carpeting/Flooring	1,774	43	2,000	48	3,774	91	3,181	81
HVAC/Mechanicals	523	12	3,984	96	4,507	108	3,836	98
Miscellaneous	233	6	535	14	768	20	850	22
Totals	<u>\$5,423</u>	<u>\$131</u>	<u>\$26,227</u>	<u>\$633</u>	<u>\$31,650</u>	<u>\$764</u>	<u>\$28,823</u>	<u>\$734</u>

- (a) Calculated using the weighted average number of units outstanding, including 36,566 core units, 2002 acquisition units of 4,492 and 2003 acquisition units of 385 for the three-month period ended September 30, 2003 and 36,566 core units and 2002 acquisition units of 2,683 for the three-month period ended September 30, 2002.

For the nine-month period ended September 30, (in thousands, except per unit data)								
2003							2002	
	Recurring Cap Ex	Per Unit(a)	Non- Recurring Cap Ex	Per Unit(a)	Total Capital Improvements	Per Unit(a)	Total Capital Improvements	Per Unit(a)
New Buildings	\$ -	\$ -	\$ 1,413	\$ 34	\$ 1,413	\$ 34	\$ 3,614	\$ 95
Major building improvements	2,821	68	12,945	313	15,766	381	14,935	392
Roof replacements	1,078	26	2,203	53	3,281	79	3,444	90
Site improvements	1,033	25	4,838	117	5,871	142	8,351	219
Apartment upgrades	2,036	49	23,904	578	25,940	627	24,796	651
Appliances	1,691	41	1,943	47	3,634	88	3,295	87
Carpeting/Flooring	5,308	128	3,768	91	9,076	219	8,020	211
HVAC/Mechanicals	1,564	38	8,490	205	10,054	243	8,585	226
Miscellaneous	694	18	2,085	52	2,779	70	3,020	80
Totals	<u>\$16,225</u>	<u>\$393</u>	<u>\$61,589</u>	<u>\$1,490</u>	<u>\$77,814</u>	<u>\$1,883</u>	<u>\$78,060</u>	<u>\$2,051</u>

- (a) Calculated using the weighted average number of units outstanding, including 36,566 core units, 2002 acquisition units of 4,492 and 2003 acquisition units of 272 for the nine-month period ended September 30, 2003 and 36,566 core units and 2002 acquisition units of 1,498 for the nine-month period ended September 30, 2002.

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

For the three-month period ended September 30, (in thousands, except per unit data)								
	2003						2002	
	Recurring Cap Ex	Per Unit	Non-recurring Cap Ex	Per Unit	Total Capital Improvements	Per Unit	Total Capital Improvements	Per Unit
Core Communities	\$4,785	\$131	\$19,916	\$545	\$24,701	\$ 676	\$26,556	\$ 723
2003 Acquisition Communities	50	131	82	214	132	345	-	-
2002 Acquisition Communities	<u>588</u>	<u>131</u>	<u>6,229</u>	<u>1,387</u>	<u>6,817</u>	<u>1,518</u>	<u>2,267</u>	<u>1,546</u>
Sub-total	5,423	131	26,227	633	31,650	764	28,823	754
2003 Disposed Communities	27	131	119	569	146	700	746	799
2002 Disposed Communities	-	-	-	-	-	-	103	1,115
Corporate office expenditures ⁽¹⁾	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>869</u>	<u>-</u>	<u>1,019</u>	<u>-</u>
	<u>\$5,450</u>	<u>\$131</u>	<u>\$26,346</u>	<u>\$633</u>	<u>\$32,665</u>	<u>\$ 764</u>	<u>\$30,691</u>	<u>\$ 756</u>

	For the nine-month period ended September 30, (in thousands, except per unit data)							
	2003						2002	
	Recurring Cap Ex	Per Unit	Non-recurring Cap Ex	Per Unit	Total Capital Improvements	Per Unit	Total Capital Improvements	Per Unit
Core Communities	\$14,355	\$393	\$46,635	\$1,275	\$60,990	\$1,668	\$74,645	\$2,041
2003 Acquisition Communities	107	393	78	287	185	680	-	-
2002 Acquisition Communities	<u>1,763</u>	<u>393</u>	<u>14,876</u>	<u>3,312</u>	<u>16,639</u>	<u>3,705</u>	<u>3,415</u>	<u>2,280</u>
Sub-total	16,225	393	61,589	1,490	77,814	1,883	78,060	2,051
2003 Disposed Communities	139	393	263	742	402	1,135	1,661	1,778
2002 Disposed Communities	-	-	-	-	-	-	1,104	1,274
Corporate office expenditures ⁽¹⁾	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,808</u>	<u>-</u>	<u>3,449</u>	<u>-</u>
	<u>\$16,364</u>	<u>\$393</u>	<u>\$61,852</u>	<u>\$1,484</u>	<u>\$80,024</u>	<u>\$1,876</u>	<u>\$84,274</u>	<u>\$2,027</u>

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

Results of Operations

Summary of Core Properties

The Company had 127 apartment communities with 36,566 units which were owned during the nine-month period being presented (the "Core Properties"). The Company has acquired an additional 22 apartment communities with 5,010 units during 2002 and 2003 (the "Acquired Communities"). In addition, the Company also disposed of 17 properties with a total of 2,658 units during 2002 and 2003 (the "Disposition Communities"). These dispositions have been classified as discontinued operations. The inclusion of the Acquired Communities generally accounted for the significant changes in operating results for the nine-months ended September 30, 2003.

A summary of the Core Properties net operating income is as follows (in thousands):

	Nine Months			Three Month		
	2003	2002	%Chg	2003	2002	%Chg
Rental income	\$ 267,173	\$ 259,285	3.0%	\$ 91,018	\$ 88,253	3.1%
Property other income	<u>10,828</u>	<u>10,439</u>	<u>3.7%</u>	<u>3,639</u>	<u>3,975</u>	<u>(8.5%)</u>
Total income	278,001	269,724	3.1%	94,657	92,228	2.6%
Operating and Maintenance	<u>(124,169)</u>	<u>(114,279)</u>	<u>(8.7%)</u>	<u>(40,972)</u>	<u>(37,315)</u>	<u>(9.8%)</u>
Net operating income	<u>\$ 153,832</u>	<u>\$ 155,445</u>	<u>(1.0%)</u>	<u>\$ 53,685</u>	<u>\$ 54,913</u>	<u>(2.2%)</u>

Comparison of nine-months ended September 30, 2003 to the same period in 2002

Of the \$38,134 increase in rental income, \$30,246 is attributable to the Acquired Communities. The balance of this increase, which is from the Core Properties, was the result of an increase of 3.0% in weighted average rental rates, offset by a decrease in occupancy from 92.1% to 92.2%. 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.

Property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport charges, net profits from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents increased by \$1,018. Of this increase, \$629 is attributable to the Acquired Communities and \$389 represents a 3.7% increase from the Core Properties.

Interest and dividend income decreased \$677 due to decreased levels of financing to affiliates and a lower interest rate environment.

Of the \$22,364 increase in operating and maintenance expenses, \$12,474 is attributable to the Acquired Communities. The balance, a \$9,890 increase, is attributable to the Core Properties and is primarily due to increases in utility costs, repairs and maintenance, personnel costs, property insurance, and property management costs. The increase in personnel and snow removal costs of \$2,768 are significantly related to weather conditions. The regions in which the Company operates, received higher than normal snowfall, and many regions that get very little snow were hit with unusual snow storms. A significant amount of overtime was incurred clearing and shoveling. The increase in repairs and maintenance is primarily due to higher turnover of apartment units in the summer months as property management has actively managed lease expirations so that more leases are terminating in periods of higher traffic. Property insurance increased compared to the same period one year ago due to the benefit the Company continued to receive in the prior year from a legal settlement.

General and administrative expense increased in 2003 by \$5,613, or 64.1%. General and administrative expenses as a percentage of total revenues were 4.4% for 2003 as compared to 3.1% for 2002. The increase primarily is attributed to the consolidation of the Management Companies in 2003 which added an additional \$3,421 to this line item. Previously such expenses were allocated and charged to the Management Companies and were included in the equity in earnings (losses) of unconsolidated affiliates. Of the remaining \$2,192 variance, \$675 is related to the expensing of stock options for the first time in both of the first three quarters of 2003 and a \$1,019 increase in incentive compensation costs compared to the same period a year ago. The balance of this increase is attributable to incremental increases in general and administrative costs related to the 2002 Acquisition Communities.

Subsequent to the end of the third quarter, the Company announced that effective January 1, 2004, Norman and Nelson Leenhouts were retiring as Co-CEO's and Edward Pettinella will become President and CEO. In recognition of the value created under their leadership, Norman and Nelson received restricted stock grants with a combined value of approximately \$5 million. A one time, non-recurring charge equal to this \$5 million will be recorded in the fourth quarter of 2003 and included in general and administrative expense.

In addition, the Company announced that on January 1, 2004, the commercial property management division of Home Properties will be sold to Home Leasing LLC, which is owned by Norman and Nelson Leenhouts, in order to avoid conflicts of interest and focus Home Properties solely on the direct ownership and management of market rate apartment communities. The commercial property management division consists of the business of managing under contract six commercial properties, three single-family land developments and one affordable multifamily apartment community. The majority of these properties were all managed by Home Leasing Corporation, also owned by Norman and Nelson Leenhouts, prior to the Companies IPO. The right to manage these properties would revert to Home Leasing Corporation for no consideration upon termination of the Leenhouts' employment on December 31, 2006. The consideration to be paid is \$68 plus a percentage of the management fee received by Home Leasing in connection with the management of one of the commercial properties for so long as the management of that property is retained. If Home Leasing continues to manage that property

for three years, the consideration would increase \$166. This division currently contributes approximately \$130 annually to operations. The revenue from this division is reflected in other income and the majority of the expenses are included in general and administrative.

Interest expense increased \$7,914 due to the increase in the amount of debt outstanding associated with the Acquired Communities offset in part by lower interest rates.

Due to the prepayment of debt associated with the sale of Candlewood Apartments in Indiana during the first quarter, and Bayberry Place Apartments in Michigan during the third quarter, a \$1,610 charge was recorded for the nine-months ended September 30, 2003.

Depreciation and amortization expense increased \$10,724 due to the depreciation on the Acquisition Communities, the additions to the Core Properties, 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 to focus solely on the direct ownership and management of market rate apartment communities. At that time, the Company announced its intention to sell the assets, which include principally loans, advances and management contracts.

During the first nine-months of 2003, the Company recorded impairment charges of \$2,408. Of this total, \$712 represents advances made to certain of the affordable property limited partnerships during the first nine months of 2003 which the Company believes will not be repaid upon the sale of the loans. The remaining \$1,696 pertains to an additional net impairment charge taken on Phase III to reduce the assets to fair market value.

The equity in earnings (losses) of unconsolidated affiliates of \$1,497 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." Included and classified in the account are \$691 of advances made during the first nine months of 2003 which the Company believes will not be repaid upon sale of the loans.

Minority interest decreased \$2,030 due to the impairment of assets held by the General Partner recorded in the first nine months of 2003 together with an overall reduction in income from operations as a result of increased interest and depreciation costs as compared to the previous period. Both of these items were offset by the impact of the premium paid on the repurchase of the Series B Convertible Cumulative Preferred Stock which had been treated as a charge to net income available to common shareholders in the previous year.

Included in discontinued operations for the nine-month period ended September 30, 2002 are seventeen apartment community dispositions (five and twelve sold in 2003 and 2002, respectively) and five properties sold in 2003 for the nine-month period ended September 30, 2003 and one property held for sale for both the nine-month periods ended September 30, 2003 and 2002. The operations of these seventeen properties have been reflected on a comparative basis for the period ended September 30, 2002.

The Company reported a \$245 loss, net of minority interest, on disposition of property in the first quarter of 2002 relating to additional expenses incurred in the same quarter for a sale which closed in the fourth quarter of 2001. These costs represented a change in estimate from those accrued at the time of sale.

Comparison of the three-months ended September 30, 2003 to the same period in 2002

Of the \$10,134 increase in rental income, \$7,369 is attributable to the Acquired Communities. The balance of this increase, which is from the Core Properties, was the result of an increase of 3.1% in weighted average rental rates. Occupancy reflected a slight increase and was 93.3%, up from 93.2% for the same period a year ago. 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.

Property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport charges, net profits from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents decreased by \$142. Of this decrease, \$194 is attributable to an increase from the Acquired Communities and \$336 represents an 8.5% decrease from the Core Properties.

Interest and dividend income decreased \$181 due to decreased levels of financing to affiliates and a lower interest rate environment.

Of the \$6,549 increase in operating and maintenance expenses, \$2,892 is attributable to the Acquired Communities. The balance, a \$3,657 increase, is attributable to the Core Properties and is primarily due to increases in repairs and maintenance, advertising, property insurance and allocated property management costs. A significant amount of the increase in both repairs and maintenance and advertising expense relates to increased turnover during June, July, and August. This is a result of actively managing lease expirations to better match lease termination dates with higher traffic periods. Property insurance expenses in 2002 continued to benefit from the legal settlement received a couple of years ago.

General and administrative expense increased in 2003 by \$1,833, or 64.6%. General and administrative expenses as a percentage of total revenues were 4.2% for 2003 as compared to 2.8% for 2002. The increase primarily is attributed to the consolidation of the Management Companies in 2003 which added an additional \$1,151 to this line item. Previously such expenses were allocated and charged to the Management Companies and were included in the equity in earnings (losses) of unconsolidated affiliates. The primary contributors to the remaining \$682 variance are \$266 related to the expensing of stock options for the first time in the third quarter of 2003 and a \$258 increase in incentive compensation costs compared to the same period a year ago.

Interest expense increased \$1,743 due to the increase in the amount of debt outstanding associated with the Acquired Communities offset in part by lower interest rates.

Due to the prepayment of debt associated with the sale of Bayberry Place Apartments in Michigan during the third quarter, a \$261 charge was recorded during the three-months ended September 30, 2003.

Depreciation and amortization expense increased \$2,984 due to the depreciation on the Acquisition Communities and the additions to the Core Properties.

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 to focus solely on the direct ownership and management of market rate apartment communities. At that time, the Company announced its intention to sell the assets, which include principally loans, advances and management contracts.

During the third quarter of 2003, the Company recorded impairment charges of \$1,888. Of this total, \$192 represents advances made to certain of the affordable property limited partnerships during the third quarter which the Company believes will not be repaid upon the sale of the loans. The remaining \$1,696 pertains to an additional net impairment charge taken on Phase III to reduce the assets to fair market value.

The equity in earnings (losses) of unconsolidated affiliates of \$313 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." Included and classified in the account are \$345 of advances made during the third quarter of 2003 which the Company believes will not be repaid upon sale of the loans.

Minority interest decreased \$1,615 due to the impairment of assets held by the General Partner recorded in the third quarter of 2003 together with an overall reduction in income from operations as a result of increased interest and depreciation costs as compared to the previous period.

Included in discontinued operations for the three-month period ended September 30, 2002 are seventeen apartment community dispositions (five and twelve sold in 2003 and 2002, respectively) and five properties sold in 2003 for the three-month period ended September 30, 2003 and one property held for sale for both the three-month periods ended September 30, 2003 and 2002. The operations of these seventeen properties have been reflected on a comparative basis for the period ended September 30, 2002.

Funds From Operations

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. The Company considers debt extinguishment costs which are incurred as a result of repaying property specific debt and non-cash real estate impairment charges, as a component of the 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.

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. 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. Cash provided by operating activities was \$108,533 and \$105,995 for the nine-month period ended and \$32,230 and \$32,847 for the three-month period ended September 30, 2003 and 2002, respectively. Cash used in investing activities was \$102,139 and \$222,320 for the nine-month period ended and \$45,432 and \$47,975 for the three-month period ended September 30, 2003 and 2002, respectively. Cash (used in) and provided by financing activities was (\$7,925) and \$113,420 for the nine-month period ended and \$13,743 and \$10,203 for the three-month period ended September 30, 2003 and 2002, respectively. 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 calculation of FFO and reconciliation to GAAP net income available to common shareholders for the nine and three-months ended September 30, 2003 and 2002 are presented below (in thousands):

	Nine Months		Three Months	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net income available to common shareholders	\$21,772	\$29,408	\$ 8,958	\$13,063
Convertible preferred dividends	5,306	8,222	1,296	2,443
Minority interest	11,935	13,965	4,776	6,391
Minority interest – income (loss) from discontinued operations	105	868	95	(271)
Depreciation from real property	56,889	48,626	19,512	17,020
Depreciation from real property from unconsolidated entities	1,837	505	725	68
Impairment of real property included in income from operations				
of disposed properties, before minority interest	423	1,565	-	1,565
Impairment on General Partner real estate investment	1,785	-	1,785	-
Loss on disposition of property	79	245	69	-
Prepayment penalty from early extinguishment of debt in connection with sale of real estate	1,610	-	261	-
(Gain) loss on disposition of discontinued operations, net of minority interest	<u>(355)</u>	<u>(5,601)</u>	<u>(35)</u>	<u>(2,912)</u>
FFO as defined above	101,386	97,803	37,442	37,367
Premium on Series B preferred stock repurchase	<u>-</u>	<u>5,025</u>	<u>-</u>	<u>-</u>
FFO as adjusted by the Company	<u>\$101,386</u>	<u>\$102,828</u>	<u>\$37,442</u>	<u>\$37,367</u>
Weighted average common shares/units outstanding:				
- Basic	<u>44,577.3</u>	<u>41,739.9</u>	<u>45,611.9</u>	<u>42,364.2</u>
- Diluted	<u>47,624.0</u>	<u>46,370.1</u>	<u>48,078.9</u>	<u>46,367.7</u>

On May 24, 2002 the Company repurchased the 1.0 million shares outstanding of the Series B preferred stock at an amount equivalent to 839,772 common shares (as if the preferred shares had been converted). The stock had a liquidation preference of \$25.00 per share, a conversion price of \$29.77 per share, and a five-year, non-call provision. The Company repurchased the shares for \$29,392 equal to the \$35.00 common stock trading price when the transaction was consummated. A premium of \$5,025 was incurred on the repurchase.

In the adjusted presentation above, the Company excluded the premium on the Series B preferred stock. The Company believes that this calculation is more reflective of continuing operations as the premium was considered a one time charge. 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.

Covenants

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). 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

	<u>Three-months ended</u>			
	Sept. 30 2003	June 30 2003	Mar. 31 2003	Dec. 31 2002
EBITDA				
Total revenues	\$111,200	\$109,713	\$106,955	\$105,715
Net operating income from discontinued operations	460	-	196	299
Operating and maintenance	(46,472)	(46,040)	(49,772)	(44,199)
General and administrative	(4,670)	(4,582)	(5,119)	(3,891)
Impairment of assets held as General Partner	(1,888)	(93)	(427)	(3,183)
Equity in earnings (losses) of unconsolidated affiliates	(313)	(444)	(740)	(16,085)
	\$ 58,317	\$ 58,554	\$ 51,093	\$ 38,656
Fixed Charges				
Interest expense	\$ 21,456	\$ 21,634	\$ 21,300	\$ 20,350
Interest expense on discontinued operations	116	-	33	-
Preferred dividends	2,646	3,192	3,518	3,717
Capitalized interest	<u>230</u>	<u>230</u>	<u>230</u>	<u>230</u>
	\$ 24,448	\$ 25,056	\$ 25,081	\$ 24,297
Times Coverage ratio:	2.39	2.34	2.04	1.59 ⁽¹⁾

- (1) Results for the quarter reflect impairment and other charges relating to certain government assisted properties ("affordable properties") in which the Company is a general partner as described in more detail in the notes to the Company's annual report filed on form 10K. Excluding the impairment and other charges of \$18,074, the fixed charge coverage ratio would have been 2.34.

Economic Conditions

Substantially all of the leases at the Company's apartment 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. In 2002 and continuing into 2003 many regions of the United States have experienced varying degrees of economic recession and certain recessionary trends, such as the cost of obtaining sufficient property and liability insurance coverage, short-term interest rates, and a temporary reduction in occupancy. 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 in financial performance.

Declaration of Dividend

On October 28, 2003, the Board of Directors approved a dividend of \$.61 per share for the quarter ended September 30, 2003. This is the equivalent of an annual distribution of \$2.44 per share. The dividend is payable November 25, 2003 to shareholders of record on November 14, 2003.

On October 28, 2003 the Company also declared a regular dividend of \$0.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending November 30, 2003. The dividend on the preferred shares is payable on December 1, 2003, to shareholders of record on November 14, 2003. This dividend is equivalent to an annualized rate of \$2.25 per share.

Contingency

In 2001, the Company underwent a state tax audit. The state has assessed taxes of \$469 for the 1998 and 1999 tax years under audit. If the state's position is 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 was 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 legislature during 2002 affecting the pertinent tax statute, the Company has been advised by its third party legal counsel that its filing position for 1998-2001 should prevail. Based upon this information as of September 30, 2003, the Company has recorded an accrual of \$525, representing only its 2002 liability. Effective January 1, 2003, the Company reorganized the ownership of Home Properties Trust, subjecting the Company to a much lower level of tax going forward.

New Accounting Standard

In January 2003, the FASB issued Interpretation No. 46 – “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"). 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. The consolidation requirements of this interpretation apply immediately to variable interest entities created after January 31, 2003 but a deferral has been granted until the end of the first fiscal year or interim period ending after December 15, 2003 for VIE's existing before February 1, 2003. Therefore it is effective on December 31, 2003 for the Company. Management is uncertain but is assuming it is reasonably possible that each of the limited partnerships in which it holds the general partnership interest as of December 31, 2003 would be considered a VIE. The Company is determining where it is the primary beneficiary, and as a result the Company may consolidate all or a certain number of the limited partnership's assets and liabilities.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003. The provisions of FAS 149 are not expected to have a material impact on the Company's financial statements.

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. On October 29, 2003 the FASB indefinitely deferred the provisions of paragraphs 9 and 10 of SFAS 150 as they apply to mandatorily redeemable noncontrolling interests. This deferral applies to minority interest ownerships in limited partnerships which are mandatorily redeemable upon termination of the partnership and therefore is potentially applicable to the affordable portfolio.

HOME PROPERTIES, INC.

ITEM 3. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is interest rate risk. At September 30, 2003 and December 31, 2002, approximately 93% and 96%, respectively, of the Company's debt bore interest at fixed rates with a weighted average maturity of approximately 8 years and a weighted average interest rate of approximately 6.45% and 6.50%, respectively. The remainder of the Company's debt bears interest at variable rates with a weighted average maturity of approximately 9 and 2 years, respectively, and a weighted average interest rate of 2.22% and 2.83%, respectively, at September 30, 2003 and December 31, 2002. The Company does not intend to utilize a significant amount of variable rate debt to acquire properties in the future. On occasion, the Company may assume variable rate debt in connection with a property acquisition. 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 September 30, 2003 and December 31, 2002, the interest rate risk on \$25.2 million 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 an aggregate of \$25.2 million in variable rate mortgages to fixed rates of 5.91%, 8.22% and 8.40%.

For both September 30, 2003 and December 31, 2002, the fair value of the Company's fixed rate debt, including the \$25.2 million which was swapped to a fixed rate, amounted to a liability of \$1.4 billion compared to its carrying amount of \$1.3 billion. The Company estimates that a 100 basis point decrease in market interest rates at September 30, 2003 would have changed the fair value of the Company's fixed rate debt to a liability of \$1.5 billion.

The Company intends to continuously monitor and actively manage interest costs on its 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 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 September 30, 2003, the Company had no other material exposure to market risk.

HOME PROPERTIES, INC.

ITEM 4. INTERNAL CONTROLS

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports 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 Company's Co-Chief Executive Officers and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, the Company has investments in certain unconsolidated entities. As the Company does not control these entities, the disclosure controls with respect to such entities are necessarily substantially more limited than those maintained with respect to the Company's consolidated subsidiaries.

The Co-Chief Executive Officers and Chief Financial Officer have, as of the end of the period covered by this quarterly report, evaluated the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) and have determined that such disclosure controls and procedures are adequate. In connection with the evaluation, no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) was identified that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

HOME PROPERTIES, INC.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibit 31.1 Section 302 Certifications of Chief Executive Officers
Exhibit 31.2 Section 302 Certification of Chief Financial Officer
Exhibit 32.1 Section 906 Certifications of Chief Executive Officers
Exhibit 32.2 Section 906 Certification of Chief Financial Officer
- (b) Reports on Form 8-K:
 - Form 8-K was filed on October 29, 2003, date of report October 29, 2003, with respect to Items 5 and 7 disclosures regarding the Registrant's press release announcing the Board of Directors appointment of Edward J. Pettinella, President and Chief Executive Officer of the Registrant effective January 1, 2004. The Registrant also reported that the Board of Directors granted each of Nelson and Norman Leenhouts restricted stock awards having an approximate value of \$2.5 million in recognition of their contributions to the Registrant. Finally, the Registrant reported that it has agreed in principle that, on January 1, 2004, the commercial property management division of the Registrant will be sold to Home Leasing LLC, which is owned by Nelson and Norman Leenhouts.
 - Form 8-K was filed on October 31, 2003, date of report October 31, 2003, with respect to Items 7 and 12 disclosures regarding the Registrant's press release announcing its results for the third quarter of 2003 and the third quarter 2003 investor conference call.

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.

HOME PROPERTIES, INC.
(Registrant)

Date: November 14, 2003

By: /s/ Norman P. Leenhouts
Norman P. Leenhouts
Chairman and
Co-Chief Executive Officer

Date: November 14, 2003

By: /s/ David P. Gardner
David P. Gardner
Senior Vice President and
Chief Financial Officer

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, Norman P. Leenhouts, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) 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) 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
 - c) 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 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.

By: /s/ Norman P. Leenhouts

Norman P. Leenhouts
Chairman of the Board of Directors and
Co-Chief Executive Officer
November 14, 2003

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, Nelson B. Leenhouts, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) 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) 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
 - c) 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 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.

By: /s/ Nelson B. Leenhouts

Nelson B. Leenhouts
President and
Co-Chief Executive Officer
November 14, 2003

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 quarterly report on Form 10-Q 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)) 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) 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
 - c) 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 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.

By: /s/ David P. Gardner

David P. Gardner
Senior Vice President and
Chief Financial Officer
November 14, 2003

The following certifications are "furnished" as provided in the rules proposed by the Securities and Exchange Commission in Release 34-47551, dated March 21, 2003.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Home Properties, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2003, as filed with the Securities and Exchange Commission on November 14, 2003 (the "Report"), I, Norman P. Leenhouts, Chairman of the Board of Directors and Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Norman P. Leenhouts

Norman P. Leenhouts
Chairman of the Board of Directors and
Co-Chief Executive Officer
November 14, 2003

A signed original of this written statement required by Section 906 has been provided to Home Properties, Inc. and will be retained by Home Properties, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

In connection with the Quarterly Report of Home Properties, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2003, as filed with the Securities and Exchange Commission on November 14, 2003 (the "Report"), I, Nelson B. Leenhouts, President and Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Nelson B. Leenhouts

Nelson B. Leenhouts
President and
Co-Chief Executive Officer
November 14, 2003

A signed original of this written statement required by Section 906 has been provided to Home Properties, Inc. and will be retained by Home Properties, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The following certification is "furnished" as provided in the rules proposed by the Securities and Exchange Commission in Release 34-47551, dated March 21, 2003.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Home Properties, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2003, as filed with the Securities and Exchange Commission on November 14, 2003 (the "Report"), I, David P. Gardner, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David P. Gardner

David P. Gardner
Senior Vice President and
Chief Financial Officer
November 14, 2003

A signed original of this written statement required by Section 906 has been provided to Home Properties, Inc. and will be retained by Home Properties, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.