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, 2004

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	16-1455126
(State or other jurisdiction of incorporation or organization)	(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	Outstanding at October 31, 2004
$.01 par value	33,500,009

HOME PROPERTIES, INC.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HOME PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2004 AND DECEMBER 31, 2003
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2004 (Unaudited)	2003 (Note 1)
ASSETS		
Real estate:		
Land	$ 407,357	$ 387,655
Buildings, improvements and equipment	2,656,669	2,365,337
Real estate held for sale or disposal, net	79,607	-
	3,143,633	2,752,992
Less: accumulated depreciation	(390,757)	(330,062)
Real estate, net	2,752,876	2,422,930
Cash and cash equivalents	8,267	5,103
Cash in escrows	44,465	39,660
Accounts receivable	5,900	4,437
Prepaid expenses	20,128	18,184
Investment in and advances to affiliates	27	5,253
Deferred charges	13,533	9,057
Other assets	2,944	8,693
Total assets	$2,848,140	$2,513,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage notes payable	$1,632,230	$1,380,696
Line of credit	70,500	-
Accounts payable	24,118	13,178
Accrued interest payable	8,869	7,013
Accrued expenses and other liabilities	22,629	18,959
Security deposits	23,683	21,664
Total liabilities	1,782,029	1,441,510
Commitments and contingencies		
Minority interest	316,294	330,544
Stockholders' equity:		
Cumulative redeemable preferred stock, $.01 par value; 2,400,000 shares issued and outstanding at September 30, 2004 and December 31, 2003	60,000	60,000
Convertible cumulative preferred stock, $.01 par value; 10,000,000 shares authorized; 250,000 shares issued and outstanding at September 30, 2004 and December 31, 2003	25,000	25,000
Common stock, $.01 par value; 80,000,000 shares authorized; 33,485,255 and 31,966,240 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	335	320
Excess stock, $.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	838,532	785,710
Accumulated other comprehensive income	(544)	(542)
Distributions in excess of accumulated earnings	(173,428)	(128,910)
Officer notes for stock purchases	(78)	(315)
Total stockholders' equity	749,817	741,263
Total liabilities and stockholders' equity	$2,848,140	$2,513,317

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, 2004 AND 2003
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2004	2003
Revenues:		
Rental income	$331,496	$304,370
Property other income	13,373	11,366
Interest and dividend income	448	351
Other income	1,968	3,349
Total revenues	347,285	319,436
Expenses:		
Operating and maintenance	153,438	138,099
General and administrative	14,496	14,371
Interest	68,060	64,693
Depreciation and amortization	67,377	57,140
Impairment of assets held as General Partner	1,116	2,408
Total expenses	304,487	276,711
Income from operations	42,798	42,725
Equity in earnings (losses) of unconsolidated affiliates	(538)	(1,497)
Income before minority interest and discontinued operations	42,260	41,228
Minority interest in operating partnership	(11,844)	(11,473)
Income from continuing operations	30,416	29,755
Discontinued operations		
Income (loss) from operations, net of ($805) in 2004 and $567 in 2003 allocated to minority interest	(1,679)	1,020
Gain (loss) on disposition of property, net of ($2,949) in 2004 and $207 in 2003 allocated to minority interest	(6,305)	355
Discontinued operations	(7,984)	1,375
Income before loss on disposition of property and business and cumulative effect of change in accounting principle	22,432	31,130
Loss on disposition of property and business, net of $33 in 2004 and $1 in 2003 allocated to minority interest	(67)	(2)
Income before cumulative effect of change in accounting principle	22,365	31,128
Cumulative effect of change in accounting principle, net of $159 in 2004 and $0 in 2003 allocated to minority interest	(321)	-
Net income	22,044	31,128
Preferred dividends	(5,695)	(9,356)
Net income available to common shareholders	$ 16,349	$21,772
Basic earnings per share data:		
Income from continuing operations	$ .75	$ .71
Discontinued operations	(.24)	.05
Cumulative effect of change in accounting principle	(.01)	-
Net income available to common shareholders	$ .50	$ .76
Diluted earnings per share data:		
Income from continuing operations	$ .74	$ .71
Discontinued operations	(.24)	.04
Cumulative effect of change in accounting principle	(.01)	-
Net income available to common shareholders	$ .49	$ .75
Weighted average number of shares outstanding:		
- Basic	32,840,672	28,485,398
- Diluted	33,280,680	28,874,160

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, 2004 AND 2003
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2004	2003
Revenues:		
Rental income	$113,237	$103,792
Property other income	4,750	3,855
Interest and dividend income	150	95
Other income	805	1,028
Total revenues	118,942	108,770
Expenses:		
Operating and maintenance	50,372	45,512
General and administrative	4,879	4,670
Interest	23,496	21,430
Depreciation and amortization	23,445	19,624
Impairment of assets held as General Partner	-	1,888
Total expenses	102,192	93,124
Income from operations	16,750	15,646
Equity in earnings (losses) of unconsolidated affiliates	25	(313)
Income before minority interest and discontinued operations	16,775	15,333
Minority interest in operating partnership	(4,746)	(4,482)
Income from continuing operations	12,029	10,851
Discontinued operations		
Income (loss) from operations, net of ($135) in 2004 and $389 in 2003 allocated to minority interest	(288)	710
Gain (loss) on disposition of property, net of ($3,195) in 2004 and $19 in 2003 allocated to minority interest	(6,816)	35
Discontinued operations	(7,104)	745
Income before gain on disposition of property and business	4,925	11,596
Gain on disposition of property and business, net of $5 allocated to minority interest	-	8
Net income	4,925	11,604
Preferred dividends	(1,898)	(2,646)
Net income available to common shareholders	$ 3,027	$ 8,958
Basic earnings per share data:		
Income from continuing operations	$ .30	$ .28
Discontinued operations	(.21)	.02
Net income available to common shareholders	$ .09	$ .30
Diluted earnings per share data:		
Income from continuing operations	$ .30	$ .27
Discontinued operations	(.21)	.03
Net income available to common shareholders	$ .09	$ .30
Weighted average number of shares outstanding:		
Basic	33,293,905	29,522,274
Diluted	33,737,974	30,037,671

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, 2004 AND 2003
(UNAUDITED, IN THOUSANDS)

	2004	2003
Net income	$22,044	$31,128
Other comprehensive income (net of minority interest):		
Change in fair value of hedge instruments	(2)	265
Comprehensive income	$22,042	$31,393

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, 2004 AND 2003
(UNAUDITED, IN THOUSANDS)

	2004	2003
Net income	$ 4,925	$11,604
Other comprehensive income (net of minority interest):		
Change in fair value of hedge instruments	(225)	173
Comprehensive income	$ 4,700	$11,777

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, 2004 AND 2003
(UNAUDITED, IN THOUSANDS)

	2004	2003
Cash flows from operating activities:		
Net income	$ 22,044	$ 31,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in (earnings) losses of unconsolidated affiliates	538	1,497
Income allocated to minority interest	7,898	12,246
Depreciation and amortization	72,524	59,681
Impairment of assets held as General Partner	1,116	2,408
Impairment of real property	1,100	423
Gain on disposition of property and business	(562)	(559)
Loss from early extinguishment of debt	102	1,610
Cumulative effect of change in accounting principle	480	-
Changes in assets and liabilities:		
Other assets	2,628	517
Accounts payable and accrued liabilities	15,592	(418)
Total adjustments	101,416	77,405
Net cash provided by operating activities	123,460	108,533
Cash flows used in investing activities:		
Purchase of properties and other assets, net of mortgage notes assumed and UPREIT Units issued	(153,535)	(66,760)
Additions to properties	(74,138)	(78,658)
Proceeds from sale of properties and business, net	24,927	38,313
Proceeds from sale of affordable properties, net	1,387	-
Advances to affiliates	(820)	(2,445)
Payments on advances to affiliates	149	7,411
Net cash used in investing activities	(202,030)	(102,139)
Cash flows from financing activities:		
Proceeds from sale of common stock, net	30,249	29,688
Repurchase of treasury stock	(2,189)	-
Proceeds from mortgage notes payable	126,674	77,367
Payments of mortgage notes payable	(45,251)	(56,939)
Payment of prepayment penalty in connection with the early extinguishment of debt	(102)	(1,610)
Proceeds from line of credit	201,500	154,000
Payments on line of credit	(131,000)	(125,000)
Payments of deferred loan costs	(1,914)	(822)
Withdrawals from (additions to) cash escrows, net	(1,371)	4,646
Repayment of officer loans	237	453
Dividends and distributions paid	(95,949)	(89,708)
Net cash provided by (used in) financing activities	80,884	(7,925)
Net increase (decrease) in cash and cash equivalents	2,314	(1,531)
Cash and cash equivalents:		
Beginning of year	5,103	8,782
Cash assumed in connection with FIN 46R consolidation	850	-
End of period	$ 8,267	$ 7,251
Supplemental disclosure of non-cash operating, investing and financing activities:		
Mortgage loans assumed associated with property acquisitions	$ 90,569	$ 25,235
Conversion of preferred to common stock	-	73,180
Exchange of UPREIT Units/partnership interest for common shares	14,015	4,686
Fair value of hedge instruments	1,012	1,205
Issuance of UPREIT Units associated with property and other acquisitions	12,105	4,806
Increase in real estate associated with the purchase of UPREIT Units	12,470	3,000
Compensation cost of stock options issued	684	675
Net real estate assumed in connection with FIN 46R consolidation	152,319	-
Other assets assumed in connection with FIN 46R consolidation	11,916	-
Mortgage debt assumed in connection with FIN 46R consolidation	129,149	-
Other liabilities assumed in connection with FIN 46R consolidation	5,363	-
Net real estate disposed in connection with FIN 46R consolidation	69,743	-
Other assets disposed in connection with FIN 46R consolidation	3,054	-
Mortgage debt disposed in connection with FIN 46R consolidation	48,611	-
Other liabilities disposed in connection with FIN 46R consolidation	2,759	-

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

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 that would accompany 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, 2003.

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 Northeast, Mid-Atlantic, Midwest and Southeast Florida. As of September 30, 2004, the Company operated 48,010 apartment communities with 187 apartments. Of this total, the Company owned 153 communities, consisting of 42,822 apartments ("Owned Communities"), managed as general partner 3,766 apartments and fee managed 1,422 apartments for affiliates and third parties.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its 68.3% (65.5% at September 30, 2003) partnership interest in Home Properties, L.P. (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 31.7% (34.5% at September 30, 2003) 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.

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

2. Organization and Basis of Presentation (continued)

Through March 30, 2004, the Company accounted for its investment as managing general partner ("GP") in unconsolidated affordable housing limited partnerships ("LP") using the equity method of accounting. Effective March 31, 2004, the Company adopted FASB Interpretation No. 46R, Consolidation of Variable Interest Entities ("FIN 46R"). This interpretation addresses consolidation by business enterprises of variable interest entities in which the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or in which the equity investors do not have the characteristics of a controlling financial interest. This interpretation requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The interpretation also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. As of March 31, 2004, the Company was the general partner in 41 limited partnerships in Upstate New York, Pennsylvania, Ohio and Maryland. The Company had made a determination that all 41 limited partnerships were Variable Interest Entities ("VIEs"). The Company had further determined that it was the primary beneficiary in 34 of the VIEs and therefore consolidated these entities effective March 31, 2004. Beginning with the second quarter of 2004, the Company consolidated the results of operations of the VIEs. The results of operations of the 34 VIE's for both the three and nine-month periods ending September 30, 2004, are included in discontinued operations. These properties are classified as held for sale because as of September 30, 2004, 22 of the partnerships had been sold, the Company is under contract or a letter of intent to sell nine of the partnerships for which due diligence is in process, one partnership is being marketed for sale and the remaining two partnerships are being disposed of through a default on the non-recourse financing. The Company has met with the federal agency that insured the financing. The agency has agreed that the Company may continue to manage the property until the agency can auction off the loan in a note sale. The note sale is expected to occur in March, 2005, but it may occur later.

Home Properties determined that it is not the primary beneficiary in seven partnerships syndicated under U.S. Department of Housing and Urban Development subsidy programs. These seven investments will continue to be accounted for under the equity method. For those seven investments, the Company will continue to record 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. The Company will absorb such losses to the extent the Company has outstanding loans or advances and the limited partner has no remaining capital account.

Reclassifications

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

3. Adoption of New Accounting Policies

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. 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, 2004, the Company recognized $549 and $1,550, respectively, in stock compensation costs related to its stock compensation plans, and $424 and $1,076, respectively, for the three and nine-months ended September 30, 2003. Of these totals, $245 and $684, for the three and nine-month periods ended September 30, 2004, respectively, related to the expensing of stock compensation costs associated with stock options granted by the Company. The remaining $304 and $866, for the three and nine-month periods ended September 30, 2004, 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, 2003, $266 and $675, 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-months ended September 30, 2003, respectively, pertains to the stock compensation costs recognized by the Company relative to its restricted stock grants.

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 2004 and 2003: dividend yields ranging from 6.74% to 8.07%; expected volatility ranging from 19.00% to 19.79%; 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 3.22% to 4.11%.

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

In May 2003, FASB issued SFAS No. 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 No. 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. The Company's investments in the limited partnerships are consolidated under FIN 46R and have a mandatory redeemable feature upon termination of the partnership. However, due to the tax credit restrictions on the consolidated partnership, if the partnership were terminated prior to the end of the tax credit compliance period, the partnership would be liable to fund the tax credits payable to the limited partners.

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

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.

The reconciliation of the basic and diluted earnings per share for the nine and three-months ended September 30, 2004 and 2003 is as follows:

	Nine Months		Three Months	
	2004	2003	2004	2003
Income from continuing operations	$30,416	$29,755	$12,029	$10,851
Less: Gain (loss) on disposal of property	(67)	(2)	-	8
Less: Preferred dividends	(5,695)	(9,356)	(1,898)	(2,646)
Basic and Diluted – Income from continuing operations applicable to common shareholders	24,654	20,397	10,131	8,213
Less: Cumulative effect of change in accounting principle	(321)	-	-	-
Discontinued operations	(7,984)	1,375	(7,104)	745
Net income available to common shareholders	$16,349	$21,772	$ 3,027	$ 8,958
Basic weighted average number of shares outstanding	32,840,672	28,485,398	33,293,905	29,522,274
Effect of dilutive stock options	360,045	322,176	371,308	451,260
Effect of phantom and restricted shares	79,963	66,586	72,761	64,137
Diluted weighted average number of shares outstanding	33,280,680	28,874,160	33,737,974	30,037,671
Basic earnings per share				
Income from continuing operations	$.75	$.71	$.30	$.28
Discontinued operations	(.24)	.05	(.21)	.02
Cumulative effect of change in accounting principle	(.01)	-	-	-
Net Income available to common shareholders	$.50	$.76	$.09	$.30
Basic earnings per share				
Income from continuing operations	$.74	$.71	$.30	$.27
Discontinued operations	(.24)	.04	(.21)	.03
Cumulative effect of change in accounting principle	(.01)	-	-	-
Net Income available to common shareholders	$.49	$.75	$.09	$.30

Unexercised stock options and warrants to purchase 733,970 shares the Company's common stock for the nine-month period ended September 30, 2003 were not included in the computations of diluted EPS because the options' exercise prices were greater than the average market price of the Company's stock during this period. For the nine and three-month periods ended September 30, 2004 the 833,333 common stock equivalents on an as-converted basis of the Series D Convertible Cumulative Preferred Stock have an antidilutive effect and are not included in the computation of diluted EPS. In addition, for the nine- and three-month periods ended September 30, 2003, the 2,657,914 and 1,951,605, respectively, common stock equivalents on an as-converted basis, of the Series C, D and E Convertible Cumulative Preferred Stock have an antidilutive effect and are not included in the computation of diluted EPS.

5. Other income

Other income for the nine- and three-month periods ended September 30, 2004 and 2003 represents management fee income.

6. Variable interest entities

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

The Company determined that it is not the primary beneficiary in seven partnerships syndicated under U.S. Department of Housing and Urban Development subsidy programs. The seven partnerships are all either under contract to be sold or included in a letter of intent to sell as of September 30, 2004. These seven investments will continue to be accounted for under the equity method and included in equity in earnings of unconsolidated affiliates until final sale closing. Included in equity in earnings of unconsolidated affiliates is the Company's share of income totaling $25 for the three months ended September 30, 2004. The Company purchased the general partnership interests in these seven partnerships in January, 1996. These partnerships were set up to provide low income housing to residents through subsidized rents and below market debt governed by HUD. The Company as general partner and managing agent manages the day-to-day operations of the partnership for a fee (5% of rents collected). The Company's economic benefit from these partnerships is the management fee. There is no exposure to the Company of loss as a result of its involvement with these partnerships. The management fees earned on these partnerships was $45 and $118 for the three- and nine-month periods ended September 30, 2004. The assets and liabilities of the seven partnerships total $8.3 million and $14.1 million at September 30, 2004, respectively. Unconsolidated non-recourse debt associated with the seven partnerships continuing to be accounted for under the equity method amounted to $13.5 million, of which the Company's proportionate share, based on its legal ownership, was $785.

The Company has further determined that it is the primary beneficiary in 34 of the VIEs and therefore consolidated these entities effective March 31, 2004. Beginning with the second quarter of 2004, the Company consolidated the results of operations of the VIEs. The results of operations of the 34 VIEs for both the three- and six-month periods ending September 30, 2004 are included in discontinued operations as all of the VIE's are held for sale as described below.

The Company is the general partner in these 34 VIEs syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company manages the day-to-day operations of these partnerships for a management fee. In addition, the Company has certain operating deficit guarantees and tax credit guarantees to its limited partners. The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards when cash flow reaches certain levels. The effect on the consolidated balance sheet as of September 30, 2004 is an increase in Total assets of $88.4 million, an increase in Total liabilities of $81.8 million, an increase in Minority interest of $7 million, and a decrease in Stockholders' equity of $321. In connection with the adoption of FIN 46R, the Company recorded a $321 charge of a cumulative effect of a change in accounting principle during the first quarter of 2004. This charge was a result of the negative capital accounts of minority interest partners that were absorbed by the Company. Of the $81.8 million increase in total liabilities, $77.8 million represented non-recourse mortgage debt.

6. Variable interest entities (continued)

Effective September 30, 2004, the Company has closed on the sale of 22 of the 41 VIE's and is under contract with the same buyer for the sale of an additional eight VIEs pending lender approval. Based upon the final contract price established during final negotiations with the buyer for these 30 partnerships, an additional $3.6 million loss was recorded during the third quarter of 2004. The Company has received an offer to sell eight of its remaining 11 limited partnerships and is working towards a closing on these properties by the end of the fourth quarter of 2004. Based on the offer received on these eight VIE's, the Company has recorded an impairment charge of $500 for the three month period ended September 30, 2004. Additionally, the Company is marketing for sale one partnership as to which, based upon the Company's estimate of fair market value, an $800 impairment charge was recorded in the three month period ended September 30, 2004. During the third quarter of 2004, the Company began an exit strategy with one additional property (two partnerships) with 1,058 units. The property is currently experiencing high vacancy. The regulatory agreement between the entity which owns the property and the State Housing Authority requires a percentage of residents to meet certain income qualifications. The Company has had difficulty renting the units subject to those requirements to persons it believes are economically qualified to rent the units. Although the Company does not anticipate that occupancy levels or other aspects of the operational outlook will improve in the foreseeable future, it does not anticipate future cash shortfalls since the debt service is not being paid. The Company has met with the federal agency that insured repayment of the loan. That agency has agreed the Company may continue to manage the property until the agency can sell the mortgage note. The note sale is expected to occur in March, 2005, but it may occur later. In addition, the Company has agreed to repurchase the limited partner's interests in satisfaction of any tax credit guarantees or other obligations to that partner in January, 2005 for $5.7 million. The Company has therefore recorded a $5.7 million liability to the limited partner resulting in a loss on disposition of property of $5.0 million as of and for the three month period ended September 30, 2004.

In addition, during the first quarter of 2004, the Company recorded an impairment charge of $1.6 million to reduce the value of the assets associated with the VIEs to management's estimate of fair market value. The impairment charge is classified in the financial statements as "Impairment of assets held as general partner" of $1,116 and "Equity in earnings (losses) of unconsolidated affiliates" of $484. A portion of the total $1,116 charge, or $171, represents monies loaned to certain affordable properties during the first quarter of 2004 to fund operating shortfalls, which are not anticipated to be recovered from projected sale proceeds. The remaining balance of $945 pertains to an additional net impairment charge taken to reduce the assets to estimated fair market value. Of the total impairment charge recorded of $1.6 million for the three-month period ended March 31, 2004, $655 relates to cash advances to fund operating shortfalls.

7. Segment Reporting

The Company is engaged in the ownership and management of primarily 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, 2003. Non-core properties consist of apartment communities acquired during 2003 and 2004, such that full year comparable operating results are not available.

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 defined as net income (computed in accordance with GAAP) excluding gains or losses from the sales of property and business, minority interest in the Operating Partnership, extraordinary items, plus real estate depreciation, less dividends from non-convertible preferred shares. 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.

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

7. Segment Reporting (continued)

The revenues, profit (loss), and assets for each of the reportable segments are summarized as of and for the nine- and three-month periods ended September 30, 2004, and 2003 as follows.

	Nine Months		Three Months	
	2004	2003	2004	2003
Revenues				
Apartments owned				
Core properties	$325,699	$312,840	$109,297	$106,277
Non-core properties	19,170	2,896	8,690	1,370
Reconciling items	2,416	3,700	955	1,123
Total Revenue	$347,285	$319,436	$118,942	$108,770
Profit (loss)				
Funds from operations:				
Apartments owned				
Core properties	$179,530	$175,609	$62,274	$61,115
Non-core properties	11,901	2,028	5,341	1,020
Reconciling items	2,416	3,700	955	1,123
Segment contribution to FFO	193,847	181,337	68,570	63,258
General & administrative expenses	(14,496)	(14,371)	(4,879)	(4,670)
Interest expense	(68,060)	(64,693)	(23,496)	(21,430)
Prepayment penalty on sale included in interest	-	1,610	-	261
Depreciation of unconsolidated affiliates	556	1,837	-	725
Non-real estate depreciation/amortization	(2,606)	(1,687)	(928)	(540)
FAS 141 acquisition rent / intangibles	835	-	325	-
Equity in earnings (losses) of unconsolidated affiliates	(538)	(1,497)	25	(313)
Impairment of assets held as General Partner	(1,116)	(2,408)	-	(1,888)
Impairment of affordable assets not in FFO	945	1,862	-	1,862
Loss on disposition of discontinued operations, before minority interest	(9,917)	-	(9,917)	-
Income from discontinued operations before minority interest and depreciation	(541)	3,446	(40)	1,527
Redeemable preferred dividend (Series F)	(4,050)	(4,050)	(1,350)	(1,350)
Funds from Operations	94,859	101,386	28,310	37,442
Depreciation – apartments owned	(65,289)	(56,889)	(22,517)	(19,512)
Depreciation of unconsolidated affiliates	(1,998)	(1,837)	(383)	(725)
FAS 141 acquisition rent/intangibles	(835)	-	(325)	-
Redeemable preferred dividend	4,050	4,050	1,350	1,350
Loss from early extinguishment of debt in connection with sale of real estate	-	(1,610)	-	(261)
Impairment of real property	-	(423)	-	-
Impairment of affordable assets not in FFO	(945)	(1,862)	-	(1,862)
(Income) loss from discontinued operations before minority interest	2,501	(1,587)	423	(1,099)
Loss on disposition of discontinued operations, before minority interest	9,917	-	9,917	-
Minority interest – in operating partnership	(11,844)	(11,473)	(4,746)	(4,482)
Income from continuing operations	$30,416	$29,755	$12,029	$10,851

Assets – As of September 30, 2004 and December 31, 2003		
Apartments owned:		
- Core	$2,369,058	$1,924,763
- Non-core	352,956	543,698
Reconciling items	126,126	44,856
Total Assets	$2,848,140	$2,513,317

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

8. Pro Forma Condensed Financial Information

The Company acquired ten apartment communities ("2004 Acquired Communities") with a combined 2,486 units in six unrelated transactions during the nine-month period ended September 30, 2004. The total combined purchase price (including closing costs) of $257.4 million equates to approximately $104 per unit. Consideration for the communities was funded through the assumption or placement of new debt of $146.6 million of debt, $98.7 million from the Company's line of credit and $12.1 million of UPREIT Units.

In addition, the Company disposed of two apartment communities ("2004 Disposed Properties") with 620 units during the nine-month period ended September 30, 2004. The total combined selling price (including closing costs) of $26.8 million resulted in a $477 gain on sale of real estate, net of minority interest.

The following proforma information was prepared as if (i) the 2004 transactions related to the acquisition of the 2004 Acquired Communities had occurred on January 1, 2003, (ii) the 2003 transactions related to the acquisition of two apartment communities in two separate transactions had occurred on January 1, 2003, (iii) the disposition of the 2004 Disposed Properties had occurred on January 1, 2003, (iv) the 2003 transactions related to the disposition of seven apartment communities in seven separate transactions had occurred on January 1, 2003. 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 2003, 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-month periods ended September 30, 2004 and 2003, consist principally of providing net operating activity and recording interest, depreciation and amortization from January 1, 2003 to the earlier of September 30, 2004 or 2003, as applicable, or the acquisition date.

	For the Nine-months Ended September 30		For the Three-months Ended September 30	
	2004	2003	2004	2003
Total revenues	$356,693	$343,925	$119,976	$117,273
Net income available to common shareholders before cumulative effect of change in accounting principle	24,904	21,191	10,079	8,651
Net income available to common shareholders	24,583	21,191	10,079	8,651
Per common share data:				
Net income available to common shareholders before cumulative effect of change in accounting principle				
Basic	$0.76	$0.74	$0.30	$0.29
Diluted	$0.75	$0.73	$0.30	$0.29
Net income available to common shareholders				
Basic	$0.75	$0.74	$0.30	$0.29
Diluted	$0.74	$0.73	$0.30	$0.29
Weighted average numbers of shares outstanding:				
Basic	32,840,672	28,495,398	33,293,905	29,522,274
Diluted	33,280,680	28,874,160	33,737,974	30,037,671

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

9. Derivative Financial Instruments

The Company has four interest rate swaps that effectively convert variable rate debt to fixed rate debt. As of September 30, 2004, the aggregate fair value of the Company's interest rate swaps was $1,012 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, 2004, 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.

10. Disposition of Property and Discontinued Operation

Included in discontinued operations are the operating results, net of minority interest, of nine apartment community dispositions (two sold in 2004 and seven sold in 2003), for the three and nine months ended September 30, 2003. Included in discontinued operations for the three- and nine-month periods ended September 30, 2004 are two properties sold in 2004. In addition, discontinued operations includes the operating results, net of minority interest, of the VIEs sold or held for sale for the three and six months ended September 30, 2004. 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.

During 2004, the Company sold two properties referred to above with a total of 620 units for total consideration of $26.8 million, or an average of $43 per unit. During 2003, the Company sold seven properties referred to above with a total of 1,568 units for total consideration of $59.3 million, or an average of $38 per unit.

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.

The operating results of the components of discontinued operations are summarized for the nine- and three-month periods ended September 30, 2004 and 2003 as follows:

	Nine months		Three months	
	2004	2003	2004	2003
Revenues				
Rental Income	$ 14,572	$8,784	$6,257	$2,938
Property other income	1,044	451	484	148
Interest and dividend income	(162)	50	(78)	7
Other income	(457)	-	(181)	-
Total Revenues	14,997	9,285	6,482	3,093
Expenses				
Operating and Maintenance	10,357	4,383	4,519	1,163
Interest expense	3,601	1,456	1,604	403
Depreciation and amortization	3,847	1,436	391	428
Impairment of real property	1,100	423	-	-
Total Expenses	18,905	7,698	6,514	1,994
Income (loss) from discontinued operations before minority interest and gain (loss) on disposition of property	(3,908)	1,587	(32)	1,099
Minority interest	(2,229)	(567)	(256)	(389)

Income (loss) from discontinued operations	($1,679)	$ 1,020	($ 288)	$ 710

HOME PROPERTIES, INC.

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

10. Disposition of Property and Discontinued Operations (continued)

The table below provides a more detailed presentation of the components of discontinued operations for the nine- and three-month periods ended September 30, 2004.

	Nine Months 2004			Three Months 2004		
	Owned Communities	VIEs	Total	Owned Communities	VIEs	Total
Revenues						
Rental Income	$2,342	$12,230	$ 14,572	$ 212	$6,045	$6,257
Property other income	173	871	1,044	29	455	484
Interest and dividend income	1	(163)	(162)	-	(78)	(78)
Other income	-	(457)	(457)	-	(181)	(181)
Total Revenues	2,516	12,481	14,997	241	6,241	6,482
Expenses						
Operating and Maintenance	1,399	8,958	10,357	275	4,244	4,519
Interest expense	281	3,320	3,601	40	1,564	1,604
Depreciation and amortization	518	3,329	3,847	-	391	391
Impairment of real property	1,100	-	1,100	-	-	-
Total Expenses	3,298	15,607	18,905	315	6,199	6,514
Income (loss) from discontinued operations before minority interest and gain (loss) on disposition of property	(782)	(3,126)	(3,908)	(74)	42	(32)
Minority interest	254	1,975	2,229	24	(280)	(256)
Income (loss) from discontinued operations	($ 528)	($1,151)	($1,679)	($ 50)	($ 238)	($ 288)

The results of discontinued operations in the table above have been presented for the nine- and three-month periods ended September 30, 2004 only, as the discontinued operations for 2003 solely represents the results from owned communities.

11. Commitments and Contingencies

Contingencies

In 2001, the Company underwent a state capital stock 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 were not supportable by the law nor consistent with previously provided interpretative guidance from the office of the State Secretary of Revenue. After two subsequent enactments by the state legislation during 2002 affecting the pertinent tax statute, the Company was advised by outside tax counsel that its filing position for 1998-2001 should prevail. During December 2003, the state’s governor signed legislation which included the REIT tax provisions. Based upon this, Company’s tax counsel expects that the outstanding litigation should now be able to be resolved. Effective January 1, 2003, the Company reorganized the ownership of Home Properties Trust, which should subject the Company to a much lower level of tax going forward. In September 2004, the Company settled the 1998 year under audit for a total of $39,000, including interest. The 1999-2001 tax years will take time to resolve, however, the Company’s outside counsel still maintains that the Company should not have any additional liability.

11. Commitments and Contingencies (continued)

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

As a result of this audit, during the second quarter the Company examined its sales and use tax compliance in the other states in which the Company operates. Based upon its internal analysis, the Company estimated its liability as of June 30, 2004 in those states where it found non-compliance and recorded at June 30, 2004 a liability of $1,712. This was included in the second quarter results and allocated $761 to expense and $951 capitalized to real estate assets for improvements. The liability recorded relates to the period beginning on the later of: (i) the date the Company first purchased property in the applicable state; or (ii) January 1, 1997 and ending on June 30, 2004. In addition, the Company increased the liability for sales tax exposure by $30K for the three-month period ended September 30, 2004. The Company recognizes that the liability recorded is an estimate and that the actual tax liability that will be paid in the future may be less than or greater than this estimate. The Company has determined that the likely range is between $1,325 and $2,300.

The Company and the Operating Partnership, along with Home Leasing Corporation, the predecessor of the Company that is owned by Nelson and Norman Leenhouts, are defendants in a lawsuit. The essence of the complaint is that the entity in which plaintiffs were investors was wrongfully excluded from the Company's initial organization as a real estate investment trust and the investors therefore did not obtain the benefits from exchanging their equity interests in that entity for equity in the Operating Partnership. In their original complaint, plaintiffs sought damages in the amount of $3 million. In the subsequent discovery process, plaintiffs increased the damages sought to $11 million. The Company and the Operating Partnership have responded to the lawsuit by denying all material allegations and asserting various defenses. The only remaining cause of action against the Company and the Operating Partnership is a claim of breach of fiduciary duty. It is not possible to estimate the possible loss or range of loss at this time and the Company has therefore not accrued any liability to date. Management and its counsel believe that applicable legal precedents support a conclusion that neither the Company nor the Operating Partnership should be found to have any liability to the plaintiffs and that, in the event any liability is found, recoverable damages should be limited to an immaterial amount.

Guarantees

As of September 30, 2004, the Company, through its general partnership interests in certain affordable property limited partnerships, had guaranteed the Low Income Housing Tax Credits to limited partners in 14 partnerships totaling approximately $31 million. As of September 30, 2004, there were no known conditions that would make such payments necessary relating to these guarantees. In addition, the Company, acting as general partner in certain partnerships, is obligated to advance funds to meet partnership operating deficits.

12. Related Party Transactions

On January 1, 2004, the Company sold certain assets of its commercial property management division to Home Leasing LLC, which is owned by Nelson and Norman Leenhouts. This division managed approximately 2.2 million square feet of gross leasable area, as well as certain planned communities. The initial amount paid was $82. In addition, the Company is entitled to receive a percentage of the management fee received by Home Leasing in connection with the management of one of the commercial properties for a period not to exceed 36 months. The expected monthly fee as outlined in the contract is approximately $4.6 or $55.2 per year. If Home Leasing continues to manage the property for three years, the Company is expected to receive total additional deferred purchase price of $165.6 of which $41.4 has been received during the nine months ended September 30, 2004. The current gain recorded on the sale of these assets as of September 30, 2004 amounts to $10.6. If the management of this property is retained for the entire three years the Company expects to receive an additional $124.2 for the period October 1, 2004 through January 1, 2007. The gain on sale would then be approximately $134.8.

13. Subsequent Events

On November 2, 2004 the Board of Directors approved a dividend of $.63 per share for the quarter ended September 30, 2004. This is the equivalent of an annual distribution of $2.52 per share. The dividend is payable November 26, 2004 to shareholders of record on November 16, 2004.

On November 2, 2004 the Company also declared a regular dividend of $.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending November 30, 2004. The dividend on the preferred shares is payable on November 30, 2004 to shareholders of record on November 16, 2004. This dividend is equivalent to an annualized rate of $2.25 per share.

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 sales, including the sale of the general partner interests in affordable properties, 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, 2004, the Company had an unsecured line of credit from M & T Bank of $115 million. The Company's outstanding balance as of September 30, 2004, was $70.5 million. Borrowings under the line of credit bear interest at 1.05% 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 additional long term secured or unsecured indebtedness, proceeds from the sale of properties, the issuance of UPREIT Units, proceeds from the Dividend Reinvestment Plan ("DRIP"), or the issuance of additional equity securities. As of September 30, 2004, the Company owned 24 properties with 3,477 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, 2004 was $144.4 million.

In May and June 2000, the Company completed the sale of $60 million of Series C Preferred Stock in a private transaction with affiliates of Prudential Real Estate Investors ("Prudential"), Teachers Insurance and Annuity Association of America ("Teachers"), affiliates of AEW Capital Management and Pacific Life Insurance Company. The Series C Preferred Stock carried an annual dividend rate equal to the greater of 8.75% or the actual dividend paid on the Company's common shares into which the preferred shares could be converted. The stock had a conversion price of $30.25 per share and a five-year, non-call provision. As part of the Series C Preferred Stock transaction, the Company also issued 240,000 warrants to purchase common shares at a price of $30.25 per share, expiring in five years. On January 9, 2003, holders of 100,000 shares of Series C Preferred Shares elected to convert those shares for 330,579 shares of common stock. On May 8, 2003, 200,000 shares of Series C Preferred Shares were converted into 661,157 shares of common stock. On August 26, 2003, 200,000 shares of Series C Preferred Shares were converted into 661,157 of common stock. On November 5, 2003, holders of the remaining 100,000 shares of Series C Preferred Shares elected to convert those shares for 330,579 shares of common stock. On September 9, 2003, 17,780 warrants were exercised, resulting in the issuance of 17,780 shares of common stock. During the fourth quarter of 2003, the remaining 222,220 common stock warrants were exercised, resulting in the issuance of 222,220 shares of common stock. Neither the conversions nor the warrant exercise had an effect on the reported results of operations.

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

In March 2002, the Company issued 2,400,000 shares of its 9.00% Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Shares"), with a $25.00 liquidation preference per share. This offering generated net proceeds of approximately $58 million. The net proceeds were used to fund the 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 the first quarter of 2004, the Company acquired four communities with 534 units for a total purchase price of $64.2 million. The Company issued UPREIT Units valued at approximately $12.1 million as part of the consideration for two of the properties, with the balance funded by the assumption of debt and cash. 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 2003, $30.3 million of common stock was issued under the Company's DRIP. An additional $17.5 million has been raised through the DRIP program during the first nine months of 2004.

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. No such waivers were granted during the 2003 or the first nine months of 2004. Effective December 10, 2004, the discount on reinvested dividends and optional cash purchases will be reduced from 2% to 0%.

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 three months ended September 30, 2004, 57,500 shares were repurchased by the Company. At September 30, 2004 the Company had authorization to repurchase 3,078,300 shares of common stock and UPREIT Units under the stock repurchase program. Historically, the Company repurchased shares when their price was more than 10% below the midpoint of Company published NAVs. Effective November 2, 2004, the Board modified certain price restrictions which substantially enhances the Company's ability to repurchase shares.

As of September 30, 2004, excluding the effect of the FIN 46R consolidations, the weighted average rate of interest on mortgage debt is 6.0% and the weighted average maturity is approximately eight years. Approximately 88% 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

Effective March 31, 2004, the Company adopted FASB Interpretation No. 46R – Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 – Consolidated Financial Statements. The interpretation addresses consolidation by businesses of special purpose entities (variable interest entities, "VIE"). The Company has made a determination that all 41 of the remaining limited partnerships are Variable Interest Entities. The Company has further determined that it is the primary beneficiary in 34 of the limited partnerships and therefore consolidated these entities effective March 31, 2004.

Effective September 30, 2004, the Company closed on the sale of its general partner interests in 22 of its 41 Upstate New York, Ohio, and Maryland properties with a total of 1,718 units. The Company has under contract with the same buyer of these 22 partnerships an additional eight partnerships, pending lender approval, with a total of 490 units. In addition to this sale, the company has received a letter of intent to sell general partnership interests in eight other properties with a total of 612 units.

Of the remaining two properties (three partnerships), with a total of 1,940 units, the Company will retain its ownership interest and will continue to manage one of them while it pursues various disposition options. The other property (two partnerships) is being disposed of through a default on the non-recourse financing. The Company has met with the federal agency which insured the repayment of that financing. That agency has agreed that the Company may continue to manage the property until the agency can auction or sell the loan in a note sale. The note sale is expected to occur in March, 2005, but it may occur later. The Company has agreed to repurchase in January 2005 the limited partner's 99.99% interests in accordance with the partnership agreements. The Company has recorded the liability to repurchase these limited partnership interests and the resulting loss on disposition of property of $5.0 million. The Company has no further obligation to fund operating deficits and will only participate in the cash flow of the property by receiving a fee for managing the property until the note sale.

Due to the sale, contract, and letter of intent referenced above, the results of operations of the 34 limited partnerships for the three and nine-month periods ended September 30, 2004 have been consolidated herein and reported as discontinued operations. The balance sheet consolidates the accounts of the remaining twelve of the original 34 properties classified as held for sale as of September 30, 2004. The tables on the following pages show the effects of the VIEs being consolidated.

Home Properties determined that it is not the primary beneficiary in seven partnerships syndicated under U.S. Department of Housing and Urban Development subsidy programs. These seven investments will continue to be accounted for under the equity method. For those seven investments, the Company will continue to record 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. The Company will absorb such losses to the extent the Company has outstanding loans or advances and the limited partner has no remaining capital account.

The Company, through its general partnership interest in certain affordable property limited partnerships, has guaranteed the low income housing tax credits to the limited partners for a period of either five or ten years in 14 partnerships totaling approximately $31 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. If operating deficits continue to occur, 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. In addition, the Company has required the buyer of its general partner interests in the limited partnerships to secure releases of the Company's guarantees from the limited partners.

As indicated above, the Company is working towards a complete disposition of its general partner interests in affordable properties. The following table below summarizes the effect of the consolidation requirements of FIN 46R on the balance sheet as of September 30, 2004.

Consolidation Summary of the Balance Sheet as of September, 2004
(in thousands)

	September 30, 2004 (before FIN 46R)	Effect of FIN 46R Consolidation	September 30, 2004 (as reported)
ASSETS			
Real estate:			
Land	$ 407,357	$ -	$ 407,357
Buildings, improvements and equipment	2,656,669	-	2,656,669
Real estate held for sale or disposal, net	-	79,607	79,607
	3,064,026	79,607	3,143,633
Less: accumulated depreciation	(390,757)	-	(390,757)
Real estate, net	2,673,269	79,607	2,752,876
Cash and cash equivalents	7,823	444	8,267
Cash in escrows	39,917	4,548	44,465
Accounts receivable	5,125	775	5,900
Prepaid expenses	20,322	(194)	20,128
Investment in and advances to affiliates	663	(636)	27
Deferred charges	9,647	3,886	13,533
Other assets	2,926	18	2,944
Total assets	$2,759,692	$ 88,448	$2,848,140
LIABILITIES AND STOCKHOLDERS' EQUITY			
Mortgage notes payable	$1,554,452	$ 77,778	$1,632,230
Line of credit	70,500	-	70,500
Accounts payable	22,638	1,480	24,118
Accrued interest payable	7,532	1,337	8,869
Accrued expenses and other liabilities	22,020	609	22,629
Security deposits	23,121	562	23,683
Total liabilities	1,700,263	81,766	1,782,029
Minority interest	309,291	7,003	316,294
Stockholders' equity	750,138	(321)	749,817
Total liabilities and stockholders' equity	$2,759,692	$ 88,448	$2,848,140

Acquisitions and Dispositions

During the first nine months of 2004, the Company acquired ten apartment communities in six unrelated transactions. The acquisitions consisted of a portfolio of four apartment communities with a total of 534 units in New Jersey, two apartment communities in Maryland with a total of 468 units, one apartment community in Massachusetts with a total of 276 units, two apartment communities in Florida with a total of 836 units and one additional apartment community in New Jersey with a total of 372 units. The total purchase price of $247.5 million, including closing costs, equated to an average of $99.6 per apartment. Consideration included $136.9 million of assumed or new debt (fair market value of $146.6 million), $98.7 million in cash or line of credit, and $11.9 million of UPREIT Units (fair market value of $12.1 million). The UPREIT Units are exchangeable for shares of the Company's common stock on a one-for-one basis. For purposes of determining the number of UPREIT Units issued, a value of $39.00 per unit was set when the transaction was negotiated. The combined weighted average expected first year capitalization rate on these acquisitions is 6.7%. 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 first nine months of 2004, the Company disposed of two wholly owned communities with a total of 620 units located in upstate New York and Indiana. The total sales price of $26.8 million equated to approximately $43.3 per unit. The Company recorded a net gain on sale, before allocation of minority interest, of approximately $707 related to these sales. The weighted average expected first year cap rate for these communities is 8.0%.

Contractual Obligations and Other Commitments

The primary obligations of the Company relate to its borrowings under the line of credit and mortgage notes payable. The Company's line of credit matures in September 2005, and had $70.5 million outstanding at September 30, 2004. The $1.6 billion in mortgage notes payable from the Company's wholly owned properties, before the effect of FIN 46R, have varying maturities ranging from 1 to 37 years. The weighted average interest rate of the Company's fixed rate notes was 6.36% and 6.47% at September 30, 2004 and December 31, 2003, respectively. The weighted average interest rate of the Company's variable rate notes and credit facility was 2.65% and 2.32% at September 30, 2004 and December 31, 2003, 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. The lease provides for contingent rental payments based on certain variable factors. At September 30, 2004, future minimum rental payments required under the lease are $70 per year until the lease expires.

The Company leases its corporate office space from an entity affiliated with Nelson and Norman Leenhouts, and the office space for its regional offices from third parties. The corporate office space requires an annual base rent plus a pro-rata portion of property improvements, real estate taxes, and common area maintenance. The regional office leases require an annual base rent plus a pro-rata portion of real estate taxes.

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, 2004 approximately $131 and $393 per unit was estimated to be spent on recurring capital expenditures. The table below summarizes the actual total capital improvements, (before the effects of FIN 46R) incurred by major categories for the three- and nine-month periods ended September 30, 2004 and 2003 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, 2004 as follows:

For the three-month period ended September 30,
(in thousands, except per unit data)

	2004						2003	
	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	$ -	$ -	$ 951	$ 22	$ 951	$ 22	$ 530	$ 13
Major building improvements	965	23	4,549	107	5,514	130	5,806	145
Roof replacements	369	9	716	17	1,085	26	1,920	48
Site improvements	353	8	2,621	62	2,974	70	3,017	75
Apartment upgrades	696	16	7,327	173	8,023	189	9,762	244
Appliances	578	14	648	15	1,226	29	1,341	34
Carpeting/Flooring	1,815	43	1,533	36	3,348	79	3,711	93
HVAC/Mechanicals	535	12	3,767	89	4,302	101	4,468	112
Miscellaneous	238	6	450	11	688	17	764	20
Totals	$5,549	$131	$22,562	$532	$28,111	$663	$31,319	$784

[(a)] Calculated using the weighted average number of units outstanding, including 39,586 core units, 2003 acquisition units of 730 and 2004 weighted average acquisition units of 2,089 for the three-month period ended September 30, 2004 and 39,586 core units and 2003 weighted average acquisition units of 385 for the three-month period ended September 30, 2003.

For the nine-month period ended September 30,
(in thousands, except per unit data)

	2004						2003	
	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	$ -	$ -	$ 2,169	$ 52	$ 2,169	$ 52	$ 1,413	$ 35
Major building improvements	2,841	68	11,470	276	14,311	344	15,609	392
Roof replacements	1,086	26	1,516	36	2,602	62	3,171	80
Site improvements	1,040	25	5,954	143	6,994	168	5,777	145
Apartment upgrades	2,049	49	19,048	458	21,097	507	25,712	645
Appliances	1,703	41	1,474	35	3,177	76	3,579	90
Carpeting/Flooring	5,344	128	2,641	63	7,985	191	8,905	223
HVAC/Mechanicals	1,574	38	8,927	215	10,501	253	9,965	250
Miscellaneous	698	18	1,871	45	2,569	63	2,726	68
Totals	$16,335	$393	$55,070	$1,323	$71,405	$1,716	$76,857	$1,928

[(a)] Calculated using the weighted average number of units outstanding, including 39,586 core units, 2003 acquisition units of 730 and 2004 weighted average acquisition units of 1,295 for the nine-month period ended September 30, 2004 and 39,586 core units and 2003 weighted average acquisition units of 272 for the nine-month period ended September 30, 2003.

The schedule below summarizes the breakdown of total capital improvements (before the effects of FIN 46R) between core and non-core as follows:

For the three-month period ended September 30,
(in thousands, except per unit data)

	2004						2003	
	Recurring Cap Ex	Per Unit	Non-Recurring Cap Ex	Per Unit	Total Capital Improvements	Per Unit	Total Capital Improvements	Per Unit
Core Communities	$5,180	$131	$21,702	$ 548	$26,882	$ 679	$31,187	$788
2004 Acquisition Communities	273	131	718	344	991	475	-	-
2003 Acquisition Communities	96	131	142	194	238	325	133	344
Sub-total	5,549	131	22,562	532	28,111	663	31,319	784
2004 Disposed Communities	8	131	-	-	8	131	203	327
2003 Disposed Communities	-	-	-	-	-	-	274	326
Corporate office expenditures [1]	-	-	-	-	1,091	-	869	-
	$5,557	$131	$22,562	$ 532	$29,210	$ 661	$32,665	$767

For the six--month period ended September 30,
(in thousands, except per unit data)

	2004						2003	
	Recurring Cap Ex	Per Unit	Non-Recurring Cap Ex	Per Unit	Total Capital Improvements	Per Unit	Total Capital Improvements	Per Unit
Core Communities	$15,540	$393	$53,425	$ 1,350	$68,965	$1,743	$76,672	$1,937
2004 Acquisition Communities	508	393	1,351	1,044	1,859	1,437	-	-
2003 Acquisition Communities	287	393	294	401	581	794	185	680
Sub-total	16,335	393	55,070	1,323	71,405	1,716	76,857	1,928
2004 Disposed Communities	171	393	404	925	576	1,317	640	1,031
2003 Disposed Communities	-	-	-	-	-	-	719	736
Corporate office expenditures [1]	-	-	-	-	2,157	-	1,808	-
	$16,506	$393	$55,474	$ 1,319	$74,138	$1,712	$80,024	$1,887

[1] No distinction is made between recurring and non-recurring expenditures for corporate office.

Results of Operations

Summary of Core Properties

The Company had 141 apartment communities with 39,586 units which were owned throughout the nine-month period being presented (the "Core Properties"). The Company has acquired an additional twelve apartment communities with 3,216 units during 2004 and 2003 (the "Acquired Communities"). The Company also disposed of nine properties with a total of 2,188 units during 2004 and 2003 (the "Disposition Communities"). The Disposition Communities have been classified as discontinued operations. The inclusion of the Acquired Communities generally accounted for the significant changes in operating results for the three and nine months ended September 30, 2004.

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

	Nine Months				Three Months			
	2004	2003	$ Change	% Change	2004	2003	$ Change	% Chg
Rental income	$312,836	$301,640	$ 11,196	3.7%	$104,763	$102,487	$ 2,276	2.2%
Property other income	12,863	11,200	1,663	14.8%	4,534	3,790	744	19.6%
Total income	325,699	312,840	12,859	4.1%	109,297	106,277	3,020	2.8%
Operating and Maintenance	(146,169)	(137,231)	(8,938)	(6.5%)	(47,023)	(45,162)	(1,861)	(4.1%)
Net operating income	$179,530	$175,609	$ 3,921	2.2%	$ 62,274	$ 61,115	$ 1,159	1.9%

A summary of the net operating income from continuing operations is as follows (in thousands):

	Nine Months				Three Months			
	2004	2003	$ Change	% Change	2004	2003	$ Change	% Chg
Rental income	$ 331,496	$ 304,370	$27,126	8.9%	$113,237	$ 103,792	$9,445	9.1%
Property other income	13,373	11,366	2,007	17.7%	4,750	3,855	895	23.2%
Total income	344,869	315,736	29,133	9.2%	117,987	107,647	10,340	9.6%
Operating and Maintenance	(153,438)	(138,099)	(15,339)	(11.1%)	(50,372)	(45,512)	(4,860)	(10.7%)
Net operating income	$ 191,431	$ 177,637	$13,794	7.8%	$ 67,615	$ 62,135	$ 5,480	8.8%

Comparison of nine-months ended September 30, 2004 to the same period in 2003

Of the $27,126 increase in rental income, $15,930 is attributable to the Acquired Communities The balance of this increase, or $11,196 which is from the Core Properties, was the result of an increase of 2.6% in weighted average rental rates, along with an increase in occupancy from 92.4% to 93.4%. 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 $2,007. Of this increase, $344 is attributable to the Acquired Communities, with $1,663 representing a 14.8% increase from the Core Properties.

Other income, which reflects management fee income, decreased $1,381 due primarily to a decrease in the level of management activity as a result of the sale of the three Phases of the affordable limited partnerships.

During April, 2004, the Company finalized negotiations with New York State settling a sales and use tax audit covering the period June 1, 1999 through May 31, 2002. As described in the Company's Form 10-Q for the quarter ended March 31, 2004, the total cost to the Company as a result of the audit amounted to $861 (including $173 of interest expense) for sales tax not charged to the Company by its vendors. This was included in the first quarter results and allocated $312 to expense for property repairs, $136 (before minority interest) to loss on disposition of property, and $413 capitalized to real estate assets for improvements.

As a result of this audit, during the second quarter the Company examined its sales and use tax compliance in the other states in which the Company operates. Based upon its internal analysis, the Company estimated its liability as of June 30, 2004 in those states where it found non-compliance and has recorded at June 30, 2004 a liability of $1,712. This is allocated $493 to expense for property repairs, $233 to interest expense, $35 (before minority interest) to loss on disposition of property, and $951 capitalized to real estate assets. The liability recorded relates to the period beginning on the later of: (i) the date the Company first purchased property in the applicable state; or (ii) January 1, 1997 and ending on June 30, 2004. The Company recognizes that the liability recorded is an estimate and that the actual tax liability that will be paid in the future may be less than or greater than this estimate. The Company has determined that the likely range is between $1,325 and $2,300.

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

As a result of the sales tax audit, the Company initiated procedures during the second quarter to ensure that sales and use tax on expenditures in New York were properly collected by its vendors or accrued and paid by the Company. In addition, the Company has begun to implement procedures and controls designed to ensure that sales and use taxes are accrued and paid in the other jurisdictions in which it operates. The Company is also investigating computer software programs which may provide a technology solution for identifying and calculating the taxes.

Of the $15,339 increase in operating and maintenance expenses, $6,400 is attributable to the Acquired Communities. The balance, an $8,939 increase, is attributable to the Core Properties and is primarily due to increases in repairs and maintenance, personnel costs, property insurance, and real estate taxes. These increases were offset in part by savings in snow removal and advertising costs. The increase in repairs and maintenance was $2,741, or 13.1% compared to a year ago and is primarily in the areas of contract repair, painting, and cleaning. Sales tax, as mentioned above, accounts for $805 of this increase. Personnel expense increased $2,732, or 8.8%

compared to the same period one year ago due in part to an increase in site level incentive compensation as a result of improving rent and occupancies. In addition, increased health insurance and workers compensation costs contributed significantly to the increase. Property insurance increased $1,551 or 37.7% for the period primarily due to an increase in our general liability loss reserve based on historical losses to date which have been projected using actuarial assumptions. Real estate taxes were up $1,878 or 6.0% over the same period a year ago. Snow removal costs were down significantly due to a normal winter this year compared to unusually severe conditions a year ago. Advertising costs were higher in 2003 in response to lower than normal occupancy levels.

General and administrative expense increased in 2004 by $125, or 0.9%. General and administrative expenses as a percentage of total revenues were 4.1% for 2004 as compared to 4.4% for 2003. The results, which are basically flat, are primarily due to the reduced level of activity in the Management Companies as a result of the sale of the Commercial Property division on January 1, 2004 and the sale of Phase I and II during 2003.

Interest expense increased in 2004 by $3,367 as a result of the increased borrowings in connection with acquisition of the 2004 Acquisition Communities, a full nine months of interest expense for the 2003 Acquisition Communities and additional mortgage debt and refinanced mortgage debt incurred during 2003. Interest expense in the first quarter of 2004 was reduced by $996 when two mortgage loans were paid off early at amounts less than the amounts carried on the Company's balance sheet. During 2003, the Company closed on additional mortgage debt of $80,100 and refinanced $24,000 in existing mortgage debt resulting in new borrowings of approximately $46,000. Included in interest expense for 2003 was a $1,349 charge recorded in the first quarter of 2003 related to the prepayment of debt associated with the sale of Candlewood Apartments in Indiana which occurred during the same period. Finally, $254 in interest relative to the sales tax liability recorded and described above is included in 2004.

Depreciation and amortization expense increased $10,237 due to the depreciation on the Acquisition Communities and the capital 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 in order to focus solely on the direct ownership and management of market rate apartment communities. The assets included principally loans, advances and management contracts. During the first nine-months of 2004, the Company recorded impairment charges of $1,116 (all in the first quarter). Of this total, $171 represents advances made to certain of the affordable property limited partnerships which the Company believes will not be repaid upon the sale of the loans. The remaining $945 pertains to an additional net impairment charge taken on Phase III to reduce the assets to fair market value. In connection with FIN 46R, the Company was required to consolidate the majority of the affordable limited partnerships results of operations beginning April 1, 2004.

The equity in earnings (losses) of unconsolidated affiliates of $538 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 this account are $484 of advances made during the first nine months of 2004 (all occurred during the first quarter) which the Company believes will not be repaid upon sale. During the second quarter of 2004, the Company advanced $25 to one of the remaining unconsolidated affordable partnerships which was repaid during the third quarter. In connection with FIN 46R, the Company was required to consolidate the majority of the affordable limited partnerships results of operations beginning April 1, 2004 and is included in discontinued operations.

Included in discontinued operations for the nine-month period ended September 30, 2004, are the Disposition Communities and the results of operations of the Phase III affordable limited partnerships that in connection with FIN 46R were required to be consolidated beginning April 1, 2004. As all significant contingencies surrounding the sale of Phase III have been resolved the Company has considered these assets held for sale and have reported them in discontinued operations. (See further detail supplied under "Off-Balance Sheet Investments" section).

Included in the $6,305 net loss on disposition of property reported for the nine months of 2004 is the sale of two apartment communities where the Company has recorded a combined gain on sale, net of minority interest, of approximately $477. In addition, the Company recorded a $6,753 loss, net of minority interest of $3,164, in the third quarter related to the disposal of the Phase III affordable partnerships. Included in the gross $9.9 million loss reported is a $5.0 million loss from a property being disposed through a default with the lender, as more fully explained in the "Off-Balance Sheet Investments" section. An additional impairment in value of $3.6 million was recorded relating to the closing of 22 affordable properties and the eight properties under contract for sale with the same buyer. The Company has recorded a $500 impairment in connection with a letter of intent to sell general partnership interests in eight properties with a total of 612 units. Finally, a reduction of $800 to fair market value has been recorded for the property the Company will continue to hold for sale. The remaining balance, a $29 loss, net of minority interest, relates to additional expenses incurred during the nine months ended September 30, 2004 for sales which took place during 2003. These costs represent a change in estimate from those accrued at the time of sale.

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

Comparison of the three-months ended September 30, 2004 to the same period in 2003

Of the $9,445 increase in rental income, $7,169 is attributable to the Acquired Communities. The balance of this increase, or $2,276 is from the Core Properties, the result of an increase of 2.9% in weighted average rental rates, net of a decrease in occupancy from 93.4% to 92.8%. 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 $895. Of this increase, $151 is attributable to the Acquired Communities and $744 represents a 19.6% increase from the Core Properties.

Other income, which reflects management fee income, decreased $223 due primarily to a decrease in the level of management activity as a result of the sale of Phase I and II of the affordable limited partnerships.

Of the $4,860 increase in operating and maintenance expenses, $2,999 is attributable to the Acquired Communities. The balance, a $1,861 increase, is attributable to the Core Properties and is primarily due to increases in repairs and maintenance, personnel costs, property insurance, and real estate taxes. These increases were offset in part by a reduction in advertising and office and telephone expenses. Repairs and maintenance increased $337, or 4.0%, primarily as a result of increases in painting and cleaning costs offset by savings in contract repairs and grounds. Personnel expenses increased $726, or 6.8%, with $84 resulting from increased site level incentive compensation going up reflecting improving rent compared to a year ago. In addition, $303 is from increases in health insurance costs. The majority of the increase in property insurance results from a reduction of $300 to the insurance reserve in 2003 not repeated in 2004.

General and administrative expense increased in 2004 by $209 or 4.5%. General and administrative expenses as a percentage of total revenues were 4.1% for 2004 as compared to 4.2% for 2003.

Interest expense increased in 2004 by $2,066 as a result of the increased borrowings in connection with acquisition of the 2004 Acquisition Communities, a full quarter of interest expense for the 2003 Acquisition Communities and additional mortgage debt and refinanced mortgage debt which took place during 2003. During 2003, the Company closed on additional mortgage debt of $80,100 and refinanced $24,000 in existing mortgage debt resulting in new borrowings of approximately $46,000.

Depreciation and amortization expense increased $3,821 due to the depreciation on the Acquisition Communities and the capital 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. The assets include principally loans, advances and management contracts. In connection with FIN 46R, the Company was required to consolidate the majority of the affordable limited partnerships results of operations beginning April 1, 2004. The activity for the third quarter of 2004 is included in discontinued operations as the properties had either been sold in the third quarter or were classified as held for sale.

The equity in earnings (losses) of unconsolidated affiliates of $25 is an advance made in the second quarter of 2004 to one of the remaining unconsolidated affordable partnerships which had been repaid during the third quarter.

Included in discontinued operations for the three-month period ended September 30, 2004, are two apartment community dispositions, and the results of operations of the Phase III limited partnerships that in connection with FIN 46R were required to be consolidated beginning April 1, 2004. As all significant contingencies surrounding the sale of Phase III have been resolved the Company has considered these assets held for sale and have reported them in discontinued operations.

In connection with the sale of Maple Lane Apartments in South Bend, Indiana, the Company recorded a loss on sale in the third quarter, net of minority interest of \$37, of approximately \$78. In addition, the Company recorded a \$6,753 loss, net of minority interest of \$3,164, in the third quarter related to the disposal of the Phase III affordable partnerships. See nine-months comparison for additional detail. The remaining balance, a \$15 gain, net of minority interest, relates to post closing adjustments incurred in the same quarter for sales which took place during 2003. These costs represent a change in estimate from those accrued at the time of sale.

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, extraordinary items and cumulative effect of change in accounting principle plus depreciation from real property including adjustments for unconsolidated partnerships and joint ventures less dividends from non-convertible preferred shares. NAREIT has recently changed guidance on the interpretation of impairment charges recorded against the value of real estate. The previous interpretation was that impairment charges in real estate would be an add back to arrive at FFO, similar to a loss on sale of real estate. The Company is following this new interpretation effective April 1, 2004 on a go-forward basis. The change is not suggested to be retroactive to any prior period reported. 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. FFO does not include the cost incurred for capital improvements (including capitalized interest) reflected as an increase to real estate assets. The total capital improvements include an annual reserve for anticipated recurring, non-revenue generating capitalized costs of \$525 per apartment unit. Please refer to the Capital Improvement section above in MD&A. Cash provided by operating activities was \$123,460 and \$108,533 for the nine-month period ended and \$39,654 and \$32,230 for the three-month period ended September 30, 2004 and 2003, respectively. Cash used in investing activities was \$202,030 and \$102,139 for the nine-month period ended and \$97,223 and \$45,432 for the three-month period ended September 30, 2004 and 2003, respectively. Cash provided by (used in) financing activities was \$80,884 and (\$7,925) for the nine-month period ended and \$59,148 and \$13,743 for the three-month period ended September 30, 2004 and 2003, 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, 2004 and 2003 are presented below (in thousands):

	Nine Months		Three Months	
	2004	2003	2004	2003
Net income available to common shareholders	$16,349	$21,772	$ 3,027	$ 8,958
Convertible preferred dividends	1,645	5,306	548	1,296
Minority interest	11,844	11,473	4,746	4,482
Minority interest – income (loss) from discontinued operations	(805)	567	(135)	389
Minority interest – gain (loss) on disposition of discontinued operations	(3,195)	-	(3,195)	-
Depreciation and amortization from real property	67,566	56,889	23,225	19,512
Depreciation from real property from unconsolidated entities	556	1,837	-	725
Impairment on General Partner real estate investment	945	1,785	-	1,785
Loss on disposition of property	50	79	-	69
(Gain) loss on disposition of discontinued operations, net of minority interest	(417)	(355)	94	(35)
Impairment of real property included in income from operations of disposed properties, before minority interest	-	423	-	-
Prepayment penalty from early extinguishment of debt in connection with sale of real estate	-	1,610	-	261
Cumulative effect of change in accounting principle, net of minority interest	321	-	-	-
FFO as defined above	$94,859	$101,386	$28,310	$37,442
Weighted average common shares/units outstanding[(1)]:				
- Basic	48,660.3	44,577.3	48,894.6	45,611.9
- Diluted	49,100.3	47,624.0	49,338.6	48,078.9

(1) The calculation assumes the conversion of dilutive common stock equivalents including convertible preferred stock and the conversion of all UPREIT units to common shares.

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

Series F Preferred Stock

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 Company has been in compliance with the covenant since the Series F Preferred Stock was issued. If the Company fails to be in compliance with this covenant for six or more consecutive fiscal quarters, the holders of the Series F Preferred Stock would be entitled to elect two directors to the board of directors of the Company. The calculation of the fixed charge coverage ratio for the four most recent quarters since the issuance of the Series F Preferred Stock is 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

	Three-months ended			
	Sept. 30, 2004	June 30, 2004	Mar. 31, 2004	Dec 31, 2003
EBITDA				
Total revenues	$118,942	$118,017	$113,197	$111,458
Net operating income from discontinued operations	(423)	(276)	-	80
Operating and maintenance	(50,372)	(51,081)	(54,232)	(48,698)
General and administrative	(4,879)	(4,892)	(4,725)	(8,236)
Impairment of assets held as General Partner	-	-	(1,116)	(110)
Equity in earnings (losses) of unconsolidated affiliates	25	(25)	(538)	(395)
	$ 63,293	$61,743	$ 52,586	$ 54,099
Fixed Charges				
Interest expense	$ 23,496	$23,783	$ 21,332	$ 21,595
Interest expense on discontinued operations	40	476	-	79
Preferred dividends	1,898	1,899	1,898	1,984
Capitalized interest	230	171	171	230
	$ 25,664	$26,329	$ 23,401	$ 23,888

Times Coverage ratio:	2.47	2.35	2.25	2.26

Line of Credit

The Credit Agreement relating to the Company's line of credit provides for the Company to maintain certain financial ratios and measurements. One of these covenants is that the Company may not pay any distribution to its shareholders and holders of its UPREIT Units if a distribution, when added to other distributions paid during the three immediately preceding fiscal quarters, exceeds the greater of : (i) 90% of funds from operations, and 110% of cash available for distribution; and (ii) the amount required to maintain the Company's status as a REIT. Due to the granting of restricted stock to the retiring Co-CEO's in the fourth quarter of 2003 the Company did not meet the 90% required ratio. Approximate waivers have been granted by the participating banks to exclude the impact of this charge from future calculations. The Company has had to obtain waivers for this same covenant for two consecutive years. The line of credit has not been used for long-term financing but adds a certain amount of flexibility, especially in meeting the Company's acquisition goals. Many times it is easier to temporarily finance an acquisition in a short-term nature through the line of credit, with long term secured financing or other sources of capital replenishing the line of credit availability.

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. During 2002, 2003 and continuing into 2004 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 November 2, 2004, the Board of Directors approved a dividend of $.63 per share for the quarter ended September 30, 2004. This is the equivalent of an annual distribution of $2.52 per share. The dividend is payable November 26, 2004 to shareholders of record on November 16, 2004.

On November 2, 2004 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, 2004. The dividend on the preferred shares is payable on November 30, 2004, to shareholders of record on November 16, 2004. This dividend is equivalent to an annualized rate of $2.25 per share.

Contingency

In 2001, the Company underwent a state capital stock 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 were not supportable by the law nor consistent with previously provided interpretative guidance from the office of the State Secretary of Revenue. After two subsequent enactments by the state legislation during 2002 affecting the pertinent tax statute, the Company was advised by outside tax counsel that its filing position for 1998-2001 should prevail. During December 2003, the state's governor signed legislation which included the REIT tax provisions. Based upon this, Company's tax counsel expects that the outstanding litigation should now be able to be resolved. Effective January 1, 2003, the Company reorganized the ownership of Home Properties Trust, which should subject the Company to a much lower level of tax going forward. During the third quarter, the Company offered to settle the 1998 tax year for $29 of the $194 assessment, which was accepted by the State's Attorney General. For the remaining years, 1999-2001 or $1.1 million in exposure, the Company is still dealing with the State Department of Revenue, pursuing 100% relief as supported by interpretation of tax law by outside counsel.

The Company and the Operating Partnership, along with Home Leasing Corporation, the predecessor of the

Company that is owned by Nelson and Norman Leenhouts, are defendants in a lawsuit. The essence of the complaint is that the entity in which plaintiffs were investors was wrongfully excluded from the Company's initial organization as a real estate investment trust and the investors, therefore, did not obtain the benefits from exchanging their equity interests in that entity for equity in the Operating Partnership. In their original complaint, plaintiffs sought damages in the amount of $3 million. In the subsequent discovery process, plaintiffs increased the damages sought to $11 million. The Company and the Operating Partnership have responded to the lawsuit by denying all material allegations and asserting various defenses. The only remaining cause of action against the Company and the Operating Partnership is a claim of breach of fiduciary duty. It is not possible to estimate the possible loss or range of loss at this time and the Company has therefore not accrued any liability for the third quarter. Management and its counsel believe that applicable legal precedents support a conclusion that neither the Company nor the Operating Partnership should be found to have any liability to the plaintiffs, and that, in the event any liability is found, recoverable damages should be limited to an immaterial amount.

New Accounting Standards

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

In 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. The Company's investments in the limited partnerships consolidated under FIN 46R have a mandatory redeemable feature upon termination of the partnership. However, due to the tax credit restrictions on the consolidated partnerships, if the partnerships were terminated prior to the end of the tax credit compliance periods, the partnership would be liable to fund the tax credits payable to the limited partners.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The percentages and loan balances discussed below are prior to FIN 46R consolidations on the balance sheet. The assets and liabilities of a certain of the affordable limited partnerships added to the consolidated balance sheet as of March 30, 2004 remain and are classified as held for sale on the September 30, 2004 balance sheet. As the non-recourse debt associated with these properties will no longer affect the balance sheet upon sale of the Company's interests in the partnerships, the Company believes that comparing pre-FIN 46R financial information provides the reader of the financial statements with a more meaningful comparison.

The Company’s primary market risk exposure is interest rate risk. At September 30, 2004 and December 31, 2003, approximately 88% and 98%, respectively, of the Company’s debt bore interest at fixed rates with a weighted average maturity of approximately 7 and 9 years and a weighted average interest rate of approximately 6.36% and 6.47%, respectively, including the $34.0 million and $25.2 million of debt, respectively which has been swapped to a fixed rate. The remainder of the Company’s debt bears interest at variable rates with a weighted average maturity of approximately 8 and 2 years, respectively, and a weighted average interest rate of 2.65% and 2.32%, respectively, at September 30, 2004 and December 31, 2003. The Company does not intend to utilize a significant amount of permanent variable rate debt to acquire properties in the future. On occasion, the Company may use its line of credit in connection with a property acquisition with the intention to refinance at a later date. The Company believes, however, that in no event would increases in interest expense as a result of inflation significantly impact the Company's distributable cash flow.

At September 30, 2004 and December 31, 2003, the interest rate risk on $34 million and $25.2 million, respectively of such variable rate debt has been mitigated through the use of interest rate swap agreements (the “Swaps”) with major financial institutions. The Company is exposed to credit risk in the event of non-performance by the counter-parties to the Swaps. The Company believes it mitigates its credit risk by entering into these Swaps with major financial institutions. The Swaps effectively convert an aggregate of $34 million at September 30, 2004 in variable rate mortgages to fixed rates of 5.35%, 5.39%, 8.22% and 8.40% and $25.2 million at December 31, 2003 in variable rate mortgages to fixed rates of 5.91%, 8.22% and 8.40%.

At September 30, 2004 and December 31, 2003, the fair value of the Company’s fixed rate debt, including the $34 million at September 30, 2004 and $25.2 million at December 31, 2003 which was swapped to a fixed rate, amounted to a liability of $1.63 billion compared to its carrying amount of $1.53 billion. The Company estimates that a 100 basis point increase in market interest rates at September 30, 2004 would have changed the fair value of the Company’s fixed rate debt to a liability of $1.55 billion.

The Company intends to continuously monitor and actively manage interest costs on its variable rate debt portfolio and may enter into swap positions based upon market fluctuations. In addition, the Company believes that it has the ability to obtain funds through additional equity offerings or the issuance of UPREIT Units. Accordingly, the cost of obtaining such interest rate protection agreements in relation to the Company's access to capital markets will continue to be evaluated. The Company has not, and does not plan to, enter into any derivative financial instruments for trading or speculative purposes. As of September 30, 2004, the Company had no other material exposure to market risk.

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.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action does not establish a specific target stock price or a specific timetable for share repurchase. Recently, the Company's Board of Directors removed certain price restrictions, which substantially enhances the Company's ability to repurchase shares. At December 31, 2003 the Company had authorization to repurchase 3,135,800 shares of common stock and UPREIT Units under the stock repurchase program. No shares were repurchased during the first two quarters of 2004. In addition, participants in the Company's Stock Benefit Plan can use common stock of the Company that they already own to pay all or a portion of the exercise payable to the Company upon the exercise of an option. In such event, the common stock used to pay the exercise price is returned to authorized but unissued status, and for purposes of this table is deemed to have been repurchased by the Company. The following table summarizes the total number of shares (units) repurchased by the Company during the three month period ending September 30, 2004.

Period	Total shares (units) purchased (1)	Average price per share (unit)	Total shares (units) purchased under Company Program	Maximum shares (units) available under the Company Program
Balance June 30, 2004:	-	-	-	3,135,800
July 1, 2004 to July 31, 2004	-	-	-	3,135,800
August 1, 2004 to August 31, 2004	57,500	$ 38.07	57,500	3,078,300
September 1, 2004 to September 30, 2004	5,698	$ 39.41	-	3,078,300
Balance September 30, 2004:	63,198	$ 38.15	57,500	3,078,300

(1) During September, 2004, 5,698 shares of common stock were used in satisfaction of the Company's obligation upon the exercise of stock options issued.

Item 6. Exhibits

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

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 9, 2004

By: ______________________________
Edward J. Pettinella
President and Chief Executive Officer

Date: November 9, 2004

By: ______________________________
David P. Gardner
Executive Vice President and
Chief Financial Officer

Exhibit 31.1

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

I, Edward J Pettinella, certify that:

1. I have reviewed this 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 officer 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 fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer 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.

Edward J. Pettinella
President and Chief Executive Officer
November 9, 2004

Exhibit 31.2

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

I, David P. Gardner, certify that:

1. I have reviewed this 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 officer 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 fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer 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.

David P. Gardner
Executive Vice President and Chief Financial Officer
November 9, 2004

Exhibit 32.1

The following certification is furnished as provided by Rule 13a-14(b) promulgated under the Securities Act of 1934 and Item 601(b)(32)(ii) of Regulation 5-K.

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, 2004, as filed with the Securities and Exchange Commission on November 9, 2004 (the "Report"), I, Edward J. Pettinella, President and 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: ______________________________________

Edward J. Pettinella
President and Chief Executive Officer
November 9, 2004

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.

Exhibit 32.2

The following certification is furnished as provided by Rule 13a-14(b) promulgated under the Securities Act of 1934 and Item 601(b)(32)(ii) of Regulation 5-K.

**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, 2004, as filed with the Securities and Exchange Commission on November 9, 2004 (the "Report"), I, David P. Gardner, Executive 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: ______________________________

David P. Gardner
Executive Vice President and
Chief Financial Officer
November 9, 2004

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.