SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

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

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

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

Title of each class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	New York Stock Exchange

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

YES ___ No _X_

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

YES _X_ No ____

The aggregate market value of the shares of common stock held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on June 30, 2004, was approximately $1,269,697,294.

As of February 28, 2005, there were 31,415,781 shares of common stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the proxy statement to be issued in connection with the Company's 2005 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

HOME PROPERTIES, INC.

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PART I

Item 1. Business

The Company

Home Properties, Inc. ("Home Properties" or the "Company") is a self-administered and self-managed real estate investment trust ("REIT") that owns, operates, acquires, develops and rehabilitates apartment communities. The Company's properties are regionally focused in select Northeast, Mid-Atlantic, Midwest and Southeast Florida markets of the United States. The Company was formed in November 1993, to continue and expand the operations of Home Leasing Corporation ("Home Leasing"). The Company completed an initial public offering of 5,408,000 shares of common stock (the "IPO") on August 4, 1994.

The Company conducts its business through Home Properties, L.P. (the "Operating Partnership"), a New York limited partnership in which the Company held a 67.7% partnership interest as of December 31, 2004 (66.7% at December 31, 2003) (such interest has been calculated as the percentage of outstanding common shares divided by the total outstanding common shares and Operating Partnership Units outstanding) and two management companies (together, the "Management Companies") – Home Properties Management, Inc. ("HP Management") and Home Properties Resident Services, Inc. ("HPRS"), both of which are Maryland corporations.

Home Properties, through its affiliates described above, as of December 31, 2004, operated 169 communities with 47,378 apartment units. Of these, 41,776 units in 150 communities are owned outright (the "Owned Properties"), 2,793 units in 14 communities are managed and partially owned by the Company as general partner, and 2,809 units in five communities are managed for other owners (collectively, the "Managed Properties"). Please refer to Note 10 on page F-32 for discussion on segment information.

The Owned Properties and the Managed Properties (collectively, the "Properties") are concentrated in the following market areas:

Market Area	Apts. Owned	Apts. Managed As General Partner	Apts. Fee Managed	Apt. Totals
Suburban New York City	7,743	56	-	7,799
Suburban Washington, D.C.	7,506	-	1,387	8,893
Philadelphia, PA	5,913	-	-	5,913
Baltimore, MD	5,644	-	1,422	7,066
Detroit, MI	5,046	-	-	5,046
Upstate New York	4,567	812	-	5,379
Chicago, IL	2,242	-	-	2,242
Boston, MA	1,252	-	-	1,252
Southeast, FL	836	-	-	836
Portland, ME	595	-	-	595
Dover, DE	432	-	-	432
Columbus, OH	-	868	-	868
Western PA	-	1,057	-	1,057
Total # of Units	41,776	2,793	2,809	47,378
Total Number of Communities	150	14	5	169

The Company's mission is to maximize long-term shareholder value by acquiring, repositioning, and managing market-rate apartment communities while enhancing the quality of life for its residents and providing employees with opportunities for growth and accomplishment, and demonstrating personal integrity and dedication at all times. Our vision is to be a prominent owner and manager of market-rate apartment communities, predominantly B class, typically with 150 units or more located in selected suburban markets of metropolitan areas with substantial barriers to new development. The metropolitan areas we have selected include New York City, Washington, D.C., Boston, Baltimore, Philadelphia, Southeast Florida, Chicago and Detroit. We expect to maintain or grow portfolios in markets that profitably support our mission as economic conditions permit.

The Company's business strategies include: (i) aggressively managing and improving its communities to achieve increased net operating income; (ii) acquiring additional apartment communities with attractive returns at prices below replacement costs; (iii) disposing of properties that have reached their potential, are less efficient to operate, or are located in markets where growth has slowed to a pace below the markets targeted for acquisition; and (iv) maintaining a strong and flexible capital structure with cost effective access to the capital markets.

Structure

The Company was formed in November 1993 as a Maryland corporation and is the general partner of the Operating Partnership. On December 31, 2004, it owned a 69.3% legal interest in the Operating Partnership (such interest has been calculated as the percentage of outstanding common and preferred shares owned by the Company divided by the total outstanding common shares, preferred shares, and Operating Partnership Units ("UPREIT Units") outstanding) – one percent as sole general partner and the remainder as a limited partner through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of the limited partner, Home Properties Trust. A portion of the limited partner interests held by Home Properties Trust as of December 31, 2004 consisted of all of the Series D and F Limited Partnership Units (2,650,000 units, or 5.2% of the total). Those preferred interests in the Operating Partnership have rights and preferences that mirror the rights and preferences of the holders of the related series of preferred shares in the Company. The remaining units (32,116,746 or 63.1% of the total) held by Home Properties Trust have basically the same rights as the other limited partner interests (the "Units") in the Operating Partnership. Those other Units are owned by certain individuals and entities who received Units in the Operating Partnership as consideration for their interests in entities owning apartment communities purchased by the Operating Partnership, including certain officers of the Company.

The Operating Partnership is a New York limited partnership formed in December 1993. Holders of Units in the Operating Partnership may redeem a Unit for one share of the Company's common stock or cash equal to the fair market value at the time of the redemption, at the option of the Company. Management expects that it will continue to utilize Units as a form of consideration for a portion of its acquisition properties.

Effective January 1, 2003, the Management Companies became wholly owned subsidiaries of the Company, and as a result the accompanying consolidated financial statements include the accounts of the Management Companies. Prior to January 1, 2003, investments in these entities were accounted for using the equity method. Both of the Management Companies are Maryland corporations and, effective January 1, 2001, both converted to taxable REIT subsidiaries under the Tax Relief Extension Act of 1999. HP Management was formed in January 1994 and HPRS was formed in December 1995. The Management Companies manage, for a fee, certain of the residential and development activities of the Company and provide construction, development and redevelopment services for the Company. As of December 31, 2002, the Operating Partnership held 95% of the economic interest in HP Management and 99% of the economic interest in HPRS through non-voting common stock. Nelson and Norman Leenhouts (the "Leenhoutses") held the remaining five percent and one percent interest, respectively, through the ownership of voting common stock. Effective January 1, 2003, the Operating Partnership acquired all of the shares held by the Leenhoutses.

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

The Company currently has approximately 1,600 employees and its executive offices are located at 850 Clinton Square, Rochester, New York 14604. Its telephone number is (585) 546-4900.

Operating Strategies

The Company will continue to focus on enhancing the investment returns of its Properties by: (i) acquiring apartment communities and repositioning those properties for long-term growth at prices that provide a positive spread over the Company's long-term blended cost of capital; (ii) recycling assets by disposing of properties that have reached their potential or are less efficient to operate due to size or remote location; (iii) balancing its decentralized property management philosophy with the efficiencies of centralized support functions and accountability including volume purchasing (iv) enhancing the quality of living for the Company's residents by improving the service and physical amenities available at each community every year; (v) adopting new technology so that the time and cost spent on administration can be minimized while the time spent attracting and serving residents can be maximized; (vi) continuing to utilize its written "Pledge" of customer satisfaction that is the foundation on which the Company has built its brand recognition; and (vii) focusing on reducing expenses while constantly improving the level of service to residents.

Acquisition and Sale Strategies

The Company's strategy is to grow primarily through acquisitions in the suburbs of major metropolitan markets that have significant barriers to new construction, easy access to the Company's headquarters, and enough apartments available for acquisition to achieve a critical mass. Targeted markets also possess other characteristics, including acquisition opportunities below replacement costs, a mature housing stock and stable or moderate job growth. The Company currently expects that its growth will be focused within suburban sub-markets of select metropolitan areas within the Northeast, Mid-Atlantic, Midwest and Southeast Florida regions of the United States, where it has already established a presence. The largest metropolitan areas the Company will focus on include New York City, Washington, D.C., Boston, Baltimore, Philadelphia, Southeast Florida, Chicago and Detroit. The Company may expand into new markets that possess the characteristics described above. Continued geographic specialization is expected to have a greater impact on operating efficiencies versus widespread accumulation of properties. The Company will continue to pursue the acquisition of individual properties as well as multi-property portfolios. It may also consider strategic investments in other apartment companies. The Company has anticipated closing on acquisitions of $200 million in its budget for 2005.

During 2004, the Company acquired ten communities with a total of 2,486 units for an aggregate consideration of approximately $247.5 million (before fair market value adjustment for assumed debt), or an average of approximately $99,600 per apartment unit. The weighted average expected first year capitalization rate for the acquired communities was 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. The acquisitions were concentrated in New Jersey, Boston, Washington, D.C. and North Lauderdale.

During 2004, the Company completed the sale of five communities with a total of 1,646 units for an aggregate consideration of approximately $92.5 million, at a weighted average expected first-year cap rate of 8.2%. The properties sold were either in slower growth markets or less efficient to operate due to their remote locations and/or smaller size. The Company recycled the proceeds from those properties that were expected to produce a weighted average unleveraged internal rate of return ("IRR") of 8.0% with the purchase of properties expected to produce an unleveraged IRR of 9.1%. IRR is defined as the discount rate at which the present value of the future cash flows of the investment is equal to the cost of the investment. Several of the properties sold were originally acquired through transactions where the sellers took interests in the Operating Partnership as consideration to provide them with the opportunity to defer tax obligations. We refer to these transactions as "UPREIT transactions." Generally, in UPREIT transactions, the Company has made certain commitments to the sellers regarding the Company's sale of the property. As a result, Section 1031 exchanges were used to defer taxable gains of the UPREIT investor.

The Company will continue to contemplate the sale of certain of its communities. The Company has currently identified three communities for potential sale during 2005. The total estimated fair market value of these communities is in excess of $100 million. The communities are in three different markets and have reached their potential. The Company will not sell these properties, however, unless it achieves targeted prices at levels which would allow it to reinvest the proceeds at higher returns by making acquisitions with repositioning potential. Two of these properties were originally acquired through an UPREIT transaction. Therefore, the sales will have to be matched with suitable acquisitions using a tax deferred exchange. The Company has anticipated closing on sales of $50 million in its budget for 2005.

Financing and Capital Strategies

The Company intends to adhere to the following financing policies: (i) maintaining a ratio of debt-to-total market capitalization (total debt of the Company as a percentage of the market value of outstanding diluted common stock (including the common stock equivalents of the convertible preferred stock, and Units plus total debt) of approximately 55% or less; (ii) utilizing primarily fixed rate debt; (iii) varying debt maturities to avoid significant exposure to interest rate changes upon refinancing; and (iv) maintaining a line of credit so that it can respond quickly to acquisition opportunities.

On December 31, 2004, the Company's debt was approximately $1.6 billion and the debt-to-total market capitalization ratio was 42.5% based on the year-end closing price of the Company's stock of $43.00. The weighted average interest rate on the Company's mortgage debt as of December 31, 2004 was 5.96% and the weighted average maturity was approximately eight years. Debt maturities are staggered, ranging from November 2005, through January 2042. As of December 31, 2004, the Company had an unsecured line of credit facility from M&T Bank of $115 million. This facility is available for acquisition and other corporate purposes and bears an interest rate at 1.05% over the one-month LIBOR rate. As of December 31, 2004, the one-month LIBOR rate was 2.4% and there was $58 million outstanding on the line of credit. Included in the consolidated balance sheet of the Company as of December 31, 2004 is $77.6 million in mortgage notes payable associated with the consolidated affordable limited partnerships. The weighted average interest rate on these mortgages as of December 31, 2004 was 5.22% with debt maturities ranging from 2005 to 2042.

On November 23, 2004, the Company signed a supplemental demand note with M&T Bank. The note has a maximum principal amount of $42 million. Borrowings on the note bear interest at 1.25% over the one-month LIBOR rate. The demand note was entered into to fund the Company’s stock repurchase program. The Company had no outstanding balance on the note as of December 31, 2004.

Management expects to continue to fund a portion of its continued growth by taking advantage of its UPREIT structure and using UPREIT Units as currency in acquisition transactions. No UPREIT Units were issued in connection with the two property acquisitions during 2003. During 2004, the Company issued $12.1 million worth of UPREIT Units as consideration in acquiring two properties in the New Jersey region. It is difficult to predict the level of demand from sellers for this type of transaction.

The Company also intends to continue to pursue other equity transactions to raise capital with limited transaction costs. During 2002, the Company closed on two common equity offerings totaling 704,602 shares of the Company's common stock, at a weighted average price of $30.99 per share, resulting in net proceeds to the Company of approximately $21.8 million. Also in 2002, the Company issued 2,400,000 shares of its 9.00% Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Shares"). This offering generated net proceeds of approximately $58 million. The Company raised approximately $17.6 million (net of $5.9 million share repurchase) in 2004 under its Dividend Reinvestment and Direct Stock Purchase Plan (the "Dividend Reinvestment Plan").

The Company's Board of Directors have approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. Shares or units may be repurchased through the open market or in privately-negotiated transactions. The Company's strategy is to opportunistically repurchase shares at a discount to its underlying net asset value, thereby continuing to build value for long-term shareholders. In 2003, the Company did not repurchase any of its outstanding common stock or UPREIT Units. During 2004, the Company repurchased 1,135,800 shares of its outstanding common stock at a cost of $47.4 million at a weighted average price of $41.72 per share. From January 1, 2005 through February 16, 2005, the Company repurchased 1,300,700 additional shares at a cost of $53.3 million, leaving a remaining share authorization level of 699,300 shares. On February 16, 2005, the Board of Directors approved a 2,000,000-share increase in the stock repurchase program, resulting in an authorization level of 2,699,300 shares.

Competition

The Company competes with other multifamily owners and operators and other real estate companies in seeking properties for acquisition and in attracting potential residents. The Company's properties are primarily in developed areas where there are other properties of the same type which directly compete for residents. The Company, however, believes that its focus on service and resident satisfaction gives it a competitive advantage. The Company also believes that the moderate level of new construction of multifamily properties in its markets in 2004, generally requiring higher rental rates, will not have a material adverse effect on its turnover rates, occupancies or ability to increase rents and minimize operating expenses. During the past few years, the Company has encountered competition as it seeks attractive properties in broader geographic areas. Given the perceived depth of available opportunities, this increased level of competition has not prevented the Company from being able to meet its long-term growth expectations.

Market Environment

From the IPO through 2001, the markets in which Home Properties operates could be characterized as stable, with moderate levels of job growth. Starting in 2001 and continuing through 2002, many regions of the United States had experienced varying degrees of economic recession resulting in negative job growth for both the country as a whole and the Company's markets. During 2003, that trend started to reverse, with only slight job loss for the country and a very small positive growth in the Company's markets. In 2004, there was more significant job growth at 1.7% for the country and 1.0% growth for the Company’s markets.

The information on the Market Demographics and Multifamily Supply and Demand tables on pages 8 and 9 were compiled by the Company from the sources indicated on the tables. The methods used include estimates and, while the Company feels that the estimates are reasonable, there can be no assurance that the estimates are accurate. There can also be no assurance that the historical information included on the table will be consistent with future trends.

New construction in the Company's markets is low, relative to the existing multifamily housing stock and compared to other regions of the country. Most of the existing housing stock in the Company's markets was built before 1980. Zoning restrictions, a scarcity of land and high construction costs make new development difficult to justify in many of the Company's markets. In 2004, Home Properties' markets represented 21.8% of the total estimated existing U.S. multifamily housing stock, but only 10.9% of the country's estimated net new supply of multifamily housing units.

An analysis of future multifamily supply compared to projected multifamily demand can indicate whether a particular market is tightening, softening or in equilibrium. The fourth to last column in the Multifamily Supply and Demand table on Page 9 reflects current estimated net new multifamily supply as a percentage of new multifamily demand for the Company's markets and the United Sates. In 2000, net new multifamily supply as a percent of net new multifamily demand in the Home Properties markets was approximately 49%, compared to a national average of 98%. Starting in 2001 and continuing through 2003, the recession reversed historical trends, with the net increase in the multifamily rental housing stock exceeding the estimated number of new units needed to satisfy increased demand, resulting in an estimated oversupply. In 2004, net new multifamily supply as a percent of net new multifamily demand in the Home Properties markets was approximately 55%, compared to a national average of 65%. Home Properties markets seem to be tightening and compare favorably to the country as a whole on a measurement of supply/demand equilibrium.

The third to the last column in the Multifamily Supply and Demand table on page 9 shows the net new multifamily supply as percent of existing multifamily housing stock. In the Company's markets, net new supply only represents 0.4% of the existing multifamily housing stock. This compares to the national average net new multifamily supply estimates at 0.8% of the multifamily housing stock.

Market Demographics

MSA Market Area	% of Home Properties Owned Units	2004 Number of Households	December Job Growth Trailing 12 Months % Change	December Job Growth Trailing 12 Months Actual	December Unemployment Rate	2004 Median Home Value	2004 Multifamily Units as a % of Total Housing Units Stock (5)	2004 Multifamily Housing Stock (6)
Northern VA/DC	18.0%	2,003,091	2.8%	78,800	2.9%	231,968	31.0%	651,360
Baltimore, MD	13.5%	1,008,010	2.2%	27,100	4.2%	171,213	22.1%	239,499
Eastern PA [(1)]	14.2%	2,210,813	0.3%	8,400	4.8%	142,306	19.5%	461,904
Detroit, MI	12.1%	1,716,904	(1.2%)	(24,600)	6.9%	155,126	18.2%	331,527
Downstate NY [(2)]	10.3%	2,086,500	1.2%	24,900	3.5%	286,899	16.2%	363,571
Northern NJ [(3)]	8.2%	2,143,310	1.9%	51,800	3.6%	267,573	24.9%	568,541
Chicago, IL	5.4%	3,065,766	0.3%	11,400	5.7%	195,226	34.3%	1,107,295
Rochester, NY	4.0%	424,006	(1.0%)	(5,200)	5.4%	122,019	19.7%	89,562
Buffalo, NY	3.9%	465,606	(0.2%)	(1,300)	6.0%	115,366	18.0%	91,589
Boston, MA	3.0%	2,373,434	0.1%	2,100	3.5%	270,151	32.3%	800,551
Syracuse, NY	3.0%	287,321	0.9%	3,300	5.6%	106,435	19.1%	61,013
Southeast FL [(4)]	2.0%	2,023,093	2.0%	44,900	4.6%	153,182	41.9%	956,433
Portland, ME	1.4%	111,872	1.1%	1,700	2.7%	173,458	20.6%	26,201
Delaware	1.0%	231,792	2.0%	6,500	3.9%	163,895	19.8%	48,741
Home Properties Markets	100.0%	20,151,518	1.0%	229,800	4.3%	202,909	26.9%	5,797,787
United States		109,949,228	1.7%	2,174,000	5.1%	141,249	22.0%	26,541,693

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

(2) Downstate New York is defined for this report as the Hudson Valley Region of Dutchess Co MSA, Newburgh NY-PA MSA, Putnam & Ulster Counties; Long Island, NY (Nassau-Suffolk MSA); Westchester County MSA; & Rockland County MSA.

(3) Northern New Jersey is defined for this report as Middlesex-Somerset-Hunterdon MSA, Bergen-Passaic MSA, Monmouth-Ocean MSA, & Newark MSA.

(4) Southeast Florida is defined for this report as Ft. Lauderdale, FL MSA, Miami, FL MSA and West Palm, FL MSA

(5) Based on Claritas 2004 estimates calculated from the **2000** U.S. Census figures.

(6) **2004 Multifamily Housing Stock** is from Claritas estimates based on the 2000 U.S. Census.

Sources: Bureau of Labor Statistics (BLS); Claritas, Inc.; US Census Bureau - Manufacturing & Construction Div.;
New York State Department of Labor, Div. Of Research and Statistics.
Data collected is data available as of February 17, 2005 **and in some cases may be preliminary.**
BLS is the principal fact-finding agency for the Federal Government in the broad field of labor economics and statistics.
Claritas Inc. is a leading provider of precision marketing solutions and related products/services.
U.S. Census Bureau's parent federal agency is the U.S. Dept. of Commerce, which promotes American business and trade.

Multifamily Supply and Demand

MSA Market Area	Estimated 2004 New Supply of Multifamily [7]	Estimated 2004 Multifamily Obsolescence [8]	Estimated 2004 Net New Multifamily Supply [9]	Estimated 2004 New Multifamily Household Demand [10]	Estimated Net New Multifamily Supply as a % of New Multifamily Demand	Estimated Net New Multifamily Supply as a % of Multifamily Stock	Expected Excess Demand [11]	Expected Excess Revenue Growth [12]
Northern VA/DC	9,296	3,257	6,039	16,270	37.1%	0.9%	10,231	1.6%
Baltimore, MD	2,538	1,197	1,341	3,999	33.5%	0.6%	2,658	1.1%
Eastern PA [1]	4,991	2,310	2,682	1,095	245.0%	0.6%	(1,587)	(0.3%)
Detroit, MI	3,649	1,658	1,991	(2,994)	(66.5%)	0.6%	(4,986)	(1.5%)
Downstate NY [2]	6,200	1,818	4,382	2,692	162.8%	1.2%	(1,690)	(0.5%)
Northern NJ [3]	3,328	2,843	485	8,619	5.6%	0.1%	8,133	1.4%
Chicago, IL	8,320	5,536	2,784	2,607	106.8%	0.3%	(177)	(0.0%)
Rochester, NY	271	448	(177)	(682)	26.0%	(0.2%)	(505)	(0.6%)
Buffalo, NY	561	458	103	(156)	(65.6%)	0.1%	(259)	(0.3%)
Boston, MA	5,140	4,003	1,137	452	251.4%	0.1%	(685)	(0.1%)
Syracuse, NY	106	305	(199)	421	(47.2%)	(0.3%)	620	1.0%
Southeast FL [4]	6,602	4,782	1,819	12,546	14.5%	0.2%	10,727	1.1%
Portland, ME	225	131	94	234	40.2%	0.4%	140	0.5%
Delaware	369	244	125	858	14.6%	0.3%	733	1.5%
Home Properties Markets	51,596	28,990	22,606	41,260	54.8%	0.4%	18,654	0.3%
United States	340,696	132,708	207,987	318,612	65.3%	0.8%	110,625	0.4%

(1)-(6) see footnotes prior page

(7) **Estimated 2004 New Supply of Multifamily** = Multifamily permits (2004 figures U.S. Census Bureau, Mfg. & Constr. Div., 5+ permits only) adjusted by the average % of permits resulting in a construction start (estimated at 95%).

(8) **Estimated 2004 Multifamily Obsolescence** = 0.5% of Estimated 2004 multifamily housing stock.

(9) **Estimated 2004 Net New Multifamily Supply** = Estimated 2004 New Supply of Multifamily - Estimated 2004 multifamily obsolescence.

(10) **Estimated 2004 New Multifamily Household Demand** = Trailing 12 month job growth (Nonfarm, not seasonally adjusted payroll employment figures) (12/31/03-12/31/04) multiplied by the expected % of new household formations resulting from new jobs (66.7%) and the % of multifamily households in each market (based on Claritas estimates).

(11) **Expected Excess Demand** = Estimated 2004 New Multifamily Household Demand - Estimated 2004 Net New Multifamily Supply.

(12) **Expected Excess Revenue Growth** = Expected Excess Demand divided by 2004 Multifamily Housing Stock.

Regulation

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

Under various laws and regulations relating to the protection of the environment, an owner of real estate may be held liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in its property. These laws often impose liability without regard to whether the owner was responsible for, or even knew of, the presence of such substances. The presence of such substances may adversely affect the owner's ability to rent or sell the property or use the property as collateral. Independent environmental consultants have conducted "Phase I" environmental audits (which involve visual inspection but not soil or groundwater analysis) on substantially all of the Owned Properties. Phase I audit reports did not reveal any environmental liability that would have a material adverse effect on the Company. In addition, the Company is not aware of any environmental liability that management believes would have a material adverse effect on the Company. There is no assurance that Phase I reports would reveal all environmental liabilities or that environmental conditions not known to the Company may exist now or in the future which would result in liability to the Company for remediation or fines, either under existing laws and regulations or future changes to such requirements.

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

Company Web Site and Access to Filed Reports

The Company maintains an Internet Web site at www.homeproperties.com. The Company provides access to its reports filed with the Securities and Exchange Commission ("SEC") through this Web site. These reports are available as soon as reasonably practicable after the reports are filed electronically with the SEC. In addition, paper copies of annual and periodic reports filed with the SEC may be obtained by contacting Corporate Secretary, Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604. The address is also included within the SEC filings or under "Investment Information, Financial Information," on the Company's Web site.

Current copies of the Company’s Corporate Governance Guidelines and Charters for the Audit, Compensation, Corporate Governance/Nominating and Real Estate Investment Committees of the Board of Directors are also available on the Company’s website under the heading “Investment Information/Investor Overview.”. Copies of the Corporate Governance Guidelines and the Committee Charters are also available at no charge to stockholders upon request addressed to the Corporate Secretary at Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604.

Item 2. Properties

As of December 31, 2004, the Owned Properties consisted of 150 multifamily residential communities containing 41,776 apartment units. At the time of the IPO (August 4, 1994), Home Properties owned 11 communities containing 3,065 units and simultaneously with the closing of the IPO acquired an additional four communities containing 926 units. From the time just prior to the IPO to December 31, 2004, the Company experienced a compounded annualized growth rate of 28.5% in the number of apartment units it owned. In 2004, Home Properties acquired 2,486 apartment units in ten communities for a total purchase price of approximately $247.5 million. Also in 2004, the Company sold five communities with a total of 1,646 units for total consideration of $92.5 million. From January 1, 2005 through March 1, 2005, the Company acquired three communities with 550 units in three unrelated transactions for a total purchase price of $40.0 million.

The Owned Properties are generally located in established markets in suburban neighborhoods and are well maintained and well leased. Average economic occupancy at the Owned Properties was 93.1% for 2004. Occupancy is defined as total possible rental income, net of vacancy and bad debt expense as a percentage of total possible rental income. Total possible rental income is determined by valuing occupied units at contract rates and vacant units at market rents. The Owned Properties are typically two- and three-story garden style apartment buildings in landscaped settings and a majority are of brick or other masonry construction. The Company believes that its strategic focus on appealing to middle income and senior residents and the quality of the services it provides to such residents results in lower resident turnover. Average turnover at the Owned Properties was approximately 45% for 2004, which is significantly below the national average of 61.3% for garden-style apartments.

Resident leases are generally for a one year term. Security deposits equal to one month's rent are generally required.

Certain of the Owned Properties secure mortgage loans. See Schedule III contained herein (F-45 to F-49).

The table on the following pages illustrates certain of the important characteristics of the Owned Properties as of December 31, 2004.

Communities Wholly Owned and Managed by Home Properties

Regional Area		# Of Apts	Age In Years	Year Acq	Average Apt Size (Sq Ft)	(2) 2004 % Resident Turnover	(3) 2004 Average % Occupancy	2003 Average % Occupancy	2004 Avg Mo Rent Rate per Apt	2003 Avg Mo Rent Rate per Apt	12/31/2004 Total Cost (000)
	Core Communities (1)										
DE - Newark	HP of Newark	432	36	1999	856	49%	94%	91%	$785	$736	$26,547
IL - Chicago	Blackhawk	371	43	2000	860	61%	89%	92%	856	842	22,197
IL - Chicago	Colonies Apartments	672	30	1998	656	50%	92%	90%	703	707	32,565
IL - Chicago	Colony Apartments	783	31	1999	704	48%	93%	93%	829	830	50,837
IL - Chicago	Courtyards	224	33	2001	673	52%	96%	94%	757	776	15,282
IL - Chicago	Cypress Place	192	34	2000	855	34%	94%	93%	883	886	13,170
MA - Boston	Gardencrest Apartments	696	56	2002	847	33%	93%	94%	1,292	1,184	97,092
MD - Baltimore	Bonnie Ridge	966	38	1999	1,023	44%	92%	91%	989	980	67,490
MD - Baltimore	Canterbury Apartments	618	26	1999	933	45%	93%	94%	804	767	31,075
MD - Baltimore	Country Village Apartments	344	33	1998	868	53%	93%	92%	778	749	19,404
MD - Baltimore	Falcon Crest	396	35	1999	993	52%	92%	93%	855	817	19,347
MD - Baltimore	Fenland Field	234	34	2001	934	37%	93%	92%	1,002	964	17,158
MD - Baltimore	Gateway Village	132	15	1999	965	50%	93%	93%	1,112	1,055	9,216
MD - Baltimore	Manor, The	435	35	2001	1,017	38%	93%	96%	1,118	1,096	41,055
MD - Baltimore	Mill Towne Village Apartments	384	31	2001	812	34%	94%	89%	759	728	25,463
MD - Baltimore	Morningside Heights Apartments	1,050	39	1998	870	42%	94%	91%	779	759	53,244
MD - Baltimore	Owings Run	504	9	1999	1,142	48%	93%	88%	962	967	40,127
MD - Baltimore	Selford Townhomes	102	17	1999	1,115	60%	94%	93%	1,133	1,071	7,367
MD - Baltimore	Shakespeare Park	84	21	1999	833	17%	96%	99%	724	608	4,322
MD - Baltimore	Timbercroft Townhomes	284	32	1999	990	7%	99%	99%	727	685	10,641
MD - Baltimore	Village Square	370	36	1999	1,045	50%	95%	96%	987	928	20,498
MD - Baltimore	Woodholme Manor	176	35	2001	825	37%	94%	93%	699	653	8,502
ME - Portland	Mill Co. Gardens	95	53	1998	550	52%	95%	96%	711	670	3,044
ME - Portland	Redbank Village	500	60	1998	836	39%	92%	92%	768	743	23,313
MI - Detroit	Canterbury Square	336	32	1997	789	43%	94%	90%	753	752	18,014
MI - Detroit	Carriage Hill Apartments	168	38	1998	783	40%	95%	93%	775	781	8,710
MI - Detroit	Carriage Park Apartments	256	37	1998	777	43%	94%	93%	737	736	12,669
MI - Detroit	Charter Square	492	33	1997	914	50%	93%	91%	851	848	30,416
MI - Detroit	Cherry Hill Club Apartments	165	32	1998	878	56%	88%	90%	644	667	7,770
MI - Detroit	Cherry Hill Village Apartments	224	38	1998	742	46%	97%	92%	704	706	10,511
MI - Detroit	Deerfield Woods	144	28	2000	800	39%	92%	93%	808	814	7,510
MI - Detroit	Fordham Green	146	28	1997	869	58%	90%	92%	891	884	8,884
MI - Detroit	Greentrees Apartments	288	33	1997	863	55%	86%	89%	654	659	13,085
MI - Detroit	Hampton Court	182	32	2000	972	53%	87%	85%	674	677	9,363
MI - Detroit	Kingsley Apartments	328	34	1997	792	42%	93%	91%	669	684	17,557
MI - Detroit	Lakes Apartments	434	17	1999	948	57%	88%	88%	863	891	29,840
MI - Detroit	Macomb Manor	217	35	2000	867	40%	92%	94%	697	687	10,158
MI - Detroit	Oak Park Manor	298	49	1997	887	41%	89%	88%	840	832	14,779
MI - Detroit	Scotsdale Apartments	376	29	1997	790	42%	93%	92%	671	693	17,244
MI - Detroit	Southpointe Square	224	33	1997	776	48%	91%	88%	644	647	8,099
MI - Detroit	Springwells Park	303	63	1999	1,014	49%	89%	87%	978	983	22,880
MI - Detroit	Stephenson House	128	37	1997	668	45%	94%	91%	667	670	4,262
MI - Detroit	Woodland Gardens	337	38	1997	719	51%	93%	91%	731	733	16,575
NJ - Northern	East Hill Gardens	33	46	1998	695	24%	95%	97%	1,331	1,259	2,778
NJ - Northern	Lakeview Apartments	106	35	1998	492	42%	96%	97%	1,139	1,063	7,591
NJ - Northern	Oak Manor Apartments	77	48	1998	775	40%	97%	96%	1,625	1,564	6,926
NJ - Northern	Pleasant View Gardens Apartments	1,142	36	1998	745	36%	94%	92%	997	968	69,647
NJ - Northern	Pleasure Bay Apartments	270	33	1998	667	31%	96%	97%	929	849	13,075

Communities Wholly Owned and Managed by Home Properties

Regional Area		# Of Apts	Age In Years	Year Acq	Average Apt Size (Sq Ft)	(2) 2004 % Resident Turnover	(3) 2004 Average % Occupancy	2003 Average % Occupancy	2004 Avg Mo Rent Rate per Apt	2003 Avg Mo Rent Rate per Apt	12/31/2004 Total Cost (000)
	Core Communities (1)										
NJ - Northern	Royal Gardens	550	36	1997	800	34%	93%	96%	1,039	1,007	31,027
NJ - Northern	Wayne Village	275	39	1998	725	46%	96%	94%	1,147	1,086	20,003
NJ - Northern	Windsor Realty	67	51	1998	675	54%	96%	96%	1,048	1,002	5,237
NY - Alb/Hudson Valley	Carriage Hill	140	31	1996	845	70%	93%	95%	1,210	1,148	7,381
NY - Alb/Hudson Valley	Cornwall Park	75	37	1996	1,320	64%	90%	92%	1,604	1,618	7,425
NY - Alb/Hudson Valley	Lakeshore Villas	152	29	1996	956	51%	93%	95%	1,012	965	8,221
NY - Alb/Hudson Valley	Patricia Apartments	100	30	1998	770	37%	93%	94%	1,305	1,220	7,049
NY - Alb/Hudson Valley	Sherwood Consolidation	224	35	2002	813	21%	97%	97%	995	876	16,291
NY - Alb/Hudson Valley	Sunset Gardens	217	33	1996	662	48%	95%	97%	879	831	8,957
NY - Buffalo	Emerson Square	96	34	1997	650	39%	97%	97%	666	645	3,523
NY - Buffalo	Idylwood	720	34	1995	700	57%	93%	92%	664	645	27,381
NY - Buffalo	Paradise Lane at Raintree	324	32	1997	676	53%	93%	91%	691	680	12,056
NY - Buffalo	Raintree Island	504	32	1985	704	48%	93%	90%	719	705	19,375
NY - Long Island	Bayview/Colonial	160	37	2000	882	34%	96%	93%	1,111	1,063	13,803
NY - Long Island	Cambridge Village Associates	82	37	2002	747	34%	97%	99%	1,349	1,237	7,149
NY - Long Island	Coventry Village	94	29	1998	718	44%	94%	97%	1,299	1,237	5,651
NY - Long Island	Devonshire Hills	297	36	2001	803	43%	94%	93%	1,661	1,688	51,906
NY - Long Island	Eastwinds	96	38	2000	888	42%	94%	93%	1,089	1,044	8,302
NY - Long Island	Hawthorne Court	434	36	2002	729	41%	95%	92%	1,270	1,203	44,996
NY - Long Island	Heritage Square	80	55	2002	703	33%	97%	98%	1,326	1,226	7,985
NY - Long Island	Holiday Square	143	25	2002	566	10%	98%	98%	961	903	10,406
NY - Long Island	Lake Grove	368	34	1997	879	52%	93%	95%	1,345	1,297	30,766
NY - Long Island	Maple Tree	84	53	2000	937	43%	92%	94%	1,117	1,091	6,699
NY - Long Island	Mid-Island Estates	232	39	1997	690	41%	96%	97%	1,165	1,096	15,080
NY - Long Island	Rider Apartments	24	43	2000	817	38%	96%	98%	1,160	1,088	1,946
NY - Long Island	South Bay Manor	61	44	2000	849	30%	96%	96%	1,466	1,357	6,661
NY - Long Island	Southern Meadows	452	33	2001	810	46%	94%	95%	1,316	1,290	44,708
NY - Long Island	Stratford Greens Associates	359	30	2002	725	43%	94%	95%	1,349	1,307	50,171
NY - Long Island	Terry Apartments	65	28	2000	722	35%	92%	93%	1,091	1,048	4,754
NY - Long Island	Westwood Village Apartments	242	35	2002	829	41%	96%	97%	1,970	1,801	36,929
NY - Long Island	Woodmont Village Apartments	96	36	2002	704	40%	95%	95%	1,202	1,143	10,105
NY - Long Island	Yorkshire Village Apartments	40	35	2002	779	20%	99%	98%	1,386	1,309	3,692
NY - Rochester	1600 East Avenue	164	45	1997	800	37%	93%	77%	1,035	1,159	14,619
NY - Rochester	1600 Elmwood	210	44	1983	891	41%	93%	92%	921	910	13,662
NY - Rochester	Brook Hill	192	32	1994	999	54%	92%	89%	863	888	12,967
NY - Rochester	Newcastle Apartments	197	29	1982	873	45%	95%	95%	769	770	11,332
NY - Rochester	Perinton Manor	224	34	1982	928	47%	95%	92%	810	812	13,075
NY - Rochester	Riverton Knolls	240	30	1983	911	59%	90%	88%	835	837	14,633
NY - Rochester	Spanish Gardens	220	30	1994	1,030	45%	90%	90%	708	696	13,777
NY - Rochester	The Meadows	113	33	1984	890	42%	96%	95%	751	730	5,850
NY - Rochester	Woodgate Place	120	31	1997	1,100	55%	93%	95%	828	809	6,470
NY - Syracuse	Fairview Heights	214	40	1965	798	60%	91%	94%	959	915	12,429
NY - Syracuse	Harborside Manor	281	31	1995	823	45%	96%	96%	674	658	10,637
NY - Syracuse	Pearl Street	60	33	1995	855	50%	96%	95%	588	574	1,923
NY - Syracuse	Village Green	448	18	1994	908	44%	92%	93%	697	682	20,206
NY - Syracuse	Westminster Place	240	32	1996	913	65%	94%	95%	671	656	9,480
PA - Philadelphia	Arbor Crossing	134	35	1999	667	39%	93%	91%	790	770	6,596
PA - Philadelphia	Beechwood Gardens	160	37	1998	775	39%	94%	97%	801	754	6,260

Communities Wholly Owned and Managed by Home Properties

Regional Area		# Of Apts	Age In Years	Year Acq	Average Apt Size (Sq Ft)	(2) 2004 % Resident Turnover	(3) 2004 Average % Occupancy	2003 Average % Occupancy	2004 Avg Mo Rent Rate per Apt	2003 Avg Mo Rent Rate per Apt	12/31/2004 Total Cost (000)
	Core Communities (1)										
PA - Philadelphia	Cedar Glen Apartments	110	37	1998	726	42%	92%	91%	669	615	4,613
PA - Philadelphia	Chesterfield Apartments	247	31	1997	812	45%	95%	96%	857	826	13,912
PA - Philadelphia	Curren Terrace	318	33	1997	782	50%	92%	92%	894	876	18,587
PA - Philadelphia	Executive House	100	39	1997	696	46%	94%	94%	905	876	6,583
PA - Philadelphia	Glen Brook	173	41	1999	689	36%	92%	94%	763	713	8,178
PA - Philadelphia	Glen Manor	174	28	1997	667	39%	93%	92%	751	726	7,550
PA - Philadelphia	Hill Brook Place	274	36	1999	709	35%	97%	97%	821	797	14,758
PA - Philadelphia	Home Properties of Bryn Mawr	316	53	2000	900	57%	92%	92%	1,038	1,015	29,942
PA - Philadelphia	Home Properties of Castle Club	158	37	2000	974	32%	94%	97%	870	819	12,103
PA - Philadelphia	Home Properties of Devon	629	41	2000	1,299	56%	86%	90%	1,083	1,059	60,476
PA - Philadelphia	Home Properties of Golf Club	399	35	2000	821	56%	91%	91%	1,003	967	35,626
PA - Philadelphia	Home Properties of Trexler Park	249	30	2000	1,000	61%	89%	89%	1,054	990	21,346
PA - Philadelphia	New Orleans Park	308	33	1997	693	43%	94%	94%	778	761	17,111
PA - Philadelphia	Racquet Club East Apartments	467	33	1998	850	41%	96%	96%	962	916	30,166
PA - Philadelphia	Racquet Club South	103	35	1999	821	51%	94%	96%	840	804	5,854
PA - Philadelphia	Ridley Brook	244	42	1999	731	36%	95%	97%	814	779	12,354
PA - Philadelphia	Sherry Lake Apartments	298	39	1998	811	46%	95%	95%	1,100	1,060	25,390
PA - Philadelphia	The Landings	384	31	1996	987	55%	94%	94%	979	941	26,387
PA - Philadelphia	Valley View Apartments	177	31	1997	769	57%	90%	90%	777	774	9,882
PA - Philadelphia	Village Square	128	31	1997	795	54%	94%	93%	895	854	7,431
PA - Philadelphia	William Henry	363	33	2000	900	58%	93%	88%	1,062	1,042	35,096
VA - Suburban DC	Braddock Lee Apartments	254	49	1998	758	31%	97%	96%	1,124	1,079	17,625
VA - Suburban DC	Brittany Place	591	36	2002	920	44%	93%	95%	1,034	976	50,233
VA - Suburban DC	Cider Mill	864	26	2002	834	43%	94%	95%	1,020	997	85,724
VA - Suburban DC	East Meadow	150	33	2000	1,035	51%	97%	95%	1,171	1,145	13,806
VA - Suburban DC	Elmwood Terrace	504	31	2000	1,038	53%	91%	94%	821	789	24,757
VA - Suburban DC	Manor, The	198	30	1999	844	55%	93%	92%	914	902	10,229
VA - Suburban DC	Orleans Village	851	36	2000	1,040	39%	92%	90%	1,150	1,136	79,738
VA - Suburban DC	Park Shirlington Apartments	294	49	1998	758	40%	93%	93%	1,132	1,122	21,101
VA - Suburban DC	Pavilion Apartments	432	36	1999	951	37%	91%	92%	1,395	1,374	53,828
VA - Suburban DC	Seminary Hill	296	44	1999	884	57%	91%	91%	1,156	1,115	19,402
VA - Suburban DC	Seminary Towers	540	40	1999	875	41%	93%	92%	1,145	1,114	35,579
VA - Suburban DC	Tamarron Apartments	132	17	1999	1,097	35%	95%	96%	1,169	1,086	10,644
VA - Suburban DC	The Sycamores	185	26	2002	876	51%	96%	91%	1,130	1,097	21,326
VA - Suburban DC	Virginia Village	344	37	2001	1,028	43%	95%	94%	1,186	1,144	32,253
VA - Suburban DC	Wellington Lakes	160	33	2001	675	74%	87%	86%	772	758	9,046
VA - Suburban DC	Wellington Woods	114	32	2001	688	80%	85%	91%	820	780	6,426
VA - Suburban DC	West Springfield Terrace	244	26	2002	1,019	65%	94%	89%	1,217	1,226	35,235
	Core Communities Total/Weighted Avg	38,560	35		856	45%	93%	93%	$948	$921	$2,667,146

(1) "Core Communities" represents the 38,560 apartment units owned consistently throughout 2003 and 2004.
(2) Resident Turnover" reflects, on an annual basis, the number of moveouts; divided by the total number of apartment units.
(3) "Average % Occupancy" is the average economic occupancy for the 12 months ended December 31, 2003 and 2004.
For communities acquired during 2003 and 2004, this is the average occupancy from the date of acquisition.

Communities Wholly Owned and Managed by Home Properties

Regional Area		# Of Apts	Age In Years	Year Acq	Average Apt Size (Sq Ft)	(2) 2004 % Resident Turnover	(3) 2004 Average % Occupancy	2003 Average % Occupancy	2004 Avg Mo Rent Rate per Apt	2003 Avg Mo, Rent Rate per Apt	12/31/2004 Total Cost (000)
	2003 Acquisition Communities										
MA - Boston	Stone Ends Apartments	280	25	2003	797	57%	95%	94%	$1,178	$1,080	$34,842
VA - Suburban DC	Falkland Chase Apartments	450	67	2003	772	40%	93%	91%	1,123	1,078	59,910
	2003 Total/Weighted Average	730	46		782	46%	93%	92%	$1,144	$1,079	$94,752
	2004 Acquisition Communities										
FL - Southeast	The Hamptons	668	15	2004	1,093	54%	90%	NA	$840	NA	$56,755
FL - Southeast	The Vinings at Hampton Village	168	15	2004	1,093	43%	93%	NA	911	NA	14,054
MA - Boston	The Village at Marshfield	276	32	2004	753	37%	93%	NA	1,068	NA	31,691
NJ - Northern	Chatham Hill Apartments	308	37	2004	944	26%	85%	NA	1,427	NA	49,551
NJ - Northern	Fairmount Apartments	54	61	2004	900	18%	97%	NA	758	NA	2,300
NJ - Northern	Kensington Apartments	38	61	2004	1,117	23%	98%	NA	884	NA	1,884
NJ - Northern	Northwood Apartments	134	39	2004	937	36%	94%	NA	1,110	NA	15,264
NJ - Northern	Regency Club	372	30	2004	941	41%	98%	NA	1,043	NA	37,872
VA - Suburban DC	The Apartments at Wellington Trace	240	2	2004	1,095	77%	94%	NA	1,160	NA	29,417
VA - Suburban DC	Woodleaf Apartments	228	19	2004	709	36%	94%	NA	967	NA	20,805
	2004 Total/Weighted Average	2,486	31		967	44%	92%	N/A	$1,017	N/A	$259,593
	Owned Portfolio Total/Weighted Avg	41,776	34		861	45%	93%	93%	$956	$924	$3,021,491

(1) "Core Communities" represents the 38,560 apartment units owned consistently throughout 2003 and 2004.
(2) Resident Turnover" reflects, on an annual basis, the number of moveouts; divided by the total number of apartment units.
(3) "Average % Occupancy" is the average economic occupancy for the 12 months ended December 31, 2003 and 2004.
For communities acquired during 2003 and 2004, this is the average occupancy from the date of acquisition.

Property Development

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

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

During 2003, the Company was successful in selling its interest in entities that own in the aggregate 84 properties containing 2,590 units. During 2004, the Company closed on the sale of its general partner interests in an additional 26 entities that own in the aggregate 1,952 units. The Company has under contract to sell, pending lender approval, an additional 12 entities that own in the aggregate 868 units. The Company still holds interests in three entities owning two affordable properties.

Of the remaining two properties with a total of 1,925 units, the Company will retain its ownership interest and will continue to manage one of them, with 868 units located in Columbus, Ohio, while it pursues various disposition options. The other property (interests in two partnerships), with 1,057 units located in Pittsburgh, Pennsylvania, 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. Following the note sale the Company expects that it will transfer its interest in this property to the new note holder in lieu of a foreclosure, and that it will cease managing the property. In January, 2005, the Company repurchased the limited partners' 99.99% interests in accordance with the partnership agreements. The Company has recorded the $5.7 million liability to repurchase these limited partnership interests and the resulting loss on disposition of property of $5.0 million. The Company does not anticipate the need to fund operating deficits and will only participate in the cash flow of the property by receiving a fee for managing the property for so long as there is cash flow available.

The Company has retained the ability to develop new market rate communities but does not plan to focus on this activity. Rather, it plans to engage in development activity only on a selective basis. Currently, the Company is developing a 120-unit apartment community in South Portland, Maine adjacent to a market-rate property the Company acquired in 1998. The first phase of the project, which consists of 48 units, is expected to be completed in the summer of 2005.

Property Management

As of December 31, 2004, the Managed Properties consist of: (i) 2,793 apartment units where Home Properties is the general partner of the entity that owns the property; and (ii) 2,809 apartment units managed for others. The 2,793 apartment units where the Company is the general partner are projected to be sold during 2005 as referred to above under the Property Development section.

On January 1, 2004, the Company sold certain assets of its commercial property management division to Home Leasing LLC, which is owned by the Leenhoutses. This division managed approximately 2.2 million square feet of gross leasable area, as well as certain planned communities. The majority of the managed commercial properties are and have been owned in whole or in part by the Leenhoutses since before the Company's IPO in 1994. The sale was completed in order to permit the Company to focus solely on the direct ownership and management of market rate apartment communities. The contribution from the commercial property management division to Home Properties’ 2003 earnings was significantly less than one-half of one percent. The initial amount paid was $67,500. In addition, the Company is entitled to receive a percentage of the management fee received by Home Leasing LLC in connection with the management of one of the commercial properties for a period not to exceed 36 months. If Home Leasing LLC continues to manage that property for three years, the Company is expected to receive an additional deferred purchase price of $166,000, for a total consideration of $233,500. If the management of this property is retained for the entire three years, the gain on sale will be approximately $135,000.

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

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

Communities Managed Home Properties by Market Area As of December 31, 2004

Communities Managed as General Partner

Community Name	City	# of Apts.
UPSTATE NEW YORK		
Rochester, NY Area		
Chevy Place	Rochester	77
College Greene Senior Apartments	N. Chili	110
East Court Apartments	Rochester	85
Fort Hill	Canandaigua	57
Jefferson Park	Fairport	69
YWCA	Rochester	86
Syracuse, NY Area		
Ledges	Evans Mills	100
Meadowview I	Central Square	60
Pontiac Terrace Apartments	Oswego	70
Schoolhouse Gardens	Groton	28
Wedgewood Apartments	Kirkville	70
ALBANY/HUDSON VALLEY NY AREA		
Albert Carriere Apartments	Rouses Point	56
NORTHERN/CENTRAL OHIO		
Briggs/Wedgewood Apartments	Columbus	868
PENNSYLVANIA		
Green Meadow Apartments	Pittsburgh	1,057
Total Apt. Units in Communities Managed as General Partner		***2,793***

Communities Fee Managed

Community Name	City	# of Apts.
MARYLAND		
Annapolis Roads Apartments	Annapolis	282
Chesapeake Bay Apartments	Annapolis	108
Dunfield Townhomes	Baltimore	312
Fox Hall	Baltimore	720
NORTHERN VIRGINIA		
Mount Vernon Square	Alexandria	1,387
Total Apt. Units in Communities Fee Managed		***2,809***

Supplemental Property Information

At December 31, 2004, none of the Properties have an individual net book value equal to or greater than ten percent of the total assets of the Company or would have accounted for ten percent or more of the Company's aggregate gross revenues for 2004.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to Vote of Security Holders

None.

Item 4A. Executive Officers

The following table sets forth, as of February 28, 2005, the eight executive officers of the Company, together with their respective ages, positions and offices.

Name	Age	Position
Edward J. Pettinella	53	President and Chief Executive Officer of Home Properties, HP Management and HPRS
David P. Gardner	49	Executive Vice President and Chief Financial Officer of Home Properties, HP Management and HPRS
Ann M. McCormick	48	Executive Vice President, General Counsel and Secretary of Home Properties, HP Management and HPRS
Scott A. Doyle	43	Senior Vice President, Property Management of Home Properties, HP Management and HPRS
Johanna A. Falk	40	Senior Vice President and Chief Administrative Officer of Home Properties, HP Management and HPRS
Robert J. Luken	40	Senior Vice President, Chief Accounting Officer and Treasurer of Home Properties, HP Management and HPRS
Janine M. Schue	42	Senior Vice President, Human Resources of Home Properties, HP Management and HPRS
John E. Smith	54	Senior Vice President, Acquisitions and Dispositions of Home Properties, HP Management and HPRS

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

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

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

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

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

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

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

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

PART II

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

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

	High	Low	Distribution
2003			
First Quarter	$34.85	$31.19	$.61
Second Quarter	$37.55	$33.66	$.61
Third Quarter	$39.20	$35.05	$.61
Fourth Quarter	$40.92	$37.75	$.62
2004			
First Quarter	$41.74	$38.45	$.62
Second Quarter	$41.30	$36.25	$.62
Third Quarter	$41.10	$36.83	$.62
Fourth Quarter	$43.96	$39.46	$.63

As of February 28, 2005, the Company had approximately 4,700 shareholders of record, 31,415,781 common shares (plus 15,583,411 UPREIT Units convertible into 15,583,411 common shares and Preferred Stock convertible into 833,333 common shares) were outstanding, and the closing price was $40.43. It is the Company's policy to pay dividends. The Company has historically paid dividends on a quarterly basis in the months of February, May, August and November. The Credit Agreement relating to the Company's $115 million line of credit provides that the Company may not pay any distribution if a distribution, when added to other distributions paid during the three immediately preceding fiscal quarters, exceeds the greater of: (i) 90% of funds from operations, and 110% of cash available for distribution; and (ii) the amounts required to maintain the Company's status as a REIT.

Issuer Purchases of Equity Securities

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action does not establish a specific target stock price or a specific timetable for share repurchase. In addition, participants in the Company’s Stock Benefit Plan can use common stock of the Company that they already own to pay all or a portion of the exercise payable to the Company upon the exercise of an option. In such event, the common stock used to pay the exercise price is returned to authorized but unissued status, and for purposes of this table is deemed to have been repurchased by the Company. At December 31, 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. At December 31, the Company had remaining authorization to repurchase 2,000,000 shares of common stock and UPREIT Units. From January 1, 2005 through February 16, 2005, the Company repurchased 1,300,700 additional shares at a cost of $53,320,000, leaving a remaining share authorization level of 699,300 shares. On February 16, 2005, the Board of Directors approved a 2,000,000 share increase in the stock repurchase program, resulting in a authorization level of 2,699,300 shares.

The following table summarizes the total number of shares (units) repurchased by the Company during the remainder of year ended December 31, 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 January 1, 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
October 1, 2004 to October 31, 2004	15,239	$ 40.77	-	3,078,300
November 1, 2004 to November 30, 2004	853,649	$ 41.65	701,900	2,376,400
December 1, 2004 to December 31, 2004	378,518	$ 42.38	376,400	2,000,000
Balance December 31, 2004:	1,310,604	$ 41.68	1,135,800	2,000,000

[1] During 2004, and as permitted by the Company's stock option plans, 30,783 shares of common stock already owned by option holders were used by those holders to pay the exercise price associated with their option exercise. These shares were returned to the status of authorized but unissued shares. In addition the Company repurchased 144,021 shares of common stock through share repurchase by the transfer agent in the open market in connection with the Company's Dividend Reinvestment Plan (DRIP).

Item 6. Selected Financial and Operating Information

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

	2004	2003	2002	2001	2000
Revenues:					
Rental Income	$436,724	$400,178	$355,520	$313,675	$265,386
Other Income	21,606	19,852	16,762	17,034	20,255
TOTAL REVENUES	458,330	420,030	372,282	330,709	285,641
Expenses:					
Operating and maintenance	202,479	181,773	154,583	137,578	119,780
General & administrative	23,978	22,607	12,649	10,542	6,485
Interest	90,404	82,758	73,508	63,597	54,109
Depreciation & amortization	89,929	76,206	62,823	58,484	46,716
Prepayment penalties	102	1,610	3,275	116	-
Impairment of assets held as General Partner	1,116	2,518	3,533	-	-
TOTAL EXPENSES	408,008	367,472	310,371	270,317	227,090
Income from operations	50,322	52,558	61,911	60,392	58,551
Equity in earnings (losses) of unconsolidated affiliates	(538)	(1,892)	(17,493)	123	(1,747)
Income before minority interest, discontinued operations and extraordinary item	49,784	50,666	44,418	60,515	56,804
Minority interest	13,637	13,965	9,451	17,890	21,316
Income from continuing operations	36,147	36,701	34,967	42,625	35,488
Discontinued operations, net of minority interest	11,263	5,106	10,174	6,625	6,763
Income before gain (loss) on disposition of property and business and cumulative effect of change in accounting principle	47,410	41,807	45,141	49,250	42,251
Gain (loss) on disposition of property and business, net of minority interest	(67)	(9)	(202)	15,256	(795)
Income before cumulative effect of change in accounting principle	47,343	41,798	44,939	64,506	41,456
Cumulative effect of change in accounting principle, net of minority interest	(321)	-	-	-	-
Net Income	47,022	41,798	44,939	64,506	41,456
Preferred dividends	(7,593)	(11,340)	(14,744)	(17,681)	(12,178)
Premium on Series B preferred stock repurchase	-	-	(5,025)	-	-
Net income available to common shareholders	$ 39,429	$ 30,458	$ 25,170	$ 46,825	$ 29,278
Basic earnings per share data:					
Income from continuing operations	$ .87	$ .87	$ .58	$ 1.82	$ 1.09
Discontinued operations	.34	.17	.39	.30	.33
Cumulative effect of change in accounting principle	(.01)	-	-	-	-
Net income available to common shareholders	$ 1.20	$ 1.04	$ .97	$ 2.12	$ 1.42
Diluted earnings per share data:					
Income from continuing operations	$ .85	$ .86	$ .57	$ 1.81	$ 1.08
Discontinued operations	.34	.17	.39	.30	.33
Cumulative effect of change in accounting principle	(.01)	-	-	-	-
Net income available to common shareholders	$ 1.18	$ 1.03	$ .96	$ 2.11	$ 1.41
Cash dividends declared per common share	$ 2.49	$ 2.45	$ 2.41	$ 2.31	$ 2.16
Balance Sheet Data:					
Real estate, before accumulated depreciation	$3,123,901	$2,752,992	$2,597,278	$2,135,078	$1,895,269
Total assets	2,816,796	2,513,317	2,456,266	2,063,789	1,871,888
Total debt	1,702,722	1,380,696	1,335,807	992,858	832,783
Series B convertible cumulative preferred stock	-	-	-	48,733	48,733
Redeemable preferred stock (1)	85,000	85,000	167,680	114,000	149,000
Stockholders' equity	720,422	741,263	726,242	620,596	569,528
Other Data:					
Net cash provided by operating activities	$159,195	$144,107	$140,612	$148,505	$127,218
Net cash used in investing activities	($165,466)	($112,025)	($295,181)	($139,106)	($178,466)
Net cash provided by (used in) financing activities	$ 8,243	($ 35,761)	$152,632	($ 9,129)	$56,955
Funds from Operations (2)	$126,953	$132,803	$121,745	$136,604	$120,854
Adjusted Funds From Operations(3)	$104,787	$111,020	$100,654	$120,994	$107,300
Weighted average number of shares outstanding:					
Basic	32,911,945	29,208,242	26,054,535	22,101,027	20,639,241
Diluted	33,314,038	29,575,660	26,335,316	22,227,521	20,755,721
Total communities owned at end of period	150	147	152	143	147
Total apartment units owned at end of period	41,776	40,946	41,776	39,007	39,041

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

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

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

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

	2004	2003	2002	2001	2000
Net income available to common shareholders	$ 39,429	$ 30,458	$ 25,170	$ 46,825	$ 29,278
Convertible Preferred dividends[(a)]	2,194	5,939	10,589	17,681	12,178
Depreciation from real property[(b)]	91,564	79,577	67,919	64,589	52,297
Impairment on General Partner Investment	945	1,785	1,470	-	-
(Gain) loss from sale of property	50	260	202	(15,256)	795
Minority interest	13,637	13,965	9,451	17,890	21,316
Minority interest – discontinued operations	(80)	1,385	2,775	4,759	4,990
Impairment of real property	-	423	1,565	-	-
(Gain) loss from sale of discontinued operations	(21,107)	(2,599)	(5,696)	-	-
Prepayment penalties	-	-	3,275	116	-
Loss from early extinguishment of debt in connection with sale of real estate	-	1,610	-	-	-
Cumulative effect of change in accounting principle	321	-	-	-	-
FFO as defined above	126,953	132,803	116,720	136,604	120,854
Premium paid on Series B repurchased[(c)]	-	-	5,025	-	-
FFO as adjusted by the Company	126,953	132,803	121,745	136,604	120,854
Reserve[(3)]	(22,166)	(21,783)	(21,091)	(15,610)	(13,554)
Adjusted Funds From Operations	$104,787	$111,020	$100,654	$120,994	$107,300
Weighted average common shares/units outstanding:					
Basic	48,675.0	45,276.7	42,062.1	37,980.0	35,998.3
Diluted[(a)]	49,077.1	47,873.8	46,466.4	45,063.6	41,128.4

(a) The calculation of FFO assumes the conversion of dilutive common stock equivalents and convertible preferred stock. Therefore, the convertible preferred dividends are added to FFO, and the common stock equivalent is included in both the basic and diluted weighted average common shares/units outstanding. The weighted average common shares/units outstanding assumes conversion of all UPREIT Units to common shares.

(b) Includes amounts passed through from unconsolidated investments.

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

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

(3) Adjusted Funds From Operations is defined as Funds from Operations less an annual reserve for anticipated recurring, non-revenue generating capitalized costs ("Reserve") of $525 for 2004, 2003 and 2002 ($400 used for 2001 and $375 used for 2000) per apartment unit (weighted average units owned during the year). The adjustment from FFO to AFFO only takes into account this reserve level as previously described. The NAREIT definition of FFO or AFFO does not take into account any additional costs of capital improvements and capitalized interest that also are incurred. The total level of capital improvements and capitalized interest (including the amount defined as reserve) for the five years are as follows: 2004 - $102,700; 2003 - $106,346; 2002 - $115,692; 2001 - $130,648; and 2000 - $92,603. Please see Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations for an expanded discussion on capital improvements.

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

Overview

The following discussion should be read in conjunction with the consolidated financial statements, the notes thereto, and the selected financial data appearing elsewhere in this report. Historical results and percentage relationships set forth in the consolidated financial statements, including trends which might appear, should not be taken as indicative of future operations. The Company considers portions of the information to be "forward-looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, with respect to the Company's expectations for future periods. Forward-looking statements include, without limitation, statements related to acquisitions (including any related pro forma financial information) future capital expenditures, financing sources and availability and the effects of environmental and other regulations. Although the Company believes that the expectations reflected in those forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be achieved. Factors that may cause actual results to differ include general economic and local real estate conditions, the weather and other conditions that might affect operating expenses, the timely completion of repositioning activities within anticipated budgets, the actual pace of future acquisitions and sales, and continued access to capital to fund growth. For this purpose, any statements contained herein that are not statements of historical fact should be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes", "anticipates", "plans", "expects", "seeks", "estimates", and similar expressions are intended to identify forward-looking statements. Readers should exercise caution in interpreting and relying on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond the Company's control and could materially affect the Company's actual results, performance or achievements.

The Company is engaged primarily in the ownership, management, acquisition, rehabilitation and development of residential apartment communities in selected Northeast, Mid-Atlantic, Midwest and Southeast Florida markets. As of December 31, 2004, the Company operated 169 apartment communities with 47,378 apartments. Of this total, the Company owned 150 communities, consisting of 41,776 apartments, managed as general partner 14 partnerships that owned 2,793 apartments, and fee managed 2,809 apartments for affiliates and third parties.

Executive Summary

The Company continued to operate during 2004 in a difficult economic environment. The recession, which started in 2001, continued through 2003 resulting in job losses in many parts of the country. For historical reference, Home Properties' markets experienced negative job growth of -0.4% in 2001 and -0.9% in 2002. For 2003, the Company's markets, as well as the country as a whole, experienced flat job growth. A reduction of job growth leads to fewer household formations, which creates a reduction in demand for rental housing. In addition, the low interest rate environment made it more challenging to compete for potential residents who considered making the switch to home ownership. Home ownership continues to be the number one reason our residents give for moving out of our communities. In 2001, home purchases represented 17.8% of our move-outs, growing to 18.8% in 2002, 19.6% in 2003, and leveling off at 19.5% for 2004. An increase to home mortgage rates could push this level down, which would positively affect our turnover rates and improve occupancy. As referenced in our Market Demographics table on page 8 of this report, job growth for our markets improved in 2004 with 1.0% growth over 2003. As there is usually a lag between job growth and household formation, this slight recovery did not create a measurable increased demand for our apartments during 2004.

During 2003, with leading indicators suggesting that the economy had bottomed out and was positioned for a recovery, the Company decided to position itself to improve occupancy. This resulted in less aggressive rental rate increases and a greater use of rent concessions to achieve this objective, and we ended 2003 at 93.3% occupancy for the 120 communities with 34,290 units owned throughout 2002 and 2003 where comparable results are available for the years presented ("2003 Core Properties"). Concessions for 2003 were 119 basis points of rental revenue, which dropped to 87 basis points for all of 2004, and 76 basis points for the fourth quarter of 2004.

Occupancies at the Core Properties for 2004 increased slightly by 40 basis points, from 92.7% to 93.1%. Occupancies in the fourth quarter of 2004 averaged 92.3%, compared to 93.3% a year ago. The Company uses a measurement referred to as Available to Rent, or ATR. This is a leading indicator to assess future occupancy rates by reference to units which will be available for rent, based upon leases signed or termination notices received relating to future move in/move out dates. As of the middle of February, 2005, our ATR was 8.4%, compared to the same time period a year ago when ATR was 6.9%. The fact that ATR is running 1.5% behind 2004 is not surprising, given the fact that 2004 ended 1.0% behind the previous year in occupancy. Balancing this is increased rental growth achieved each and every quarter of 2004.

Total Core Property rental revenue growth for 2004 was expected to be 3.8%, made up of 2.5% in rental rate growth, 0.6% in occupancy improvement, and 0.7% in reduction to concessions. Actual results were 2.6% in rental rate growth, 0.4% in occupancy improvement, and 0.3% reduction to concessions, totaling 3.3% total rental revenue growth. One positive trend in 2004 was the growth seen quarter over quarter for weighted average rents, which captures rent increases as well as changes to concessions. The first quarter of 2004 was 2.4%, second quarter 2.5% third quarter 2.9% and fourth quarter 3.1%.

The guidance for 2005 Core Properties (apartment units owned throughout 2004 and 2005) rental growth is 3.3%. Rental rates are projected to increase 2.5%, including above-average rental increases at certain communities resulting from the continued efforts to upgrade the properties. Occupancies are expected to pick up 0.3% for the year, starting out negative for the first quarter, breaking even for the second quarter, and achieving positive growth for the third and fourth quarters. Finally, the pricing power resulting from improved occupancies support the belief that we will slow down concession activity , adding 0.5% to net rental income.

Expenses for 2005 Core Properties are projected to increase 3.9%. See below under "Results of Operations" for more details on expense comparisons.

These revenue and expense projections result in 2005 Core Properties net operating income (“NOI”) growth of 2.5% at the mid-point of 2005 guidance. Markets where the Company expects above average NOI growth include: Boston (+5.8%); Philadelphia (+4.7%); Washington, D.C. (+3.8%); and Upstate New York (Rochester, Buffalo and Syracuse at +3.7%). Markets with below average expectations include: New York City Metro (+1.9%); Baltimore (+1.2%); Detroit (+0.7%); and Chicago (-4.2%). Certain historical demographic information for these markets may be found in the tables on pages 8 and 9 of this report.

Of the two items making up NOI – rental revenue and operating expenses, the revenue component is likely to be more volatile. An improving economy could create higher demand for rental housing above that projected. An economic recovery that creates little new job growth, coupled with a continuation of low interest rates, could put pressure on the Company's ability to reach the mid-point of guidance. The Company has given FFO guidance for 2005 with a range of $2.83 to $2.97 per share.

The Company has anticipated closing on acquisitions of $200 million in its budget for 2005. The Company is committed to a disciplined approach to acquisitions, but at the same time recognizes that unprecedented low interest rate levels allow the Company flexibility to adjust hurdle rates and bids to reflect market conditions. The Company has traditionally kept leverage at about 40% of total equity market capitalization. Using a constant stock price of $41.00 per share for the equity component of total market capitalization, our debt to total market cap was 40.0% at the end of 2002, 39.9% at the end of 2003, and 43.7% at the end of 2004. To facilitate acquisition activity in the current market, the Company will increase leverage to enhance the ability to secure prime acquisition opportunities. While the acquisition market will likely continue to be very competitive, the Company is confident that the 2005 acquisition goal of $200 million is achievable based on the current acquisition pipeline and the Company's decision to increase leverage.

During the fourth quarter of 2004 and first quarter of 2005, the Company increased its level of stock buy-back activity substantially, repurchasing approximately 2.4 million shares at a weighted price of $41.35 per share. The Company's strategy is to opportunistically repurchase shares at a discount to its underlying net asset value, thereby continuing to build value for shareholders. The Company estimates its net asset value per share at December 31, 2004 to be $44.68, based on capitalizing at 7% the annualized and seasonally adjusted fourth quarter property net income, plus a 4% growth factor, minus a management fee. With the difficult and competitive acquisition environment described above, the Company believes buying back stock is a logical use of funds. The Company will continue to monitor stock prices, the published net asset value and acquisition alternatives to determine the current best use of capital between stock buyback and acquisitions.

During 2005, the Company anticipates increasing leverage to a level of approximately 47% of debt-to-total market capitalization in order to meet the above-described acquisition goals. Finally, although not contemplated based on the announced level of acquisitions of $200 million, if the acquisition pace were to increase, the Company would consider a combination of increased sales of under-performing or isolated apartment communities and issuance of cumulative redeemable preferred stock to raise additional capital.

Results of Operations

C*omparison of year ended December 31, 2004 to year ended December 31, 2003.*

The Company owned 138 communities with 38,560 apartment units throughout 2003 and 2004 where comparable operating results are available for the years presented (the "2004 Core Properties"). For the year ended December 31, 2004, the 2004 Core Properties showed an increase in rental revenues of 3.3% and a net operating income increase of 2.2% over the 2003 year-end period. Property level operating expenses increased 6.0%. Average economic occupancy for the 2004 Core Properties increased from 92.7% to 93.1%, with average monthly rental rates increasing 2.8% to $948 per apartment unit.

A summary of the 2004 Core Property net operating income is as follows:

	2004	2003	$ Change	% Change
Rent	$408,404,000	$395,203,000	$13,201,000	3.3%
Property Other Income	17,440,000	14,713,000	2,727,000	18.5%
Total Revenue	425,844,000	409,916,000	15,928,000	3.9%
Operating and Maintenance	(190,917,000)	(180,118,000)	(10,799,000)	(6.0%)
Net Operating Income	$234,927,000	$229,798,000	$ 5,129,000	2.2%

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

During 2004, the Company acquired a total of 2,486 apartment units in ten newly-acquired communities (the "2004 Acquisition Communities"). In addition, the Company experienced full-year results for the 730 apartment units in two apartment communities (the "2003 Acquisition Communities") acquired during 2003. The inclusion of these acquired communities generally accounted for the significant changes in operating results for the year ended December 31, 2004.

A summary of the net operating income from operations for the Company as a whole is as follows:

	2004	2003	$ Change	% Change
Rent	$436,724,000	$400,178,000	$36,546,000	9.1%
Property Other Income	18,299,000	14,910,000	3,389,000	22.7%
Total Revenue	455,023,000	415,088,000	39,935,000	9.6%
Operating and Maintenance	(202,479,000)	(181,773,000)	(20,706,000)	(11.4)%
Net Operating Income	$252,544,000	$233,315,000	$19,229,000	8.2%

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

For the year ended December 31, 2004, income from operations (income before equity in earnings (losses) of unconsolidated affiliates, minority interest, discontinued operations and gain (loss) on disposition of property and business) decreased by $2,236,000 when compared to the year ended December 31, 2003. The decrease was primarily attributable to the following factors: an increase in rental income of $36,546,000, an increase in property other income of $3,389,000 and a decrease in impairment of assets held as general partner of $1,402,000. These changes were more than offset by an increase in operating and maintenance expense of $20,706,000, an increase in general and administrative expense of $1,371,000, an increase in interest expense of $6,138,000, an increase in depreciation and amortization of $13,723,000 and a decrease in all other income of $1,635,000. Each of the items are described in more detail below.

Of the $36,546,000 increase in rental income, $4,410,000 is attributable to the 2003 Acquisition Communities and $18,935,000 is attributable to the 2004 Acquisition Communities. The balance of $13,201,000 relates to a 3.3% increase from the 2004 Core Properties due primarily to an increase of 2.8% in weighted average rental rates, accompanied by an increase in average economic occupancy from 92.7% to 93.1%.

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

In the current economic environment, it is very difficult to project rental rate and occupancy results. The Company has provided guidance for 2005, which, at the mid-point of the range, anticipates same store revenue growth of 3.1%, including above-average rental increases from the continued efforts to upgrade the properties. Occupancy levels are expected to slowly improve from the level at the end of the fourth quarter of 2004, producing an expected average for 2005 Core Properties of 93.4%, 30 basis points higher than all of 2004.

Property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport rentals, net profits from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents, increased in 2004 by $3,389,000. Of this increase, $210,000 is attributable to the 2003 Acquisition Communities, $452,000 is attributable to the 2004 Acquisition Communities, and $2,727,000 represents a 18.5% increase attributable to the 2004 Core Properties. A significant portion of the increase (40%) for the 2004 Core Properties is from telephone revenue and cable revenue, in particular, revenue recognized in the amount of $500,000 associated with the termination of a contract with a telephone service provider. In addition, 12% of the increase is from increased laundry revenue as we continue to increase the percentage of owned laundry equipment at the properties.

Other income, which primarily reflects management and other real estate service fees recognized by the Company, decreased in 2004 by $1,599,000. This is due primarily to a decrease in the level of management activity as a result of the sale of the affordable limited partnerships.

Of the $20,706,000 increase in operating and maintenance expenses, $1,687,000 is attributable to the 2003 Acquisition Communities and $8,220,000 is attributable to the 2004 Acquisition Communities. The balance for the 2004 Core Properties, a $10,799,000 increase in operating expenses or 6.0%, is primarily a result of increases in utilities, repairs and maintenance, personnel, property insurance and real estate taxes, offset in part by reductions in advertising and snow removal costs.

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

	2004	2003	$ Variance	% Variance
Electricity	$ 7,969	$ 7,465	$ (504)	-6.8%
Gas	19,243	18,089	(1,154)	-6.4%
Water & Sewer	10,819	9,804	(1,015)	-10.4%
Repairs & Maintenance	30,269	27,033	(3,236)	-12.0%
Personnel Expense	41,795	39,472	(2,323)	-5.9%
Site Level Incentive Compensation	1,700	1,150	(550)	-47.8%
Advertising	6,320	6,826	506	7.4%
Legal & Professional	1,457	1,444	(13)	-0.9%
Office & Telephone	5,309	5,600	291	5.2%
Property Insurance	7,149	6,199	(950)	-15.3%
Real Estate Taxes	43,444	41,060	(2,384)	-5.8%
Snow	1,204	1,970	766	38.9%
Trash	2,630	2,758	128	4.6%
Property Management G&A	11,609	11,248	(361)	-3.2%
Total	$190,917	$180,118	$(10,799)	-6.0%

The increase in electric of 6.8% continues a trend of above 5% increases for the past two years, reflective of market increases versus any substantial shift in usage.

The natural gas heating cost variance of 6.4% was all a fourth quarter event, as this line item was breakeven through the third quarter of 2004. The fourth quarter of 2003 was relatively mild, plus there have been significant increases in the cost of natural gas per decatherm. As of December 31, 2004, the Company had fixed-price contracts covering 99% of its natural gas exposure for the 2004/2005 heating season. The Company has fixed-price contracts covering 59% of its natural gas exposure for calendar year 2005. Risk is further diversified by staggering contract term expirations. For the 2004/2005 heating season, where the Company has coverage for 99% of its exposure, the Company's negotiated average price per decatherm is approximately $6.08. For calendar year 2005, where the Company has coverage for 59% of its exposure, the Company's negotiated average price per decatherm is approximately $6.40. A year ago, the average commodity cost for the season's contracts was $4.52. While costs are up, they are below the weighted settle price of $6.68 we would have paid for the same period if we had not had natural gas costs on a fixed contract. The Company has provided guidance for 2005 which anticipates a 20% increase (or $3,900,000) in natural gas heating costs. This is based on the thirty-year average for the number of degrees days for 2005. For guidance, the portion of the calendar year not covered by fixed price contracts is assumed to be priced at a level that reflects twelve month strip pricing as of February, 2005. During 2005, the Company plans on increasing the percentage of fixed price contracts before entering the 2005/2006 winter heating season.

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

The increase in repairs and maintenance of 12% occurred in contract repairs, painting and cleaning. Included in contract repairs is $805,000 of sales tax expense, as described below, which accounted for 25% of the total increase in repairs and maintenance. Cleaning costs are up $637,000, or 20% of the total increase in repairs and maintenance. A significant portion of this represents a shift between personnel costs and repairs and maintenance as more of this function was performed by outside contractors versus in-house personnel. The Company has provided guidance for 2005 which anticipates a 2.3% decrease in repairs and maintenance. The anticipated decrease in repairs and maintenance is two-fold. First, the $805,000 from sales tax will not be repeated, providing a positive comparison. If not for this, other expenses in this category would be break-even. The other reason is an increased focus on reducing controllable operating costs. Properties whose costs are out of line compared to typical per unit average costs will be challenged to perform within more stringent operating budgets. The shift in the property manager bonus plan for 2005 from revenue based to net operating income based should also focus attention on repair and maintenance expense control.

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

As a result of this audit, during the second quarter the Company examined its sales and use tax compliance in the other states in which the Company operates. Based upon its internal analysis, the Company estimated its liability as of June 30, 2004 in those states where it found non-compliance and had recorded a liability of $1,712,000. This was allocated $493,000 to expense for property repairs, $233,000 to interest expense, $35,000 (before minority interest) to loss on disposition of property, and $951,000 capitalized to real estate assets. The liability recorded related to the period beginning on the later of: (i) the date the Company first purchased property in the applicable state; or (ii) January 1, 1997 and ending on June 30, 2004. The Company recognizes that the liability recorded 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 $1,325,000 and $2,300,000.

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

Personnel expense was up 5.9% in 2004 versus 2003. Payroll tax expense was up 7.2%, mostly fueled by significant increases in workers compensation and health insurance costs. The balance represents a 4.8% increase in wages. For 2005 guidance, personnel costs are anticipated to increase 3.6%, with more controlled increases in workers compensation and health insurance expected.

Site level incentive compensation was up $550,000, or 47.8%. This represents an increased focus on creating a higher level of property management compensation coming from incentive based performance measures. Site level bonuses increased $400,000, while leasing commissions increased $150,000.

Advertising costs were down 7.4% as a result of a comparison to higher than normal levels in 2003. Advertising costs were up substantially in 2003 consistent with increased efforts to attract traffic and increase occupancy. The advertising level in 2004 reflected a more normalized run rate.

Property insurance costs were up 15.3% over 2003. The insurance expense for 2003 reflects the impact of a legal settlement which reduced the expense by $500,000. Without the benefit of this settlement, insurance costs would have been up 6.7%. The Company renewed the property and general liability insurance policy for the year beginning November, 2004 at significantly reduced rates. The guidance for 2005 reflects a 14.8% decrease in insurance costs.

Real estate taxes were up 5.8% in 2004, reflecting increased assessments and rates as tax authorities struggle to raise revenues in many regions of the country. The Company expects real estate taxes to increase a similar amount in 2005.

Snow removal costs were down 38.9%. The first quarter of 2003 produced significant snowfalls compared to historical norms. Most of the $766,000 decrease in snow removal costs occurred during the first quarter, due to this comparison and below normal snowfall in 2004. Snow removal costs are anticipated to return to normal levels in 2005 with a 38% increase from 2004 levels projected.

The operating expense ratio (the ratio of operating and maintenance expense compared to rental and property other income) for the 2004 Core Properties was 44.8% and 43.9% for 2004 and 2003, respectively. This 0.9% increase resulted from the 3.9% increase in total revenue achieved through ongoing efforts to upgrade and reposition properties for maximum potential being offset by the 6.0% increase in operating and maintenance expense. In general, the Company's operating expense ratio is higher than that experienced in other parts of the country due to relatively high real estate taxes in its markets and the Company's practice, typical in its markets, of including heating expenses in base rent.

General and administrative expenses ("G&A") increased in 2004 by $1,371,000 or 6% from $22,607,000 in 2003 to $23,978,000 in 2004. Of this increase, $3,800,000 is attributable to an accrued liability recorded in the fourth quarter of 2004 relating to the March 2005 settlement of a lawsuit and the payment of certain related legal fees, as described below. The year-over-year increase would have been greater but for a $5,000,000 expense incurred in 2003 for the restricted stock granted to the Leenhoutses as part of their retirement as Co-CEO's. After taking into account the settlement expense and the restricted stock grant, all other items of G&A increased $2,571,000 year over year. Of this net variance, $1,591,000 is directly attributed to increased external costs incurred specifically to comply with Section 404 of Sarbanes-Oxley. Including all other accounting, auditing and tax compliance cost increases explains an additional $368,000 of the variance increase. All other items of G&A accounted for the $612,000 balance of the increase. The total direct external costs incurred during 2004 for Section 404 compliance totaled approximately $1,800,000. G&A is expected to decrease 18% for 2005, based on an expectation of a lower level of Section 404 costs to be required and the fact that the Company does not anticipate additional settlement costs in 2005.

The $3.8 million accrued for settlement costs ($3.5 million) and the legal fees ($300,000) relates to a legal action, commenced in 2000, against the Company, the Operating Partnership and Home Leasing Corporation. Home Leasing is owned by Nelson B. Leenhouts and Norman Leenhouts, who are the Co-Chairs of the Board of Directors and Senior Advisors to the Company. The Company was originally formed to expand and continue Home Leasing's business. The essence of the complaint was that the entity in which the plaintiffs were investors was wrongfully excluded from the Company's initial organization. In their original complaint, plaintiffs sought damages in the amount of $3 million. In the subsequent discovery process, plaintiffs increased damages sought to $10 million. Payment in settlement and of legal fees was made on behalf of Home Leasing as well as the Company and the Operating Partnership in recognition of the fact that the matters alleged in the action against Home Leasing related directly and solely to the promotion and creation of the Company.

Interest expense increased in 2004 by $6,138,000 as a result of the increased borrowings in connection with acquisition of the 2004 Acquisition Communities, and a full year of interest expense for the 2003 Acquisition Communities. In addition, amortization from deferred charges relating to the financing of properties totaled $1,766,000 and $1,483,000, and was included in interest expense for 2004 and 2003, respectively.

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

Depreciation and amortization expense increased $13,723,000 due to the additional depreciation expense on the 2004 Acquisition Communities and a full year of depreciation expense for the 2003 Acquisition Communities, as well the incremental depreciation on the capital expenditures for additions and improvements to the Core Properties in 2004 and 2003 of $91,151,000 and $101,398,000, respectively, net of the Disposition Communities.

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

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

Minority interest decreased $328,000 as a direct result of the decrease in income from operations over the prior year.

Included in discontinued operations for the year-ended December 31, 2004, are the Disposition Communities 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 reported them in discontinued operations. (See further detail supplied under “Off-Balance Sheet Investments” section).

Included in the $11,417,000 net gain on disposition of property reported for the year 2004 is the sale of five apartment communities where the Company has recorded a combined gain on sale, net of minority interest, of approximately $18,082,000. In addition, the Company recorded a $6,665,000 loss, net of minority interest of $3,103,000, during the year related to the disposal of the affordable partnerships. Included in the gross $9.8 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 26 affordable properties and the eight properties under contract for sale with the same buyer. The Company has recorded a $309,000 impairment in connection with a contract to sell general partnership interests in eight properties with a total of 612 units. Finally, a reduction of $800,000 to fair market value has been recorded for the property the Company will continue to hold for sale.

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

Net income increased $5,224,000 primarily due to the increase in discontinued operations of $6,157,000 in 2004 compared to 2003.

Comparison of year ended December 31, 2003 to year ended December 31, 2002.

The Company owned 120 communities with 34,290 apartment units throughout 2002 and 2003 where comparable operating results are available for the years presented (the "2003 Core Properties"). For the year ended December 31, 2003, the 2003 Core Properties showed an increase in rental revenues of 3.1% and a net operating income decrease of 1.0% over the 2002 year-end period. Property level operating expenses increased 8.8%. Average economic occupancy for the 2003 Core Properties increased from 92.1% to 92.4%, with average monthly rental rates increasing 2.8% to $894 per apartment unit.

A summary of the 2003 Core Property net operating income is as follows:

	2003	2002	$ Change	% Change
Rent	$339,930,000	$329,764,000	$10,166,000	3.1%
Property Other Income	13,599,000	12,975,000	624,000	4.8%
Total Revenue	353,529,000	342,739,000	10,790,000	3.1%
Operating and Maintenance	(157,967,000)	(145,195,000)	(12,772,000)	(8.8%)
Net Operating Income	$195,562,000	$197,544,000	$(1,982,000)	(1.0%)

During 2003, the Company acquired a total of 730 apartment units in two newly-acquired communities (the "2003 Acquisition Communities"). In addition, the Company experienced a full year results for the 4,280 apartment units in twenty apartment communities (the "2002 Acquisition Communities") acquired during 2002. The inclusion of these acquired communities generally accounted for the significant changes in operating results for the year ended December 31, 2003.

A summary of the net operating income from operations for the Company as a whole is as follows:

	2003	2002	$ Change	% Change
Rent	$400,178,000	$355,520,000	$44,658,000	12.6%
Property Other Income	14,910,000	13,470,000	1,440,000	10.7%
Total Revenue	415,088,000	368,990,000	46,098,000	12.5%
Operating and Maintenance	(181,773,000)	(154,583,000)	(27,190,000)	(17.6)%
Net Operating Income	$233,315,000	$214,407,000	$18,908,000	8.8%

During 2003, the Company disposed of seven properties with a total of 1,568 units, which had partial results for 2003 (the "2003 Disposed Communities"). During 2004, the Company also disposed of five properties with a total of 1,646 units. The results of these disposed properties have been reflected in discontinued operations.

For the year ended December 31, 2003, income from operations (income before equity in earnings (losses) of unconsolidated affiliates, minority interest, discontinued operations and gain (loss) on disposition of property and business) decreased by $9,353,000 when compared to the year ended December 31, 2002. The decrease was primarily attributable to the following factors: an increase in operating and maintenance expense of $27,190,000, an increase in general and administrative expense of $9,958,000, an increase in interest expense of $7,585,000, and an increase in depreciation and amortization of $13,383,000. These changes were partially offset by a decrease of $1,015,000 in all other expense items, an increase in rental income of $44,658,000, and an increase in all other income of $3,090,000. Each of the expense items is described in more detail below.

Of the $44,658,000 increase in rental income, $29,520,000 is attributable to the 2002 Acquisition Communities and $4,972,000 is attributable to the 2003 Acquisition Communities. The balance of $10,166,000 relates to a 3.1% increase from the 2003 Core Properties due primarily to an increase of 2.8% in weighted average rental rates, accompanied by an increase in average economic occupancy from 92.1% to 92.4%.

Property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport rentals, net profits from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents, increased in 2003 by $1,440,000. Of this increase, $619,000 is attributable to the 2002 Acquisition Communities, $197,000 is attributable to the 2003 Acquisition Communities, and $624,000 represents a 4.8% increase attributable to the 2003 Core Properties. The increase represents a higher level of corporate leases in 2003 which produced a higher level of ancillary income.

Interest and dividend income decreased in 2003 by $799,000, due to decreased levels of financing to affiliates as a result of the Company's disposition of its interests in various affordable housing communities and a lower interest rate environment.

Other income, which primarily reflects management and other real estate service fees recognized by the Company, increased in 2003 by $2,449,000. This is the direct result of the consolidation of the Management Companies effective January 1, 2003. In 2002 and prior, the share of the combined loss from the Management Companies was included in the line item Equity in earnings (losses) of unconsolidated affiliates. The activity in 2003 is spread amongst various line items including other income, interest income, general and administrative, interest expense, and depreciation expense to name the major categories (see Note 4 to the Consolidated Financial Statements for a complete historical breakdown).

Of the $27,190,000 increase in operating and maintenance expenses, $12,846,000 is attributable to the 2002 Acquisition Communities, $1,572,000 is attributable to the 2003 Acquisition Communities. The balance for the 2003 Core Properties, a $12,772,000 increase in operating expenses or 8.8%, is primarily a result of increases in natural gas heating costs, repairs and maintenance, personnel, advertising, property insurance, snow removal costs, and property management allocated general and administrative costs.

The breakdown of operating and maintenance costs by line item is listed below:

	2003	2002	$ Variance	% Variance
Electricity	$ 6,343	$ 6,001	$(342)	-5.7%
Gas	15,499	14,712	(787)	-5.3%
Water & Sewer	8,436	8,416	(20)	-0.2%
Repairs & Maintenance	24,879	22,734	(2,145)	-9.4%
Personnel Expense	36,128	32,453	(3,675)	-11.3%
Site Level Incentive Compensation	1,031	650	(381)	-58.6%
Advertising	6,265	5,576	(689)	-12.4%
Legal & Professional	1,202	1,203	1	0.1%
Office & Telephone	4,950	4,517	(433)	-9.6%
Property Insurance	5,431	2,997	(2,434)	-81.2%
Real Estate Taxes	33,673	33,553	(120)	-0.4%
Snow	1,569	782	(787)	-100.6%
Trash	2,504	2,506	2	0.1%
Property Management G&A	10,057	9,095	(962)	-10.6%
Total	$157,967	$145,195	$(12,772)	- 8.8%

The natural gas variance of 5.3% was mostly a second quarter event from a combination of a colder spring than usual, as well as renewal of certain contracts at higher rates than we enjoyed the year before. As of December 31, 2003, the Company had fixed-price contracts covering 99% of its natural gas exposure for the 2003/2004 heating season. Risk was further diversified by staggering contract term expirations. For the 2003/2004 heating season, the Company's negotiated average price per decatherm was approximately $4.52. A year ago, the average commodity cost for the season’s contracts was $3.80. While the Company's costs are up, they are well below the January 2004 strip price of $5.79 for the same time frame.

The increase in repairs and maintenance of 9.4% occurred in contract repairs, painting and cleaning. The timing of contract repairs are somewhat unpredictable. A new marketing strategy for many of our regions included a two-tone, custom paint selection, which drove up costs, but may have helped to capture a higher percentage of potential resident traffic. This custom painting strategy has been discontinued for 2004.

Personnel expense was up 11.3% in 2003 versus 2002. The harsh snowfall during the first quarter of 2003 contributed to the need for overtime in excess of budget, which accounted for 1.5% of the 11.3% increase. Payroll tax expense was up 22%, mostly fueled by significant increases in workers compensation and health insurance costs, accounting for 5.0% of the 11.3% increase. The balance represents a 4.8% increase in wages.

Advertising costs were up 12.4%, consistent with the efforts to attract traffic and increase occupancy.

Property insurance costs were up 81.2% over 2002. The insurance expense for 2002 reflects the impact of a legal settlement related to the portion of the policy year from January 1, 2002 to October 31, 2002, which reduced the expense by $2.7 million. In addition, the policy period from November 1, 2002 to October 31, 2003 was reduced by a settlement of $600,000.

Snow removal costs were up 100.6%. The first quarter of 2003 produced significant snowfalls compared to historical norms. Most of the $787,000 increase in snow removal costs occurred during the first quarter.

Many new property management initiatives were started in 2002, but were not fully functional until the fourth quarter of 2002, resulting in increased property management G&A. Among those initiatives are a 24/7 call center, expanded marketing initiatives, and improvements in hardware, software and staffing of the information systems department. This contributed to the 10.6% increase experienced in property management G&A in 2003.

The operating expense ratio (the ratio of operating and maintenance expense compared to rental and property other income) for the 2003 Core Properties was 44.7% and 42.2% for 2003 and 2002, respectively. This 2.5% increase resulted from the 3.1% increase in total revenue achieved through ongoing efforts to upgrade and reposition properties for maximum potential being offset by the 8.8% increase in operating and maintenance expense. In general, the Company's operating expense ratio is higher than that experienced in other parts of the country due to relatively high real estate taxes in its markets and the Company's practice, typical in its markets, of including heating expenses in base rent.

General and administrative expenses ("G&A") increased in 2003 by $9,958,000 or 79% from $12,649,000 in 2002 to $22,607,000 in 2003. Of this increase, $5,000,000 represents a one time charge for the restricted stock granted to the Leenhoutses as part of their retirement as Co-CEO's. Another $4,183,000 of the increase is the direct result of the consolidation of the Management Companies effective January 1, 2003, since the expenses of the Management Companies are recorded directly as consolidated expenses, whereas previously they had been a component of the Company's share of the income within the line item "Equity in earnings (losses) of unconsolidated affiliates." (See "Other Income" above for more detail.) The remaining $775,000 is primarily comprised of the costs related to the expensing of stock options for the first time beginning in 2003 of $804,000, other general increases of $853,000, offset by a decline of $882,000 from the cost of a legal settlement included in 2002 not repeated in 2003.

Interest expense increased in 2003 by $7,585,000 as a result of the increased borrowings in connection with acquisition of the 2003 Acquisition Communities and a full year of interest expense for the 2002 Acquisition Communities. In addition, amortization from deferred charges relating to the financing of properties totaled $1,483,000 and $1,014,000, and was included in interest expense for 2003 and 2002, respectively.

Included in interest expense are prepayment penalties which decreased in 2003 by $1,665,000 as compared to 2002. In 2003, $1,610,000 was recorded in loss from early extinguishment of debt in connection with the sale of two of the 2003 Disposed Communities. During the fourth quarter of 2002, the Company refinanced $101,341,000 in existing mortgage debt resulting in new borrowings in excess of $236,000,000. The weighted average interest rate of the pre-paid debt was 8.2%, and it was replaced by loans with a weighted average interest rate of 5.1%. The Company incurred prepayment penalties from the early extinguishment of this debt of $3,275,000.

Depreciation and amortization expense increased $13,383,000 due to the additional depreciation expense on the 2003 Acquisition Communities and a full year of depreciation expense for the 2002 Acquisition Communities, as well the incremental depreciation on the capital expenditures for additions and improvements to the Core Properties.

In the fourth quarter of 2002, the Company decided to sell virtually all of the assets associated with its general partner interests in the affordable properties to focus solely on the direct ownership and management of market rate apartment communities. At that time, the Company announced its intention to sell the assets, which include principally loans, advances and management contracts, in three phases. The status of the sales is as follows:

Phase I, consisting of the Company's interest in 35 properties containing 1,119 units, of which all were New York State Rural Development properties, was sold on September 5, 2003. The sale price of $1.5 million resulted in a gain on sale of approximately $72,000 that was recorded in the third quarter.

Phase II, consisting of the Company's interest in 49 Pennsylvania Rural Development and other low income housing tax credit properties containing 1,471 units, was sold on December 18, 2003. The sale price of $1.1 million resulted in a loss on sale of approximately $32,000 that was recorded in the fourth quarter of 2003.

Phase III, consisting of the Company's interest in 38 Upstate New York, Maryland, Ohio and Indiana properties, was under contract to a qualified buyer. The contract price is $6.8 million and the Company is working towards an expected closing in the first half of 2004. The buyer is still engaged in due diligence, so it is possible that there may be some further negotiations relating to price and/or the properties to be included in the sale.

At December 31, 2003, the Company planned during 2004 to pursue the sale of its general partner interests in one additional property (two partnerships) with 1,057 units. At year end, it did not currently have a contract for this sale but anticipated a possible closing in the third quarter of 2004. The Company has guarantees to the partnerships to reimburse limited partners for any lost tax credits (totaling $5.7 million) and to fund operating deficits. The property was 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 had had difficulty renting the units subject to those requirements to persons it believed were economically qualified to rent the units. The Company did not anticipate that occupancy levels or other aspects of the operational outlook would improve in the foreseeable future under the regulation restrictions. The Company funded operating deficits of $1.3 million in 2003 and expected to continue to fund a similar level until the property is sold. The prior operating advances are not an indicator of future cash requirements, and, in accordance with GAAP, the Company will record impairment charges as operating advances are actually incurred. The net value of the general partnership interests and other loans or assets associated with this property had been reduced to $43,000 at December 31, 2002. The book value at December 31, 2003 of the Company's interest in these partnerships, was a negative $725,000. The value had been reduced below zero as a function of losses passed through to the Company as general partner all of which, or more, had been funded in cash by the Company. Since the Company did not have any agreements in process with respect to a disposition of the property, the Company could not accurately estimate a price at which the property may be disposed of, and it was likely that the Company would have to pay a third party to purchase its interest in and assume its liabilities with respect to future operating advances to this property.

For the year, the Company has recorded a total of $3.5 million in impairment charges, of which $1.7 million pertains to an additional net impairment charge taken in the third quarter upon contract signing to reduce the book value of assets in Phase III to fair market value. The balance, or $1.8 million, represents cash advances reflected in either Equity in earnings (losses) of unconsolidated affiliates ($1.0 million) or Impairment of assets held as general partner ($822,000).

Minority interest increased $4,514,000 due to the effect of the increase in income allocated to the OP Unitholders, which is primarily attributable to the losses associated with the assets associated with the limited partnerships where the Company is a general partner that were present in 2002, which did not repeat during 2003.

Included in discontinued operations for the year ended December 31, 2002 are the operating results, net of minority interest, of twelve, seven and five apartment communities disposed of in 2002, 2003 and 2004, respectively.

Net income decreased $3,141,000 primarily due to the one time charge of $5,000,000 (before minority interest) included in 2003 G&A for the restricted stock granted to the Leenhoutses as more fully described above in the paragraph describing G&A variances.

Liquidity and Capital Resources

The Company's principal liquidity demands are expected to be distributions to the preferred and common stockholders and Operating Partnership Unitholders, capital improvements and repairs and maintenance for the properties, acquisition of additional properties, stock repurchases and debt repayments. The Company may also acquire equity ownership in other public or private companies that own and manage portfolios of apartment communities. Management anticipates the acquisition of properties of approximately $200 million in 2005, although there can be no assurance that such acquisitions will actually occur.

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

To the extent that the Company does not satisfy its long-term liquidity requirements through net cash flows provided by operating activities and the line of credit, it intends to satisfy such requirements through property debt financing, proceeds from the sale of properties, the issuance of UPREIT Units, proceeds from sales of its common stock through the Dividend Reinvestment Plan ("DRIP"), or issuing additional common shares, shares of the Company's preferred stock, or other securities. As of December 31, 2004, the Company owned 23 properties, with 4,153 apartment units, which were unencumbered by debt.

A source of liquidity in 2005 is expected to be from the sale of properties. During 2004, the Company sold five communities for a total sales price of $92.5 million. The Company sold seven communities during 2003 for a total sales price of $59.3 million. The Company was able to sell these properties at an average capitalization rate of 8.4% and reinvest in the acquisition of properties with more growth potential at an expected first year cap rate of 6.8%. While the capitalization rate from dispositions was 160 basis points higher than for acquisitions, the Company expects to realize a higher unleveraged IRR from its acquisitions due to higher rates of revenue growth expected from the acquired properties. Management has included in its operating plan that the Company will strategically dispose of assets totaling approximately $50 million in 2005, although there can be no assurance that such dispositions will actually occur.

In May 1998, the Company's Form S-3 Registration Statement was declared effective relating to the issuance of up to $400 million of common stock, preferred stock or other securities. As of December 31, 2004, the Company continued to have available securities under the registration statement in the aggregate amount of $144,392,000.

In September 1999, the Company completed the sale of $50 million of Series B Preferred Stock in a private transaction with GE Capital. The Series B Preferred stock carries an annual dividend rate equal to the greater of 8.36% or the actual dividend paid on the Company's common shares into which the preferred shares could be converted. The stock had a liquidation preference of $25.00 per share, a conversion price of $29.77 per share, and a five-year, non-call provision. On February 14, 2002, 1,000,000 shares of the Series B Preferred stock were converted to 839,771 common shares. The conversion had no effect on the reported results of operations. On May 24, 2002 the Company repurchased the remaining 1,000,000 shares outstanding at an amount equivalent to 839,772 common shares (as if the preferred shares had been converted). The Company repurchased the shares for $29,392,000, equal to the $35.00 common stock trading price when the transaction was consummated. A premium of $5,025,000 was incurred on the repurchase and has been reflected as a charge to net income available to common shareholders' in the consolidated statement of operations for the year ended December 31, 2002.

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

In June 2000, the Company completed the sale of $25 million of Series D Preferred Stock in a private transaction with The Equitable Life Assurance Society of the United States. The Series D Preferred Stock carries an annual dividend rate equal to the greater of 8.775% or the actual dividend paid on the Company's common shares into which the preferred shares can be converted. The stock has a conversion price of $30 per share and a five-year, non-call provision.

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

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

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

In 2000, the Company obtained an investment grade rating from Fitch, Inc. The Company was assigned an initial corporate credit rating of "BBB" (Triple-B), with a rating of "BBB-" (Triple-B Minus) for Series C through E Convertible Preferred Stock and Series F Preferred Stock. This rating remains in effect as of December 31, 2004.

The issuance of UPREIT Units for property acquisitions continues to be a minor source of capital for the Company. During 2004, the Company issued $12,100,000 worth of UPREIT Units as consideration in acquiring two of the four properties acquired in the New Jersey region. The remainder of the $67,400,000 total purchase price was funded through the assumption of debt and cash. No units were issued in connection with the two acquisitions during 2003. During 2002, the Company acquired an 864-unit property for a total purchase price of $81,500,000. The Company issued UPREIT units valued at approximately $11,500,000, with the balance funded by the assumption of debt and cash.

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action did not establish a target price or a specific timetable for repurchase. At December 31, 2000, there was approval remaining to purchase 1,326,500 shares. In 2001, the Board of Directors approved a 1,000,000-share increase in the stock repurchase program. During 2001, the Company repurchased 754,000 shares and 436,700 UPREIT Units at a cost of $20,600,000 and $11,900,000, respectively. On August 6, 2002 the Board of Directors approved a 2,000,000-share increase in the stock repurchase program. During 2003 and 2002, there were no shares or UPREIT Units repurchased by the Company. During 2004, the Company repurchased 1,135,800 shares at a cost of $47,426,000. From January 1, 2005 through February 16, 2005, the Company repurchased 1,300,700 additional shares at a cost of $53,320,000, leaving a remaining share authorization level of 699,300 shares. On February 16, 2005, the Board of Directors approved a 2,000,000 share increase in the stock repurchase program, resulting in a authorization level of 2,699,300 shares. The guidance given for 2005 does not anticipate any additional share repurchase for the remainder of the year. During 2005, the Company will monitor stock prices, the published net asset value, and acquisition alternatives to determine the current best use of capital between the two major uses of capital – stock buyback and acquisitions.

The Company has a Dividend Reinvestment Plan (the "DRIP"). The DRIP provides the stockholders of the Company an opportunity to automatically invest their cash dividends in common stock. In addition, eligible participants may make monthly payments or other voluntary cash investments in shares of common stock. The maximum monthly investment without prior Company approval is currently $1,000. 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 $5,000 to $1,000. As expected, these changes significantly reduced participation in the Plan. Effective December 10, 2004, the discount was further reduced from 2% to 0%. In addition, in the fourth quarter of 2004, the Company has begun meeting share demand in the program through share repurchase by the transfer agent in the open market on the Company's behalf instead of new share issuance. This removes essentially 100% of the dilution caused by issuing new shares at a price less than the net asset value in an economic and efficient manner. During 2003, $30,300,000 of common stock was issued under this plan, with an additional $17,560,000 (net of $5,978,000 share repurchase) of common stock issued in 2004.

Management monitors the relationship between the Company's stock price and its estimated net asset value. During times when the difference between these two values is small, resulting in little "dilution" of net asset value by common stock issuances, the Company has the flexibility to satisfy the demand for DRIP shares with stock repurchased in the open market or to issue waivers to DRIP participants to provide for investments in excess of the $1,000 maximum monthly investment. No such waivers were granted during 2003 or 2004.

During 2002, the Company extended its revolving line of credit with M&T Bank for a period of three years, increasing the line from $100,000,000 to $115,000,000. As of December 31, 2004 the Company had $58,000,000 outstanding on the line of credit. 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 Company renegotiated certain terms of the line of credit effective April 1, 2004, including a ten basis point drop in the interest rate and easing of certain covenant restrictions. The line of credit expires on September 1, 2005. The Company is evaluating alternatives to replace or extend the line of credit after September 1, 2005.

The Credit Agreement relating to this 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 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. During 2004, the Company was in compliance with the covenants. The Company did not meet the required ratio due to the granting of restricted stock to the retiring Co-CEO's in the fourth quarter of 2003 and the impairment charges recorded in the fourth quarter of 2002. The funds from operations payout ratio was 91% and 94%, respectively, when measured for the calendar years. Waivers have been granted by the participating banks for the excess payout incurred in 2003 and 2002 as indicated above. The line of credit has not been used for long-term financing but adds a certain amount of flexibility, especially in meeting the Company's acquisition goals. Many times it is easier to temporarily finance an acquisition in a short-term nature through the line of credit, with long term secured financing or other sources of capital replenishing the line of credit availability.

On November 23, 2004, the Company signed a supplemental demand note with M&T Bank. The note has a maximum principal amount of $42 million. Borrowings on the note bear interest at 1.25% over the one-month LIBOR rate. The demand note was entered into to fund the Company's stock repurchase program. The Company had no outstanding balance on the note as of December 31, 2004.

As of December 31, 2004, the weighted average rate of interest on the Company's mortgage debt was 5.96% and the weighted average maturity of such indebtedness was approximately eight years. Mortgage debt of $1.6 billion was outstanding with 89% at fixed rates of interest with staggered maturities. This limits the exposure to changes in interest rates, minimizing the effect of interest rate fluctuations on the Company's results of operations and cash flows.

The Company's net cash provided by operating activities increased from $144,107,000 for the year ended December 31, 2003, to $159,195,000 for the year ended December 31, 2004. The increase was principally due to changes in accounts payable and accrued liabilities. The increase in liabilities over the prior year were primarily related to recording the $5,700,000 to repurchase limited partner interests, $3,800,000 for a legal settlement, bonus accrual of $1,500,000, increased insurance reserves of $2,000,000 over the prior year, and the recording of a liability of $1,800,000 in 2004 in relation to state sales tax. The remainder of the difference is attributable to an increase in trade payables offset by a decrease in other assets.

Net cash used in investing activities increased from $112,025,000 in 2003 to $165,466,000 in 2004. The increase was principally due to the higher level of properties purchased in 2004 which increased to $247,500,000 in 2004 from $92,970,000 in 2003. Other changes included an increase of $35,362,000 in proceeds from sale of property and business, offset by a decrease in property additions of $4,131,000, and net advance activity to affiliates of $4,251,000.

The Company's net cash provided by (used in) financing activities increased from using $35,761,000 in 2003 to providing $8,243,000 in 2004. In 2004, proceeds from the sale of common stock totaled $43,095,000. Debt proceeds, used to fund property acquisitions and additions, increased from $54,907,000 in 2003 to $94,038,000 in 2004. Net borrowings on the Company's line of credit increased from a net repayment of $35,000,000 in 2003 to a net borrowing position of $58,000,000 in 2004.

On February 7, 2005, the Board of Directors approved a dividend of $.63 per share for the period from October 1, 2004 to December 31, 2004. This is the equivalent of an annual distribution of $2.52 per share. The dividend is payable February 28, 2005 to shareholders of record on February 17, 2005.

Critical Accounting Policies

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

Revenue Recognition

The Operating Partnership leases its residential properties under leases with terms generally one year or less. Rental income is recognized on a straight-line basis over the related lease term. As a result, deferred rents receivable are created when rental income is recognized during the concession period of certain negotiated leases and amortized over the remaining term of the lease. In accordance with SFAS No. 141, the Company recognizes rental revenue of acquired in-place "above and below" market leases at their fair value over the weighted average remaining lease term. Property other income, which consists primarily of income from operation of laundry facilities, administrative fees, garage and carport rentals and miscellaneous charges to residents, is recognized when earned – when the services are provided, or when the resident incurs the charge.

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

Change in Accounting Estimate

During the first quarter of 2002, the Company completed a comprehensive review of its real estate related useful lives for certain of its asset classes. As a result of this review, the Company changed its estimate of the remaining useful lives for its buildings and apartment improvements. Effective January 1, 2002, the estimated useful life of all buildings has been extended to 40 years and the estimated useful life of apartment improvements has been changed from 10 years to 20 years. Certain buildings had previously been depreciated over useful lives ranging from 30 to 40 years. As a result of the change, income before extraordinary item for the year-ended December 31, 2002 increased approximately $6.2 million or $.24 on a diluted per share basis. The Company believes the change reflects more appropriate remaining useful lives of the assets based upon the nature of the expenditures and is consistent with prevailing industry practice. This change has been accounted for prospectively in accordance with the provisions of Accounting Principle Board Opinion No. 20, Accounting Changes.

Real Estate

Real estate is recorded at cost. Costs related to the acquisition, development, construction and improvement of properties are capitalized. Recurring capital replacements typically include carpeting and tile, appliances, HVAC equipment, new roofs, site improvements and various exterior building improvements. Non-recurring upgrades include, among other items, community centers, new appliances, new windows, kitchens and bathrooms. Interest costs are capitalized until construction is substantially complete. When retired or otherwise disposed of, the related asset cost and accumulated depreciation are cleared from the respective accounts and the net difference, less any amount realized from disposition, is reflected in income. Ordinary repairs and maintenance that do not extend the life of the asset are expensed as incurred.

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets." This standard requires (i) recognition of an impairment loss of the carrying amount of a long-lived asset if it is not recoverable from its undiscounted cash flows and (ii) measurement of an impairment loss as the difference between the carrying amount and fair value of the asset unless an asset is held for sale, in which case it would be stated at the lower of carrying amount or fair value less costs to dispose. In addition, SFAS No. 144 also describes a probability-weighted cash flow estimation approach to deal with situations which alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or a range is estimated. The determination of undiscounted cash flows requires significant estimates made by management (such as estimating future net operating income and estimating fair value upon sale of each property owned) and considers the expected course of action at the balance sheet date. Subsequent changes in estimated undiscounted cash flows arising from changes in anticipated actions could impact the determination of whether an impairment exists.

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

The Company accounts for its acquisitions of investments in real estate in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building, personal property and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases and value of resident relationships, based in each case on their fair values. The Company considers acquisitions of operating real estate assets to be businesses as that term is contemplated in Emerging Issues Task Force Issue No. 98.3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business.

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

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

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

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

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

Discontinued Operations

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

Included in discontinued operations for the three years ended December 31, 2004 are twenty four apartment community dispositions (five, seven and twelve in 2004, 2003 and 2002, respectively). The operations of such apartment communities have been reflected as discontinued operations in the consolidated financial statements for each of the three years ended December 31, 2004 included herein. In addition, discontinued operations for the year ended December 31, 2004 includes the operating results, net of minority interest, of 22 variable interest entities ("VIE's") sold during 2004 and 12 VIE's held for sale as of December 31, 2004.

Capital Improvements

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

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

Estimate of Fair Value of Assets Associated with General Partnership Interests

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

Federal Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended, commencing with the taxable year ended December 31, 1994. As a result, the Company generally is not subject to Federal or State income taxation at the corporate level to the extent it distributes annually at least 90% of its REIT taxable income to its shareholders and satisfies certain other requirements. For the years ended December 31, 2004, 2003 and 2002, the Company distributed in excess of 100% of its taxable income; accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements. Stockholders of the Company are taxed on dividends and must report distributions from the Company as either ordinary income, capital gains, or as return of capital.

Included in total assets on the Consolidated Balance Sheets are deferred tax assets of $8,737 and $8,394 as of December 31, 2004 and 2003, respectively. The deferred tax assets were a result of the net losses associated with the affordable property portfolio sales over the past two years. Management does not believe it is more likely than not that these deferred assets will be used, and accordingly has recorded a reserve against the deferred tax asset of $8,680 and $8,185 for the years ended December 31, 2004 and 2003, respectively. The deferred tax assets are associated with the Management Companies who perform certain of the residential and development activities of the Company. The Management Companies historically provided commercial management services and provided loan advances to affordable housing entities owned through general partnership interests. As these activities are no longer provided, Management does not currently believe there is a source for future material taxable earnings for the Management Companies that would give rise to value for the deferred tax assets.

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 December 31, 2004, the Company has closed on the sale of its general partner interests in 26 of its VIE’s. The Company has under contract an additional twelve partnerships, pending lender approval.

Of the remaining two properties (three partnerships), with a total of 1,925 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. Following the note sale the Company expects that it will transfer its interest in this property to the new note holder in lieu of a foreclosure, and that it will cease managing the property. In January 2005, the Company repurchased the limited partner's 99.99% interests in accordance with the partnership agreements. The Company has recorded the $5.7 million liability to repurchase these limited partnership interests and the resulting loss on disposition of property of $5.0 million. The Company does not anticipate the need to fund operating deficits and will only participate in the cash flow of the property by receiving a fee for managing the property for so long as there is cash flow available.

Due to the sale and contract referenced above, the results of operations of the 34 limited partnerships for the year ended December 31, 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 December 31, 2004. The tables on the following pages show the effects of the VIE's 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, of which four have been sold as of December 31, 2004. The three remaining investments will continue to be accounted for under the equity method. For those three 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 10 partnerships totaling approximately $21 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 9 years. In addition, acting as the general partner in certain partnerships, the Company is obligated to advance funds to meet partnership operating 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 December 31, 2004.

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

	December 31, 2004 (before FIN 46R)	Effect of FIN 46R Consolidation	December 31, 2004 (as reported)
ASSETS			
Real estate:			
Land	$ 402,620	$ -	$ 402,620
Buildings, improvements and equipment	2,642,570	-	2,642,570
Real estate held for sale or disposal, net	-	78,711	78,711
	3,045,190	78,711	3,123,901
Less: accumulated depreciation	(405,919)	-	(405,919)
Real estate, net	2,639,271	78,711	2,717,982
Cash and cash equivalents	7,269	656	7,925
Cash in escrows	39,528	4,355	43,883
Accounts receivable	6,198	466	6,664
Prepaid expenses	18,057	167	18,224
Investment in and advances to affiliates	431	(431)	-
Deferred charges	9,918	3,860	13,778
Other assets	8,323	17	8,340
Total assets	$2,728,995	$ 87,801	$2,816,796
LIABILITIES AND STOCKHOLDERS' EQUITY			
Mortgage notes payable	$1,567,085	$ 77,637	$1,644,722
Line of credit	58,000	-	58,000
Accounts payable	24,057	543	24,600
Accrued interest payable	7,539	1,337	8,876
Accrued expenses and other liabilities	26,194	556	26,750
Security deposits	22,118	533	22,651
Total liabilities	1,704,993	80,606	1,785,599
Minority interest	303,259	7,516	310,775
Stockholders' equity	720,743	(321)	720,422
Total liabilities and stockholders' equity	$2,728,995	$ 87,801	$2,816,796

Acquisitions and Dispositions

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

In 2003, the Company acquired a total of two communities with a total of 730 units for total consideration of approximately $92,900,000, or an average of approximately $127,200 per unit. For the same time period, the Company sold seven properties with a total of 1,568 units for total consideration of $59,300,000, or an average of $37,800 per unit. The weighted average expected first year cap rate of the 2003 Acquisition Communities was 7.3% and of the 2003 Disposed Communities was 8.7%. The weighted average unleveraged IRR during the Company's ownership for the properties sold was 9.5%.

In January 2005, the Company acquired a 204-unit community in Westminster, Maryland. The total purchase price of $19,700,000, including closing costs, equates to approximately $96,400 per apartment unit. Consideration for this property was funded through the use of the Company's line of credit. Management expects a 7.1% weighted average first year capitalization rate on this acquisition.

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 has $58,000,000 outstanding at December 31, 2004. The $1.6 billion in mortgage notes payable have varying maturities ranging from 1 to 38 years. The principal payments on the mortgage notes payable for the years subsequent to December 31, 2004, are set forth in the table below as "long-term debt."

The Company has a non-cancelable operating ground lease for one of its properties. The lease expires May 1, 2020, with options to extend the term of the lease for two successive terms of twenty-five years each. The lease provides for contingent rental payments based on certain variable factors. At December 31, 2004, future minimum rental payments required under the lease are $70,000 per year until the lease expires.

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

On December 1, 2004 the Company entered into a lease agreement with a third party owner to manage the operations of one of their communities. The lease has a term of five years, but after two years, (from the 24th month to the 36th month) the owner may require us to buy the property. From the 36th month to the end of the lease term, we have the right to require the owner to sell the property to the Company. It is the Company's expectation that closing on the acquisition of the property will occur no later than 36 months after the commencement of the lease. The estimated future acquisition cost of $140 million is included in the total purchase obligations amount for the year 2007 in the table below.

Purchase obligations represent those costs that the Company is contractually obligated to in the future. The significant components of this caption are costs for capital improvements at the Company's properties, as well as costs for normal operating and maintenance expenses at the site level that are tied to contracts such as utilities, landscaping and grounds maintenance and advertising. The purchase obligations include amounts tied to contracts some of which expire in 2005. It is the Company's intention to renew these normal operating contracts; however, there has been no attempt to estimate the length or future costs of these contracts.

Tabular Disclosure of Contractual Obligations:

		Payments Due by Period (in thousands)					
Contractual Obligations	Total	2005	2006	2007	2008	2009	Thereafter
Long-term debt	$1,644,722	$40,006	$72,295	$198,502	$203,215	$62,952	$1,067,752
Ground lease	1,120	70	70	70	70	70	770
Operating lease	6,222	1,445	1,016	974	975	929	883
Purchase obligations	158,309	15,916	2,093	140,272	24	4	-
Total*	$1,810,373	$57,437	$75,474	$339,818	$204,284	$63,955	$1,069,405

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

As discussed in the section entitled "Off-Balance Sheet Investments," the Company, through its general partnership interests in certain affordable property limited partnerships, has guaranteed the Low Income Housing Tax Credits to limited partners in 10 partnerships totaling approximately $21,000,000. With respect to the guarantee of the low income housing tax credits, the Company believes the properties operations conform to the applicable requirements (as set forth above in the second paragraph of the "Off Balance Sheet Investment" section) and does not anticipate any payment on the guarantees. In addition, the Company, acting as general partner in certain partnerships, is obligated to advance funds to meet partnership operating deficits. The Company has required the buyers of its general partner interests in the limited partnerships to secure releases of the Company's guarantees from the limited partner and/or to indemnify the Company against payment on those guarantees.

Capital Improvements

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

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

Category	**Capitalized Cost per Unit**	**Useful Life[1]**	**Capitalized Expenditure Per Unit Per Year[2]**	**Maintenance Expense Cost per Unit Per Year[3]**	**Total Cost per Unit Per Year**
Appliances	$1,000	18	$ 55	$ 5	$ 60
Blinds/Shades	130	6	22	6	28
Carpets/cleaning	840	6	140	97	237
Computers, equipment, misc.[4]	120	5	22	29	51
Contract repairs	-	-	-	102	102
Exterior painting [5]	84	5	17	1	18
Flooring	250	8	31	-	31
Furnace/Air (HVAC)	765	24	32	43	75
Hot water heater	130	7	19	-	19
Interior painting	-	-	-	138	138
Kitchen/bath cabinets	1,100	25	44	-	44
Landscaping	-	-	-	106	106
New roof	800	23	35	-	35
Parking lot	400	15	27	-	27
Pool/ Exercise facility	100	15	7	23	30
Windows	980	36	27	-	27
Miscellaneous [6]	705	15	47	40	87
Total	$7,404		$525	$590	$1,115

(1) Estimated weighted average actual physical useful life of the expenditure capitalized.
(2) This amount is not necessarily incurred each and every year. Some years, per unit expenditures in any category will be higher, or lower depending on the timing of certain longer lived capital or maintenance items.
(3) These expenses are included in the operating and maintenance line item of the Consolidated Statement of Operations. Maintenance labor costs are not included in the $590 per unit maintenance estimate. All personnel costs for site supervision, leasing agents, and maintenance staff are combined and disclosed in the Company's same- store expense detail schedule. The annual per unit cost of maintenance staff would add another $570 to expenses and total cost figures provided.
(4) Includes computers, office equipment/ furniture, and maintenance vehicles.
(5) The level of exterior painting may be lower than other similar titled presentations as the Company's portfolio has a significant amount of brick exteriors. In addition, other exposed exterior surfaces are most often covered with aluminum or vinyl.
(6) Includes items such as; balconies, siding, and concrete/sidewalks.

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

The Company estimates that during 2004, approximately $525 per unit was spent on recurring capital expenditures. The table below summarizes the breakdown of capital improvements by major categories between recurring and non-recurring, revenue generating capital improvements as follows:

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

	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	$ -	$ -	$ 3,702	$ 91	$ 3,702	$ 91	$ 1,840	$ 47
Major building improvements	3,721	91	15,958	390	19,679	481	20,929	537
Roof replacements	1,422	35	2,429	59	3,851	94	4,226	109
Site improvements	1,363	33	8,003	196	9,366	229	7,666	197
Apartment upgrades	2,685	66	23,982	587	26,667	653	34,017	873
Appliances	2,230	55	1,987	49	4,217	104	4,720	121
Carpeting/Flooring	7,001	171	3,670	90	10,671	261	11,774	302
HVAC/Mechanicals	2,062	50	12,129	297	14,191	347	13,136	337
Miscellaneous	915	24	2,553	62	3,468	86	3,389	87
Totals	$21,399	$525	$74,413	$1,821	$ 95,812	$2,346	$101,697	$2,610

(a) Calculated using the weighted average number of units owned, including 38,560 core units, 2003 acquisition units of 730 and 2004 acquisition units of 1,593 for the year-ended December 31, 2004 and 38,560 core units and 2003 acquisition units of 386 for the year-ended December 31, 2003.

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

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

	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	$20,183	525	$70,968	$1,840	$ 91,151	$2,365	$101,398	$2,630
2004 Acquisition Communities	834	525	2,562	1,608	3,396	2,133	-	-
2003 Acquisition Communities	382	525	883	1,209	1,265	1,734	299	774
Sub-total	21,399	525	74,413	1,821	95,812	2,346	101,697	2,610
2004 Disposed Communities	699	525	1,844	1,379	2,543	1,904	3,014	1,831
2003 Disposed Communities	-	-	-	-	-	-	752	863
Corporate office expenditures (1)	-	-	-	-	4,345	-	883	-
	$22,098	$525	$76,257	$1,806	$102,700	$2,331	$106,346	$2,546

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

Environmental Issues

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

During the past few years, there has been media attention given to the subject of mold in residential communities. The Company has responded to this attention by providing to its community management the Company's "Operation and Maintenance Plan For the Control of Moisture" ("The Plan"). The Plan, designed to analyze and manage all exposures to mold, has been implemented at all of the Company's communities. There have been only limited cases of mold identified to management due to the application and practice of The Plan. No condition is known to exist that would give rise to a material liability for site restoration or other costs that may be incurred with respect to mold.

New Accounting Pronouncements

In May 2003, FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted this pronouncement for the year ended

December 31, 2004, and it did not have a material impact on the Company's results of operations, financial position or liquidity.

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

In March 2004, the FASB issued EITF 03-6 "Participating Securities and the Two-Class Method under FASB Statement 128, *Earnings per Share*. EITF 03-6 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 November 2004, the FASB issued EITF Issue 04-8 "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share". EITF 04-8 addresses a number of issues relating to issued securities with embedded market price contingent conversion features, which includes contingently convertible preferred stock, and the impact on the calculation of earnings per share on a quarterly basis. The EITF is effective for periods ending after December 15, 2004. The Company adopted the provisions of this EITF for the year ended December 31, 2004, and it did not have a material impact on the Company's results on operations, financial position or liquidity.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R *Share Based Payment* (SFAS No. 123R). The statement is a revision of SFAS No. 123 *Accounting for Stock-Based Compensation.* SFAS No 123R supersedes APB Opinion No. 25 *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R requires that entities recognize the cost of employee services received in exchange for awards of equity instruments (i.e. stock options) based on the grant-date fair value of those awards. The Statement is effective for the first fiscal periods beginning after December 15, 2005. On January 1, 2003, the Company adopted the provisions of SFAS No. 148 *Accounting for Stock-Based Compensation – Transition and Disclosure*, an Amendment to SFAS No. 123. Effective on that date, the Company began recognizing compensation cost related to stock option grants. Based upon the Company's adoption of SFAS No. 148, the issuance of SFAS No. 123R will have no impact on the Company's results of operations, financial position or liquidity.

<u>Economic Conditions</u>

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

Historically, real estate has been subject to a wide range of cyclical economic conditions, which affect various real estate sectors and geographic regions with differing intensities and at different times. Starting in 2002 and continuing into 2004 many regions of the United States have experienced varying degrees of economic recession and certain recessionary trends, such as a temporary reduction in occupancy and reduced pricing power limiting the ability to aggressively raise rents. 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.

Contingencies

In 2001, the Company underwent a state tax audit. The state has assessed taxes of $469,000 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 has been advised by outside tax counsel that its filing position for 1998-2001 should prevail. During December 2003, the state’s governor signed legislation which included the REIT tax provisions. Based upon this, Company’s tax counsel 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.

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

As a result of this audit, during the second quarter the Company examined its sales and use tax compliance in the other states in which the Company operates. Based upon its internal analysis, the Company estimated its liability as of June 30, 2004 in those states where it found non-compliance and recorded at June 30, 2004 a liability of $1,712,000. This was included in the second quarter results and allocated $761,000 to expense and $951,000 capitalized to real estate assets for improvements. The liability recorded relates to the period beginning on the later of: (i) the date the Company first purchased property in the applicable state; or (ii) January 1, 1997 and ending on June 30, 2004. In addition, the Company increased the liability for sales tax exposure by $68,000 for the six-month period ended December 31, 2004. The Company 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 $1,325,000 and $2,300,000. The Company has filed voluntary disclosure agreements with the four states where it has financial exposure. Once an official agreement is reached with each state, assuming the statute of limitations for voluntary disclosure is respected, there is a potential to reverse up to approximately $440,000 of prior period accruals in 2005. The portion of this reduction that would affect the statement of operations is approximately $230,000.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company’s primary market risk exposure is interest rate risk. At December 31, 2004 and December 31, 2003, approximately 89% and 98%, respectively, of the Company’s debt bore interest at fixed rates with a weighted average maturity of approximately 8 and 9 years and a weighted average interest rate of approximately 6.23% 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 2.98% and 2.32%, respectively, at December 31, 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 December 31, 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 December 31, 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 December 31, 2004 and December 31, 2003, the fair value of the Company’s fixed rate debt, including the $34 million at December 31, 2004 and $25.2 million at December 31, 2003 which was swapped to a fixed rate, amounted to a liability of $1.7 billion and $1.5 billion, respectively, compared to its carrying amount of $1.64 billion and $1.4 billion, respectively. The Company estimates that a 100 basis point increase in market interest rates at December 31, 2004 would have changed the fair value of the Company’s fixed rate debt to a liability of $1.63 billion.

The Company intends to continuously monitor and actively manage interest costs on its variable rate debt portfolio and may enter into swap positions based upon market fluctuations. In addition, the Company believes that it has the ability to obtain funds through additional equity offerings or the issuance of UPREIT Units. Accordingly, the cost of obtaining such interest rate protection agreements in relation to the Company's access to capital markets will continue to be evaluated. The Company has not, and does not plan to, enter into any derivative financial instruments for trading or speculative purposes. As of December 31, 2004, the Company had no other material exposure to market risk.

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

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

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

The principal executive officer and principal financial officer evaluated, as of December 31, 2004, the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15-d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and have determined that such disclosure controls and procedures are effective.

There have been no changes in the internal controls over financial reporting identified in connection with that evaluation, or that occurred during the fourth quarter of the year ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting. The Company has not identified any material weaknesses in its internal controls.

Management's Report on Internal Control Over Financial Reporting

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

Under the supervision and with the participation of management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under that framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2004.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2004.

Item 9B. Other Information

On November 2, 2004, the Board of Directors approved director compensation for 2005. A summary sheet detailing 2005 compensation is attached to this report as Exhibit 10.72.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors

The Board of Directors (the "Board") currently consists of twelve members, two of whom were appointed by the Board in 2004 and are, therefore, standing for election by the shareholders for the first time. The terms for all of the directors of Home Properties expire at the 2004 Shareholders' Meeting.

The information sets forth, as of February 24, 2005, for each director of the Company such director's name, experience during the last five years, other directorships held, age and the year such director was first elected as director of the Company.

Name of Director	Age	Year First Elected Director
William Balderston, III	77	1994
Josh E. Fidler	49	2004
Alan L. Gosule	64	1996
Leonard F. Helbig, III	59	1994
Roger W. Kober	71	1994
Nelson B. Leenhouts	69	1993
Norman Leenhouts	69	1993
Edward J. Pettinella	53	2001
Clifford W. Smith, Jr.	58	1994
Paul L. Smith	69	1994
Thomas S. Summer	51	2004
Amy L. Tait	46	1993

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

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

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

Leonard F. Helbig, III has been a director of the Company since 1994. Since September 2002 he has served as a Director of Integra Realty Advisors in Philadelphia. Between 1980 and 2002 he was employed with Cushman & Wakefield, Inc. From 1990 until 2002, Mr. Helbig served as President, Financial Services for Cushman & Wakefield, Inc.. Prior to that and since 1984, Mr. Helbig was the Executive Managing Director of the Asset

Services and Financial Services Groups. He was a member of that firm's Board of Directors and Executive Committee. Mr. Helbig is a member of the Urban Land Institute, the Pension Real Estate Association and the International Council of Shopping Centers. Mr. Helbig is a graduate of LaSalle University and holds the MAI designation of the American Institute of Real Estate Appraisers.

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

Nelson B. Leenhouts has served as Board Co-Chair since his retirement as Co-Chief Executive Officer effective January 1, 2004. He had served as Co-Chief Executive Officer, President and a director of the Company since its inception in 1993. Since their formation, he has also served as President and Chief Executive Officer and a director of HP Management, a director of HPRS, which he has also served as President since 2000 and as a Vice President prior to that. Mr. Leenhouts also currently serves as a Senior Advisor to the Company pursuant to an Employment Agreement with a term that expires on December 31, 2006. Nelson Leenhouts was the founder, and a co-owner, together with Norman Leenhouts, of Home Leasing, and has served as President of Home Leasing since 1967. He is a member of the Board of Directors of the Genesee Valley Trust Company. Nelson Leenhouts is a graduate of the University of Rochester. He is the twin brother of Norman Leenhouts.

Norman P. Leenhouts has served as Board Co-Chair since his retirement as Co-Chief Executive Officer effective January 1, 2004. He had served as Board Chair, Co-Chief Executive Officer and a director of the Company since its inception in 1993. Since their formation, he has also served as Board Chair of HP Management and as a director of HPRS, which he also has served as Board Chair since 2000. Mr. Leenhouts also currently serves as a Senior Advisor to the Company pursuant to an Employment Agreement with a term that expires on December 31, 2006. Norman Leenhouts is a co-owner, together with Nelson Leenhouts, of Home Leasing and has served as Board Chair of Home Leasing since 1971. He is a member of the Board of Trustees of the University of Rochester, Roberts Wesleyan College, The Charles E. Finney School and the Free Methodist Foundation, where he also serves as Board Chair. He is a graduate of the University of Rochester and is a certified public accountant. He is the twin brother of Nelson Leenhouts.

Edward J. Pettinella has served as President and Chief Executive Officer of the Company since January 1, 2004. He is also a director. He was previously an Executive Vice President and director since February 2001, when he joined the Company. He has also served as an Executive Vice President of HP Management and HPRS since May 2002. From 1997 until February 2001, Mr. Pettinella served as President, Charter One Bank (NY Division) and Executive Vice President of Charter One Financial, Inc. From 1980 through 1997, Mr. Pettinella served in several managerial capacities for Rochester Community Savings Bank, Rochester, NY, including the positions of Chief Operating Officer and Chief Financial Officer. Mr. Pettinella serves on the Board of Directors of United Way of Greater Rochester, Rochester Business Alliance, The Lifetime Healthcare Companies, National Multi Housing Counsel, State University at Geneseo, Geneseo Foundation, Syracuse University School of Business and YMCA of Greater Rochester. He is also on the Board of Governors of National Association of Real Estate Investment Trusts and is a member of Urban Land Institute. Mr. Pettinella is a graduate of the State University at Geneseo and holds an MBA Degree in finance from Syracuse University.

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

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

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

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

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

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

Section 16(a) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") requires the Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the New York Stock Exchange. Officers, directors and greater than 10% shareholders are required to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended December 31, 2004, all Section 16(a) filing requirements applicable to its executive officers, directors and greater than 10% beneficial owners were satisfied, except that the following events were not reported on a timely-filed Form 4 but were subsequently reported on Form 4: (i) the issuance under the Company's Deferred Bonus Plan of 54 shares to Johanna Falk at the end of her deferral period; (ii) the issuance of 4 gift shares to Janine Schue from the Company; (iii) the issuance of 704 shares to Amy Tait's spouse pursuant to the Company's Dividend Reinvestment and Direct Stock Purchase Plan as a result of 7,062 shares of her spouse's stock being inadvertently enrolled in dividend reinvestment; (iv) the transfer of 6,036 shares from a custodial account controlled by Norman Leenhouts to a custodial account controlled by Amy Tait; (v) the gift of 1,300 shares from Norman Leenhouts to Amy Tait; and (vi) the deposit of 96 shares into John Smith's 401-K account through dividend reinvestment transactions.

Audit Committee, Audit Committee Independence and Financial Expert

The information required by this item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 6, 2005 under "Audit Committee." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Stockholder Nominations to Board

The information required by this item is incorporated herein by reference to the Company's Proxy Statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 6, 2005 under "Board of Directors." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Code of Ethics

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

The Company intends to disclose any amendment to its Code of Ethics on its Web site. In addition, in the event that the Company waives compliance by its Chief Executive Officer, principal financial officer, principal accounting officer or Controller, or persons performing similar functions, of any of the standards of its Code of Conduct, the Company will post on its Web site within four business days the nature of the waiver in satisfaction of its disclosure requirement under Item 5.05 of Form 8-K.

Corporate Guidelines and Committee Charters

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

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of the Stockholders of the Company to be held on May 6, 2005 under "Executive Compensation." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

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

The information required by this Item, including Equity Compensation Plan Information, is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 6, 2005 under "Security Ownership of Certain Beneficial Owners and Management" and under "Equity Compensation Plan Information." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 6, 2005 under "Certain Relationships and Transactions." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to the Company's proxy statement to be issued in connection with the Annual Meeting of Stockholders of the Company to be held on May 6, 2005 under "Report of the Audit Committee" and "Principal Accounting Fees and Services." The proxy statement will be filed within 120 days after the end of the Company's fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) 1 and 2. Financial Statements and Schedule

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

HOME PROPERTIES, INC.

Consolidated Financial Statements

3. Exhibits

Exhibit Number	Exhibit
2.1	Agreement among Home Properties of New York, Inc. and Philip J. Solondz, Daniel Solondz and Julia Weinstein Relating to Royal Gardens I, together with Amendment No. 1
2.2	Agreement among Home Properties of New York, Inc and Philip Solondz and Daniel Solondz relating to Royal Gardens II, together with Amendment No. 1
2.15	Contribution Agreement, dated October __, 1997 between Home Properties of New York between Home Properties of New York, L.P. and Berger/Lewiston Associates Limited Partnership; Stephenson-Madison Heights Company Limited Partnership; Kingsley- Moravian Company Limited Partnership; Woodland Garden Apartments Limited Partnership; B&L Realty Investments Limited Partnership; Southpointe Square Apartments Limited Partnership; Greentrees Apartments Limited Partnership; Big Beaver-Rochester Properties Limited Partnership; Century Realty Investment Company Limited Partnership

Exhibit Number	Exhibit
2.24	Contribution Agreement dated March 2, 1998 among Home Properties of New York, L.P., Braddock Lee Limited Partnership and Tower Construction Group, LLC
2.25	Contribution Agreement dated March 2, 1998 among Home Properties of New York, L.P., Park Shirlington Limited Partnership and Tower Construction Group, LLC
2.27	Form of Contribution Agreement among Home Properties of New York, L.P. and Strawberry Hill Apartment Company LLLP, Country Village Limited Partnership, Morningside Six, LLLP, Morningside North Limited Partnership and Morningside Heights Apartment Company Limited Partnership with schedule setting forth material details in which documents differ from form
2.29	Form of Contribution Agreement dated June 7, 1999, relating to the CRC Portfolio with schedule setting forth material details in which documents differ from form
2.30	Form of Contribution Agreement relating to the Mid-Atlantic Portfolio with schedule setting forth material details in which documents differ from form
2.31	Contribution Agreement among Home Properties of New York, L.P., Leonard Klorfine, Ridley Brook Associates and the Greenacres Associates
2.33	Contribution Agreement among Home Properties of New York, L.P., Gateside-Bryn Mawr Company, L.P., Willgold Company, Gateside-Trexler Company, Gateside-Five Points Company, Stafford Arms, Gateside-Queensgate Company, Gateside Malvern Company, King Road Associates and Cottonwood Associates
2.34	Contribution Agreement between Old Friends Limited Partnership and Home Properties of New York, L.P. and Home Properties of New York, Inc., along with Amendments Number 1 and 2 thereto
2.35	Contribution Agreement between Deerfield Woods Venture Limited Partnership and Home Properties of New York, L.P.
2.36	Contribution Agreement between Macomb Apartments Limited Partnership and Home Properties of New York, L.P.
2.37	Contribution Agreement between Home Properties of New York, L.P. and Elmwood Venture Limited Partnership
2.38	Sale Purchase and Escrow Agreement between Bank of America as Trustee and Home Properties of New York, L.P.
2.39	Contribution Agreement between Home Properties of New York, L.P., Home Properties of New York, Inc. and S&S Realty, a New York General Partnership (South Bay)
2.40	Contribution Agreement between Hampton Glen Apartments Limited Partnership and Home Properties of New York, L.P.
2.41	Contribution Agreement between Home Properties of New York, L.P. and Axtell Road Limited Partnership
2.42	Contribution Agreement between Elk Grove Terrace II and III, L.P., Elk Grove Terrace, L.P. and Home Properties of New York, L.P.

Exhibit Number	Exhibit
3.1	Articles of Amendment and Restatement of Articles of Incorporation of Home Properties of New York, Inc.
3.2	Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.
3.3	Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.
3.4	Amended and Restated Articles Supplementary of Series A Senior Convertible Preferred Stock of Home Properties of New York, Inc.
3.5	Series B Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.
3.6	Series C Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.
3.7	Series D Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.
3.8	Series E Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.
3.9	Amended and Restated By-Laws of Home Properties of New York, Inc. (Revised 12/30/96)
3.10	Series F Cumulative Redeemable Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.
3.11	Articles of Amendment to the Articles of Incorporation of Home Properties of New York, Inc.
3.12	Amendment Number One to Home Properties of New York, Inc. Amended and Restated Bylaws
4.1	Form of certificate representing Shares of Common Stock
4.2	Agreement of Home Properties of New York, Inc. to file instruments defining the rights of holders of long-term debt of it or its subsidiaries with the Commission upon request
4.7	Spreader, Consolidation, Modification and Extension Agreement between Home Properties of New York, L.P. and John Hancock Mutual Life Insurance Company, dated as of October 26, 1995, relating to indebtedness in the principal amount of $20,500,000
4.8	Amended and Restated Stock Benefit Plan of Home Properties of New York, Inc.
4.9	Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan
4.10	Amendment No. One to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan
4.11	Amendment No. Two to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan

Exhibit Number	Exhibit
4.12	Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan
4.13	Amendment No. Three to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan
4.14	Directors' Stock Grant Plan
4.16	Home Properties of New York, Inc., Home Properties of New York, L.P. Executive Retention Plan
4.17	Home Properties of New York, Inc. Deferred Bonus Plan
4.18	Fourth Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan
4.19	Directors Deferred Compensation Plan
4.23	Home Properties of New York, Inc. Amendment Number One to the Amended and Restated Stock Benefit Plan
4.24	Fifth Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan
4.25	Sixth Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan
4.26	Home Properties of New York, Inc. Amendment Number Two to the Amended and Restated Stock Benefit Plan
4.27	Amendment No. One to Home Properties of New York, Inc. Deferred Bonus Plan
4.28	Amended and Restated Director Deferred Compensation Plan
4.29	Amendment No. Two to Deferred Bonus Plan
4.30	Amendment Number One to Sixth Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan
10.1	Second Amended and Restated Agreement Limited Partnership of Home Properties of New York, L.P.
10.2	Amendments No. One through Eight to the Second Amended and Restated Agreement of Limited Partnership of Home Properties of New York, L.P.
10.3	Articles of Incorporation of Home Properties Management, Inc.
10.4	By-Laws of Home Properties Management, Inc.
10.5	Articles of Incorporation of Conifer Realty Corporation
10.6	Articles of Amendment to the Articles of Incorporation of Conifer Realty Corporation Changing the name to Home Properties Resident Services, Inc.

Exhibit Number	Exhibit
10.7	By-Laws of Conifer Realty Corporation (now, Home Properties Resident Services, Inc.)
10.8	Home Properties Trust Declaration of Trust, dated September 19, 1997
10.13	Indemnification Agreement between Home Properties of New York, Inc. and certain officers and directors
10.15	Indemnification Agreement between Home Properties of New York, Inc. and Alan L. Gosule
10.17	Agreement of Operating Sublease, dated October 1, 1986, among KAM, Inc., Morris Massry and Raintree Island Associates, as amended by Letter Agreement Supplementing Operating Sublease dated October 1, 1986
10.26	Amendment No. Nine to the Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership
10.27	Master Credit Facility Agreement by and among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp., dated as of August 28, 1998
10.28	First Amendment to Master Credit Facility Agreement, dated as of December 11, 1998 among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp. and Fannie Mae
10.29	Second Amendment to Master Credit Facility Agreement, dated as of August 30, 1999 among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp. and Fannie Mae
10.30	Amendments Nos. Ten through Seventeen to the Second Amended and Restated Limited Partnership Agreement
10.31	Amendments Nos. Eighteen through Twenty- Five to the Second Amended and Restated Limited Partnership Agreement
10.32	Credit Agreement, dated 8/23/99 between Home Properties of New York, L.P., certain lenders, and Manufacturers and Traders Trust Company as Administrative Agent
10.33	Amendment No. Twenty-Seven to the Second Amended and Restated Limited Partnership Agreement
10.34	Amendments Nos. Twenty-Six and Twenty-Eight through Thirty to the Second Amended and Restated Limited Partnership Agreement
10.37	2000 Stock Benefit Plan
10.39	Purchase Agreement between Home Properties of New York, Inc. and The Equitable Life Assurance Society of the United States
10.41	Home Properties of New York, L.P. Amendment Number One to Executive Retention Plan

Exhibit Number	Exhibit
10.42	Amendments No. Thirty-One and Thirty-Two to the Second Amended and Restated Limited Partnership Agreement
10.49	Amendment No. Thirty Three to the Second Amended and Restated Limited Partnership Agreement
10.50	Amendment No. Thirty Five to the Second Amended and Restated Limited Partnership Agreement
10.51	Amendment No. Forty Two to the Second Amended and Restated Limited Partnership Agreement
10.52	Amendments Nos. Thirty Four, Thirty Six through Forty One, Forty Three and Forty Four to the Second Amended and Restated Limited Partnership Agreement
10.57	Amendment Nos. Forty-Five through Fifty-One to the Second Amendment and Restated Limited Partnership Agreement
10.58	Home Properties of New York, Inc. Amendment No. One to 2000 Stock Benefit Plan
10.59	Home Properties of New York, Inc. Amendment No. Two to 2000 Stock Benefit Plan
10.60	Amendment Nos. Fifty-Two to Fifty-Five to the Second Amended and Restated Limited Partnership Agreement
10.61	Amendment Nos. Fifty-Six to Fifty-Eight to the Second Amended and Restated Limited Partnership Agreement
10.62	Amendment No. Two to Credit Agreement
10.63	Purchase and Sale Agreement, dated as of January 1, 2004 among Home Properties of New York, L.P., Home Properties Management, Inc. and Home Leasing, LLC, dated January 1, 2004
10.64	Amendment Nos. Fifty-Nine through Sixty-Seven to the Second Amended and Restated Limited Partnership Agreement
10.65	Home Properties of New York, Inc. Amendment No. Three to 2000 Stock Benefit Plan
10.66	Employment Agreement, dated as of October 28, 2003 between Home Properties, L.P., Home Properties, Inc., and Nelson B. Leenhouts
10.67	Employment Agreement, dated as of October 28, 2003 between Home Properties, L.P., Home Properties, Inc. and Norman B. Leenhouts
10.68	Home Properties of New York, Inc. 2003 Stock Benefit Plan
10.69	Amendment Number Two to Home Properties of New York, Inc. and Home Properties of New York, L.P. Executive Retention Plan
10.70	Employment Agreement, dated as of May 17, 2004, between Home Properties, L.P., Home Properties, Inc. and Edward J. Pettinella]
10.71	Amendment Nos. Sixty-Eight through Seventy-Three to the Second Amended and Restated Limited Partnership Agreement

Exhibit Number	Exhibit
10.72	Summary of Non-Employee Director Compensation Effective January 1, 2005
10.73	Summary of Named Executive Compensation effective January 1, 2005
10.74	Amendment No. Three to Credit Agreement, dated April 1, 2004 between Home Properties, L.P., certain lenders, and Manufacturers and Traders Trust Company as Administrative Agent
10.75	Amended and Restated Incentive Compensation Plan
10.76	Libor Grid Note, dated November 23, 2004 from Home Properties, L.P. to Manufacturers and Traders Trust Company
10.77	Mutual Release, dated January 24, 2005, given by Home Properties, L.P. and Home Properties, Inc. and Boston Capital Tax Credit Fund XIV, a Limited Partnership, Boston Capital Tax Credit Fund XV, a Limited Partnership and BCCC, Inc. relating to certain obligations pertaining to Green Meadows and related Letter Agreement.
11	Computation of Per Share Earnings Schedule
14.1	Home Properties, Inc. Code of Ethics for Senior Finance Officers
14.2	Home Properties, Inc. Code of Business Conduct and Ethics
21	List of Subsidiaries of Home Properties, Inc.
23	Consent of PricewaterhouseCoopers LLP
31.1*	Section 302 Certification of Chief Executive Officer (furnished)
31.2*	Section 302 Certification of Chief Financial Officer(furnished)
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer
99	Additional Exhibits - Debt Summary Schedule

*These exhibits are not incorporated by reference in any registration statement or report which incorporates this Annual Report on Form 10-K for the year ended December 31, 2004.

SIGNATURE

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

HOME PROPERTIES, INC.

/s/ Edward J. Pettinella
Edward J. Pettinella
Director, President and Chief Executive Officer

Date: March 15, 2005

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

Signature	Title	Date
/s/ Edward J. Pettinella Edward J. Pettinella	Director, President and Chief Executive Officer	March 15, 2005
/s/ David P. Gardner David P. Gardner	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	March 15, 2005
/s/ Robert J. Luken Robert J. Luken	Senior Vice President, Chief Accounting Officer and Treasurer (Principal Accounting Officer)	March 15, 2005
/s/ Joseph M. Stafford Joseph M. Stafford	Vice President and Controller	March 15, 2005
/s/ Norman P. Leenhouts Norman P. Leenhouts	Director, Co-Chairman of the Board of Directors	March 15, 2005
/s/ Nelson B. Leenhouts Nelson B. Leenhouts	Director, Co-Chairman of the Board of Directors	March 15, 2005
/s/ William Balderston, III William Balderston, III	Director	March 15, 2005
/s/ John E. Fidler Josh E. Fidler	Director	March 15, 2005

Signature	Title	Date
/s/ Alan L. Gosule Alan L. Gosule	Director	March 15, 2005
/s/ Leonard F. Helbig, III Leonard F. Helbig, III	Director	March 15, 2005
/s/ Roger W. Kober Roger W. Kober	Director	March 15, 2005
/s/ Clifford W. Smith, Jr. Clifford W. Smith, Jr.	Director	March 15, 2005
/s/ Paul L. Smith Paul L. Smith	Director	March 15, 2005
/s/ Thomas S. Summer Thomas S. Summer	Director	March 15, 2005
/s/ Amy L. Tait Amy L. Tait	Director	March 15, 2005

HOME PROPERTIES, INC.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

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

Report of Independent Registered Public Accounting Firm

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

We have completed an integrated audit of Home Properties, Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

<u>Consolidated financial statements and financial statement schedules</u>

In our opinion, the consolidated financial statements listed in the Index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Home Properties, Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(1) and (2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

<u>Internal control over financial reporting</u>

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9(a), that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Boston, Massachusetts
March 15, 2005

HOME PROPERTIES, INC.

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

	2004	2003
ASSETS		
Real estate:		
Land	$ 402,620	$ 387,655
Buildings, improvements and equipment	2,642,570	2,365,337
Real estate held for sale or disposal, net	78,711	-
	3,123,901	2,752,992
Less: accumulated depreciation	(405,919)	(330,062)
Real estate, net	2,717,982	2,422,930
Cash and cash equivalents	7,925	5,103
Cash in escrows	43,883	39,660
Accounts receivable	6,664	4,437
Prepaid expenses	18,224	18,184
Investment in and advances to affiliates	-	5,253
Deferred charges	13,778	9,057
Other assets	8,340	8,693
Total assets	$2,816,796	$2,513,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage notes payable	$1,644,722	$1,380,696
Line of credit	58,000	-
Accounts payable	24,600	13,178
Accrued interest payable	8,876	7,013
Accrued expenses and other liabilities	26,750	18,959
Security deposits	22,651	21,664
Total liabilities	1,785,599	1,441,510
Commitments and contingencies		
Minority interest	310,775	330,544
Stockholders' equity:		
Cumulative redeemable preferred stock, $.01 par value; 2,400,000 shares issued and outstanding at December 31, 2004 and 2003, respectively	60,000	60,000
Convertible cumulative preferred stock, $.01 par value; 10,000,000 shares authorized; 250,000 shares issued and outstanding at December 31, 2004 and 2003, respectively	25,000	25,000
Common stock, $.01 par value; 80,000,000 shares authorized; 32,625,413 and 31,966,240 shares issued and outstanding at December 31, 2004 and 2003, respectively	326	320
Excess stock, $.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	807,212	785,710
Accumulated other comprehensive (loss)	(362)	(542)
Distributions in excess of accumulated earnings	(171,754)	(128,910)
Officer and director notes for stock purchases	-	(315)
Total stockholders' equity	720,422	741,263
Total liabilities and stockholders' equity	$2,816,796	$2,513,317

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2004	2003	2002
Revenues:			
Rental income	$436,724	$400,178	$355,520
Property other income	18,299	14,910	13,470
Interest and dividend income	480	516	1,315
Other income	2,827	4,426	1,977
Total Revenues	458,330	420,030	372,282
Expenses:			
Operating and maintenance	202,479	181,773	154,583
General and administrative	23,978	22,607	12,649
Interest	90,506	84,368	76,783
Depreciation and amortization	89,929	76,206	62,823
Impairment of assets held as General Partner	1,116	2,518	3,533
Total Expenses	408,008	367,472	310,371
Income from operations	50,322	52,558	61,911
Equity in earnings (losses) of unconsolidated affiliates	(538)	(1,892)	(17,493)
Income before minority interest, discontinued operations and extraordinary item	49,784	50,666	44,418
Minority interest	13,637	13,965	9,451
Income from continuing operations	36,147	36,701	34,967
Discontinued operations			
Income (loss) from operations, net of ($80), $1,387, and $2,775, in 2004, 2003 and 2002 allocated to minority interest, respectively	(154)	2,507	4,478
Gain on disposition of property, net of $5,382, $1,359 and $3,511 in 2004, 2003 and 2002 allocated to minority interest, respectively	11,417	2,599	5,696
Discontinued operations	11,263	5,106	10,174
Income before loss on sale of property and business and cumulative effect of change in accounting principle	47,410	41,807	45,141
Loss on sale of property and business, net of $33, $4, and $154 in 2004, 2003, and 2002 allocated to minority interest	(67)	(9)	(202)
Income before cumulative effect of change in accounting principle	47,343	41,798	44,939
Cumulative effect of change in accounting principle net of $159 in 2004 allocated to minority interest	(321)	-	-
Net income	47,022	41,798	44,939
Preferred dividends	(7,593)	(11,340)	(14,744)
Premium on Series B preferred stock repurchase	-	-	(5,025)
Net income available to common shareholders	$ 39,429	$ 30,458	$ 25,170
Basic earnings per share data:			
Income from continuing operations	$ .87	$ .87	$ .58
Discontinued operations	.34	.17	.39
Cumulative effect of change in accounting principle	(.01)	-	-
Net income available to common shareholders	$ 1.20	$ 1.04	$ .97
Diluted earnings per share data:			
Income from continuing operations	$ .85	$ .86	$ .57
Discontinued operations	.34	.17	.39
Cumulative effect of change in accounting principle	(.01)	-	-
Net income available to common shareholders	$ 1.18	$ 1.03	$ .96
Weighted average number of shares outstanding:			
Basic	32,911,945	29,208,242	26,054,535
Diluted	33,314,038	29,575,660	26,335,316

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Preferred Stock at Liquidation Preference	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive Income	Officer/ Director Notes for Stock Purchase
Balance, January 1, 2002	$114,000	24,010,855	$240	$572,273	($57,768)	($ 532)	($ 7,617)
Issuance of common stock, net		1,770,150	18	54,065			
Issuance of preferred stock, net	60,000			(1,902)			
Conversion of Series E preferred stock for common stock	(6,320)	200,000	2	6,318			
Conversion of Series B preferred stock for common stock		839,771	8	24,359			
Premium on Series B preferred stock repurchase				(5,025)			
Payments on notes for stock purchase							6,425
Interest receivable on notes for stock purchase							419
Net income					44,939		
Change in fair value of hedge instruments, net of minority interest						(440)	
Conversion of UPREIT Units for stock		206,227	2	6,609			
Adjustment of minority interest				(7,208)			
Preferred dividends					(14,744)		
Dividends paid ($2.41 per share)					(61,879)		
Balance, December 31, 2002	167,680	27,027,003	270	649,489	(89,452)	(972)	(773)
Issuance of common stock, net		1,330,733	14	44,608			
Conversion of Series C preferred stock for common stock	(59,500)	1,983,470	20	59,480			
Conversion of Series E preferred stock for common stock	(23,180)	749,367	7	23,173			
Exercise of Series C Warrants		231,560	2	9,001			
Exercise of Series E Warrants		285,000	3	6,927			
Payments on notes for stock purchase							425
Interest receivable on notes for stock purchase							33
Net income					41,798		
Change in fair value of hedge instruments, net of minority interest						430	
Conversion of UPREIT Units for stock		359,107	4	13,038			
Adjustment of minority interest				(20,006)			
Preferred dividends					(11,340)		
Dividends paid ($2.45 per share)					(69,916)		
Balance, December 31, 2003	85,000	31,966,240	320	785,710	(128,910)	(542)	(315)
Issuance of common stock, net		1,251,949	12	43,086			
Repurchase of common stock		(1,280,196)	(13)	(53,783)			
Payments on notes for stock purchase							307
Interest receivable on notes for stock purchase							8
Net income					47,022		
Change in fair value of hedge instruments, net of minority interest						180	
Conversion of UPREIT Units for stock		687,420	7	26,569			
Adjustment of minority interest				5,630			
Preferred dividends					(7,593)		
Dividends paid ($2.49 per share)					(82,273)		
Balance, December 31, 2004	$85,000	32,625,413	$326	$807,212	($171,754)	($ 362)	$ -

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(IN THOUSANDS)

	2004	2003	2002
Net income	$47,022	$41,798	$44,939
Other comprehensive income (loss):			
Change in fair value of hedged instruments	180	430	(440)
Net comprehensive income	$47,202	$42,228	$44,499

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(IN THOUSANDS)

	2004	2003	2002
Cash flows from operating activities:			
Net income	$ 47,022	$ 41,798	$ 44,939
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in (earnings) losses of unconsolidated affiliates	538	1,892	17,493
Income allocated to minority interest	18,747	16,706	15,583
Depreciation and amortization	98,051	80,915	68,799
Impairment of assets held as General Partner	1,116	2,518	3,533
Impairment of real property	1,100	423	1,565
Gain on disposition of property and business	(26,424)	(3,945)	(8,851)
Changes in assets and liabilities:			
Other assets	(1,431)	3,644	(3,160)
Accounts payable and accrued liabilities	20,476	156	711
Total adjustments	112,173	102,309	95,673
Net cash provided by operating activities	159,195	144,107	140,612
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)	(267,940)
Additions to properties	(102,700)	(106,346)	(115,692)
Advances to affiliates	(820)	(3,410)	(11,748)
Payments on advances to affiliates	149	6,990	16,120
Proceeds from sale of affordable properties, net	2,412	3,835	-
Proceeds from sale of properties and business, net	89,028	53,666	84,079
Net cash used in investing activities	(165,466)	(112,025)	(295,181)
Cash flows from financing activities:			
Proceeds from sale of preferred stock, net	-	-	58,098
Proceeds from sale of common stock, net	43,095	59,788	54,090
Repurchase of Series B preferred stock	-	-	(29,392)
Repurchase of common stock	(53,796)	-	-
Proceeds from mortgage notes payable	191,772	130,259	346,525
Payments of mortgage notes payable	(97,734)	(75,352)	(159,657)
Proceeds from line of credit	291,600	186,000	281,000
Payments on line of credit	(233,600)	(221,000)	(278,500)
Payments of deferred loan costs	(2,672)	(1,498)	(4,866)
Withdrawals from (additions to) cash escrows, net	(1,953)	6,075	(6,505)
Repayment of officer and director loans	315	458	6,844
Dividends and distributions paid	(128,784)	(120,491)	(115,005)
Net cash provided by (used in) financing activities	8,243	(35,761)	152,632
Net increase (decrease) in cash and cash equivalents	1,972	(3,679)	(1,937)
Cash and cash equivalents:			
Beginning of year	5,103	8,782	10,719
Cash assumed in connection with FIN 46 consolidation	850	-	-
End of year	$ 7,925	$ 5,103	$ 8,782

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

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

1 ORGANIZATION AND BASIS OF PRESENTATION

Organization

Home Properties, Inc. (the "Company ") was formed in November 1993, as a Maryland corporation and is engaged primarily in the ownership, management, acquisition, and rehabilitation of residential apartment communities in the Northeastern, Mid-Atlantic, Midwestern and Southeast Florida regions of the United States. The Company conducts its business through Home Properties, L.P. (the "Operating Partnership"), a New York limited partnership. As of December 31, 2004, the Company operated 169 apartment communities with 47,378 apartments. Of this total, the Company owned 150 communities, consisting of 41,776 apartments, managed as general partner 14 partnerships that owned 2,793 apartments, and fee managed 2,809 apartments for affiliates and third parties. For an approximately five-year period from 1996 to 2000, the Company actively diversified its portfolio by developing, redeveloping, owning, and managing government-assisted "affordable" multi-family communities. On December 31, 2000, the Company disposed of its affordable housing development activities, and in December 2002, determined to sell virtually all of the balance of its interests in various affordable housing limited partnerships. See Note 3 below.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its 67.7% (66.7% at December 31, 2003) interest in the Operating Partnership. Such interest has been calculated as the percentage of outstanding common shares divided by the total outstanding common shares and Operating Partnership Units ("UPREIT Units") outstanding. The remaining 32.3% (33.3% at December 31, 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 indirectly as a limited partner through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of the limited partner, Home Properties Trust. Home Properties Trust was formed in September 1997, as a Maryland real estate trust and as a qualified REIT subsidiary ("QRS") and owns the Company's share of the limited partner interests in the Operating Partnership. For financing purposes, the Company has formed a limited liability company (the "LLC") and a partnership (the "Financing Partnership"), which beneficially own certain apartment communities encumbered by mortgage indebtedness. The LLC is wholly owned by the Operating Partnership. The Financing Partnership is owned 99.9% by the Operating Partnership and 0.1% by the QRS.

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

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

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

1 ORGANIZATION AND BASIS OF PRESENTATION (Continued)

of March 31, 2004, the Company was the general partner in 41 limited partnerships in Upstate New York, Pennsylvania, Ohio and Maryland. The Company had made a determination that all 41 limited partnerships were Variable Interest Entities ("VIE's"). The Company had further determined that it was the primary beneficiary in 34 of the VIE's 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 VIE's. As of December 31, 2004, the Company continued to own ten affordable properties. Eight of the ten properties, with a total of 612 units, were sold effective January 1, 2005. Of the remaining two properties (three partnerships), with a total of 1,925 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. The Company repurchased in January, 2005 the limited partner's 99.99% interests in accordance with the partnership agreements in satisfaction of any tax credit guarantees or other obligations for $5.7 million. The results of operations of the VIE's for the year-end December 31, 2004 are classified as held for sale in the consolidated statement of operations

As of March 31, 2004, Home Properties determined that it was not the primary beneficiary in seven partnerships syndicated under U.S. Department of Housing and Urban Development subsidy programs three of which remained as of December 31, 2004. These investments will continue to be accounted for under the equity method until their sale. For those 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 and 2002 consolidated financial statements to conform to the 2004 presentation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Estimate

During the first quarter of 2002, the Company completed a comprehensive review of its real estate-related useful lives for certain of its asset classes. As a result of this review, the Company changed its estimate of the remaining useful lives for its buildings and apartment improvements. Effective January 1, 2002, the estimated useful life of all buildings has been extended to 40 years and the estimated useful life of apartment improvements has been changed from 10 years to 20 years. Certain buildings had previously been depreciated over useful lives ranging from 30 to 40 years. As a result of the change, income before extraordinary item for the year-ended December 31, 2002 increased approximately $6.2 million or $.24 on a diluted per share basis. The Company believes the change reflects more appropriate remaining useful lives of the assets based upon the nature of the expenditures and is consistent with prevailing industry practice. This change has been accounted for prospectively in accordance with the provisions of Accounting Principle Board Opinion No. 20, Accounting Changes.

Real Estate

Real estate is recorded at cost. Costs related to the acquisition, development, construction and improvement of properties are capitalized. Recurring capital replacements typically include carpeting and tile, appliances, HVAC equipment, new roofs, site improvements and various exterior building improvements. Non-recurring upgrades include, among other items, community centers, new appliances, new windows, kitchens and bathrooms. Interest

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate (Continued)

costs are capitalized until construction is substantially complete. There was $763, $920, and $960 of interest capitalized in 2004, 2003 and 2002, respectively. Salaries and related costs capitalized for the years ended December 31, 2004, 2003 and 2002 were $3,391, $6,008, and $4,057, respectively. When retired or otherwise disposed of, the related asset cost and accumulated depreciation are cleared from the respective accounts and the net difference, less any amount realized from disposition, is reflected in income. Ordinary repairs and maintenance that do not extend the life of the asset are expensed as incurred.

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets." This standard superseded SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed of," but also retained its basic provision requiring: (i) recognition of an impairment loss of the carrying amount of a long-lived asset if it is not recoverable from its undiscounted cash flows, and (ii) measurement of an impairment loss as the difference between the carrying amount and fair value of the asset unless an asset is held for sale, in which case it would be stated at the lower of carrying amount or fair value less costs to dispose. However, SFAS No. 144 also describes a probability-weighted cash flow estimation approach to deal with situations which alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or a range is estimated. The determination of undiscounted cash flows requires significant estimates made by management and considers the expected course of action at the balance sheet date. Subsequent changes in estimated undiscounted cash flows arising from changes in anticipated actions could impact the determination of whether an impairment exists.

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

The Company accounts for its acquisitions of investments in real estate in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, which requires the fair value of the real estate acquired to be allocated to the acquired tangible assets, consisting of land, building, and personal property and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases and value of resident relationships, based in each case on their fair values. The Company considers acquisitions of operating real estate assets to be businesses as that term is contemplated in Emerging Issues Task Force Issue No. 98.3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate (Continued)

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

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

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

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

Depreciation

Properties are depreciated using a straight-line method over the estimated useful lives of the assets as follows: buildings, improvements and equipment - 3-40 years. As discussed above under the heading "Change in accounting estimate", effective January 1, 2002, the Company changed the estimated useful lives of certain assets. Depreciation expense charged to operations was $88,816, $75,977, and $62,686 from continuing operations and $5,300, $3,210, and $4,924 from discontinued operations for the years ended December 31, 2004, 2003 and 2002, respectively.

Cash and Cash Equivalents

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

Cash in Escrows

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

Allowance for Doubtful Receivables

The allowance for doubtful receivables was $567, $241 and $125 as of December 31, 2004, 2003 and 2002, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Charges

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

Intangible Assets

Intangible assets of $1,276 and $2,510 at December 31, 2004 and 2003, respectively, included in Other Assets, consist primarily of property management contracts obtained through the acquisition of real estate management businesses, and intangible assets recorded in connection with SFAS No. 141. Intangible assets associated with SFAS No. 141 are amortized on the straight-line basis over their estimated useful lives of 7 months to 3 years. Subsequent to 2002, the Company has not amortized intangibles expected to be sold (see Notes 3 and 4). Accumulated amortization of intangible assets was $2,005 and $893 as of December 31, 2004 and 2003, respectively. Amortization expense was $1,112, $92, and $135 for the years ended December 31, 2004, 2003 and 2002, respectively. The carrying value of intangible assets is periodically reviewed by the Company and impairments are recognized when the expected future operating cash flows derived from such intangible assets is less than their carrying value. During 2004 and 2003, in connection with the sale of the assets associated with the general partnership interests in certain affordable housing limited partnerships, the Company sold $1,771 and $1,284 of intangible assets, respectively. In addition, during 2002, in connection with the Company's decision to sell the assets associated with its general partnership interests in certain affordable properties (see Note 3), the Company wrote-down $985 (included in the line "Impairment of assets held as General Partner" on the Consolidated Statements of Operations) of the intangible balance as of December 31, 2002, in order to reflect the recorded assets at their estimated fair value.

Revenue Recognition

The Operating Partnership leases its residential properties under leases with terms generally one year or less. Rental income is recognized on a straight-line basis over the related lease term. As a result, deferred rents receivable are created when rental income is recognized during the concession period of certain negotiated leases and amortized over the remaining term of the lease. Property other income, which consists primarily of income from operation of laundry facilities, administrative fees, garage and carport rentals and miscellaneous charges to residents, is recognized when earned – when the services are provided, or when the resident incurs the charge.

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

Other Income

Other income for the years ended December 31, 2004, 2003 and 2002 primarily reflects management and other real estate service fees.

Gains on Real Estate Sales

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising expenses are charged to operations during the year in which they were incurred. Advertising expenses incurred and charged to operations were approximately $6,673, $6,878, and $5,754 from continuing operations, and $120, $350, and $487 from discontinued operations, for the years ended December 31, 2004, 2003 and 2002, respectively.

Legal Settlements

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

In October 2001, the Company resolved a legal claim with an insurance provider and received a total settlement of $4.9 million. This refund was allocated to insurance expense in relation to the Company's estimate of loss spread over the corresponding policy term. The policy term covered November 1, 2000 to October 31, 2001 and November 1, 2001 to October 31, 2002. The amount of the settlement relating to the period from November 1, 2000 to December 31, 2001 was estimated to be $2.2 million, and that amount reduced insurance expense in the fourth quarter of 2001. The remaining settlement of $2.7 million related to the policy period from January 1, 2001, through October 31, 2002, and was amortized on a straight-line basis over that period. In addition, an additional $600 was received in December 2002 relating to the settlement above for the policy period January 1, 2003 through October 31, 2003, and was amortized to insurance expense on a straight-line basis over that period.

Federal Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended, commencing with the taxable year ended December 31, 1994. As a result, the Company generally is not subject to Federal or State income taxation at the corporate level to the extent it distributes annually at least 90% of its REIT taxable income to its shareholders and satisfies certain other requirements. For the years ended December 31, 2004, 2003 and 2002, the Company distributed in excess of 100% of its taxable income; accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements. Stockholders of the Company are taxed on dividends and must report distributions from the Company as either ordinary income, capital gains, or as return of capital.

The tax basis of assets is less than the amounts reported in the accompanying consolidated financial statements by approximately $476 million and $432 million at December 31, 2004 and 2003, respectively.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Taxes(Continued)

The following table reconciles net income to taxable income for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Net income	$47,022	$41,798	$44,939
Add back: Net loss of taxable REIT Subsidiaries included in net income above	987	2,534	10,627
Deduct: Net income of taxable REIT subsidiaries included in net income above	-	-	-
Net income from REIT operations	48,009	44,332	55,566
Add: Book depreciation and amortization	64,886	55,570	39,214
Less: Tax depreciation and amortization	(69,532)	(63,110)	(44,307)
Book/tax difference on gains/losses from capital transactions	(8,128)	2,754	(4,237)
Other book/tax differences, net	(79)	4,895	(6,171)
Adjusted taxable income subject to 90% REIT dividend requirement	$35,156	$44,441	$40,065

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

Included in total assets on the Consolidated Balance Sheets are deferred tax assets of $8,737 and $8,394 as of December 31, 2004 and 2003, respectively. Management does not believe it is more likely than not that these deferred assets will be used, and accordingly has recorded a reserve against the deferred tax asset of $8,680 and $8,185 for the years ended December 31, 2004 and 2003, respectively.

Earnings Per Share

Basic Earnings Per Share ("EPS") is computed as net income available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation including stock options (using the treasury stock method) and the conversion of any cumulative convertible preferred stock. The exchange of an 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share (Continued)

Income from continuing operations is the same for both the basic and diluted EPS calculation. The reconciliation of the basic and diluted earnings per share for the years ended December 31, 2004, 2003, and 2002, is as follows:

	2004	2003	2002
Income from continuing operations	$36,147	$36,701	$34,967
Add: Gain (loss) on sale of business, net of minority interest	(67)	(9)	(202)
Less: Preferred dividends	(7,593)	(11,340)	(14,744)
Less: Premium on Series B preferred stock repurchase	-	-	(5,025)
Basic and Diluted – Income from continuing operations applicable to common shareholders	$28,487	$25,352	$14,996
Basic weighted average number of shares outstanding	32,911,945	29,208,242	26,054,535
Effect of dilutive stock options	402,093	367,418	280,781
Diluted weighted average number of shares outstanding	33,314,038	29,575,660	26,335,316
Basic earnings per share data:			
Income from continuing operations	$ .87	$ .87	$ .58
Discontinued operations	.34	.17	.39
Cumulative effect of change in accounting principle	(.01)	-	-
Net income available to common shareholders	$ 1.20	$ 1.04	$ .97
Diluted earnings per share data:			
Income from continuing operations	$ .85	$ .86	$ .57
Discontinued operations	.34	.17	.39
Cumulative effect of change in accounting principle	(.01)	-	-
Net income available to common shareholders	$ 1.18	$ 1.03	$ .96

Unexercised stock options to purchase 641,550, and 669,090 shares of the Company's common stock were not included in the computations of diluted EPS because the options' exercise prices were greater than the average market price of the Company's stock during the years ended December 31, 2003, and 2002, respectively. For the year ended December 31, 2004, the 833,333 common stock equivalents on an as-converted basis of the Series D Convertible Cumulative Preferred Stock have an antidilutive effect and are not included in the computation of diluted EPS. For the years ended December 31, 2003 and 2002, there were 2,229,719 and 4,123,533, respectively of common stock equivalents on an as-converted basis of certain convertible preferred stock that had an antidilutive effect and were not included in the computation of diluted EPS. To the extent the preferred stock was converted, the common shares would be included in outstanding shares from the date of conversion.

Use of Estimates

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

Stock Based Employee Compensation

Effective January 1, 2003, the Company adopted the fair value based method of accounting for stock options in accordance with SFAS No. 123. The Company applied the modified-prospective approach in adopting SFAS No. 123 in conformity with the transition provisions of SFAS No. 148 – Accounting for Stock-Based Compensation – Transition and Disclosure, an Amendment of SFAS No. 123. Under this approach, the Company recognizes

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Based Employee Compensation (Continued)

stock-based employee compensation cost from the beginning of the fiscal year in which the recognition provisions are first applied as if the fair value based accounting method in this Statement had been used to account for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. For 2004 and 2003, total compensation costs recognized by the Company on its stock options and restricted stock, (including in 2003 $5,000 recognized in connection with a 129,870 share restricted stock grant to the Leenhoutses upon their retirement as Co-CEO's), amounted to $2,119 and $6,341, respectively. For the years prior to 2003, the Company used the intrinsic value method in accordance with the Accounting Principle Board Opinion No. 25 ("APB No. 25") to account for stock-based employee compensation arrangements. Under this method, the Company did not recognize compensation cost for stock options when the option exercise price equaled or exceeded the market value on the date of grant. Restricted stock grants are recognized as compensation expense over the vesting period based upon the market value on the date of grant. If the Company had determined compensation cost based upon the fair value of the stock option grants under SFAS No. 123, "Accounting for Stock-Based Compensation" in prior years, the fair values of the options granted at the grant dates have been recognized as compensation expense over the vesting periods, and the Company's net income and earnings per share at December 31 would have been as follows:

	2002
Net income, as reported	$44,939
Total stock compensation cost recognized	241
Total stock compensation cost if SFAS 123 had been adopted	(1,143)
Minority interest for net stock compensation cost	343
Proforma net income if SFAS 123 had been adopted	$44,380
Per share data:	
Basic - as reported	$0.97
Basic – proforma	$0.94
Diluted - as reported	$0.96
Diluted – proforma	$0.93

The fair value of each option grant reflected in the table above is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2004, 2003, and 2002: dividend yields ranging from 6.74% to 9.40%; expected volatility of 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 6.12%.

New Accounting Pronouncements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

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

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

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

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R *Share Based Payment* (SFAS No. 123R). The statement is a revision of SFAS No. 123 *Accounting for Stock-Based Compensation.* SFAS No 123R supersedes APB Opinion No. 25 *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R, requires that entities recognize the cost of employee services received in exchange for awards of equity instruments (i.e. stock options) based on the grant-date fair value of those awards. The Statement is effective for the first fiscal periods beginning after December 15, 2005. On January 1, 2003, the Company adopted the provisions of SFAS No. 148 *Accounting for Stock-Based Compensation – Transition and Disclosure*, an Amendment to SFAS No. 123. Effective on that date, the Company began recognizing compensation cost related to stock option grants. Based upon the Company's adoption of SFAS No. 148, the issuance of SFAS No. 123R will have no impact on the Company's results of operations, financial position or liquidity.

3 VARIABLE INTEREST ENTITIES (INVESTMENT IN AND ADVANCES TO AFFILIATES)

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 of which four have been sold as of December 31, 2004. The three remaining partnerships are all under contract to be sold as of December 31, 2004. These three investments will continue to be accounted for under the equity method and included in equity in earnings of unconsolidated affiliates until final sale closing. 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 each partnership for a fee (5% of rents collected). The Company's economic benefit from these partnerships is the management fee. There is no further exposure to the Company of loss as a result of its involvement with these partnerships. The management fees earned on these partnerships was $104 for the year ended December 31, 2004. The assets and liabilities of the three remaining partnerships total $4.7 million and $7.4 million at December 31, 2004, respectively. Unconsolidated non-recourse debt associated with the three partnerships continuing to be accounted for under the equity method amounted to $7 million, of which the Company's proportionate share, based on its legal ownership, was $213.

The Company has further determined that it is the primary beneficiary in 34 of the VIE's 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 VIE's. The results of operations of the 34 VIE's for the year ended December 31, 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 VIE's 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 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 December 31, 2004 includes Total assets of $87.8 million, Total liabilities of $80.6 million, Minority interest of $7.5 million, and 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 $80.6 million increase in total liabilities, $77.6 million represented non-recourse mortgage debt.

Effective December 31, 2004, the Company has closed on the sale of 26 of the 41 VIE's and is under contract for the sale of an additional twelve VIE's pending lender approval. Based upon the final contract price established during final negotiations with the buyers for these 38 partnerships, an additional $4.1 million loss was recorded during 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 period ended December 31, 2004. During the third quarter of 2004, the Company began an exit strategy with one additional property (two partnerships) with 1,057 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

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

3 VARIABLE INTEREST ENTITIES (INVESTMENT IN AND ADVANCES TO AFFILIATES) (Continued)

federal agency that insured repayment of the loan to discuss the weak financial performance of the property. 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. In addition, the Company has repurchased 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 for the twelve month period ended December 31, 2004.

During the first quarter of 2004, prior to the adoption of FIN 46R, the Company recorded an impairment charge of $1.6 million to reduce the value of the assets associated with the VIE's to management's estimate of fair market value. The impairment charge is classified in the financial statements as "Impairment of assets held as general partner" of $1,116 and "Equity in earnings (losses) of unconsolidated affiliates" of ($538). 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.

Through March 31, 2004, the Company accounted for its investments as general partner in unconsolidated affordable housing limited partnerships using the equity method of accounting. As of December 31, 2003, the Company had investments in and advances to 44 limited partnerships where the Company acts as the managing general partner. The following is summarized financial information for the investment in and advances to affiliates carried under the equity method of accounting, excluding the Management Companies discussed in Note 4, as of December 31, 2003 and 2002 and for each of the two years ended December 31, 2003 and 2002.

	2003	2002
Balance Sheets:		
Real estate, net	$163,950	$266,613
Other assets	21,247	37,764
Total assets	$185,197	$304,377
Mortgage notes payable	$142,717	$253,285
Advances from affiliates	22,678	24,725
Other liabilities	11,420	15,125
Partners' equity	8,382	11,242
Total liabilities and partners' equity	$185,197	$304,377

The Company's proportionate share of mortgage notes payable was $1,487 at December 31, 2003. The mortgage notes payable are all non-recourse to the affiliated partnership and the Company.

	2003	2002
Operations:		
Gross revenues	$ 43,586	$47,468
Operating expenses	(30,275)	(29,994)
Mortgage interest expense	(11,266)	(11,914)
Depreciation and amortization	(14,872)	(13,503)
Net loss	($ 12,827)	($ 7,943)
Company's share [included in equity in earnings (losses) of unconsolidated affiliates]*	($ 921)	($ 1,171)

* In addition to the amounts presented above, the Company recorded additional losses of $971 and $3,092 for 2003 and 2002 respectively, related to operating losses in excess of limited partners' capital accounts where the Company also had loans outstanding to the investing entities required the accounting requirements of EITF 99-10 described in the following paragraphs.

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

3 VARIABLE INTEREST ENTITIES (INVESTMENT IN AND ADVANCES TO AFFILIATES) (Continued)

Reconciliation of interests in the underlying net assets to the Company's carrying value of investments in and advances to affiliates:

	2003	2002
Partners' equity, as above	$ 8,382	$11,242
Equity of other partners	(9,477)	(9,236)
Company's share of investments in limited partnerships	(1,095)	2,006
Less - impairment charge	(400)	(899)
Company's investment in limited partnerships	(1,495)	1,107
Company's investment in Management Companies (see Note 4)	-	5,996
Company's advances to affiliates	6,748	-
Company's advances to Management Companies	-	12,372
Carrying amount of investments in and advances to affiliates	$ 5,253	$19,475

The Company, including its equity affiliates (Management Companies – Note 4), determined in the fourth quarter of 2002 that it would market for sale the assets associated with its interests in various affordable property limited partnerships. Prior to the fourth quarter of 2002, the Company had been assessing whether to expand its holding in such assets, including seeking out additional management opportunities, to consider the sale of such assets, or to retain its existing portfolio of assets without further growth. The Company ultimately concluded that it would not seek to grow its portfolio of these types of assets. It was then determined that the existing affordable property limited partnerships required a disproportionate effort to manage which was not justified by their overall contribution to profit. The Company concluded that its strategic focus should be on the direct ownership and management of market rate properties. Accordingly, the decision to sell its assets in the affordable property limited partnerships was made.

The Company's assets related to the limited partnerships are comprised of management contracts, loans, advances and receivables and general partnership interests. An aggregate impairment charge of $1.7 and $14.2 million was recorded by the Company and its equity affiliates and resulted from adjusting the recorded amount of the assets to their estimated fair market value, for the year ended December 31, 2003 and 2002, respectively. In 2002, the impairment charge was comprised of the following: (i) intangible assets (i.e. management contracts) were written down $985 to their estimated fair market value, (ii) loans, advances and other receivables which had previously been assessed for impairment based upon their estimated collectibility as determined under applicable accounting standards, are now, subsequent to the Company's decision to sell, required to be reflected at their estimated fair market value and, accordingly, were written down by an aggregate of $12,363, and (iii) the general partnership equity interests were written down $899 as certain of the Company's investments are now considered to have suffered an other than temporary impairment. As the assets are held by both the Company and its equity affiliates, the resultant impairment triggered by the decision to sell these assets is reflected in the statement of operations within the line items as follows:

	2003	2002
Impairment of assets held as general partner	$1,696	$ 2,448
Equity in earnings (losses) of unconsolidated affiliates (Note 4)	-	11,799
	$1,696	$14,247

In addition to the above impairment charge, the Company's results of operations, prior to the decision to sell, were impacted by losses incurred by certain of the affordable property limited partnerships. These losses were a direct result of the weak economy and resulting decrease in occupancy levels. Loans, advances and other receivables of

3 VARIABLE INTEREST ENTITIES (INVESTMENT IN AND ADVANCES TO AFFILIATES) (Continued)

$1,793 and $3,606 ($514 by the Company and $3,092 by the equity affiliates) for the years ended December 31, 2003 and 2002, respectively, were written down due both to (i) the accounting requirements of EITF 99-10, "Percentage Used to Determine the Amount of Equity Method Losses," which require the general partner to record a greater share of the underlying investment's losses where the investor (i.e., the Company including its equity affiliates) also has loans outstanding to the investment entity and the limited partner has no capital account and (ii) the assessment of recoverability of recorded amounts based upon the projected performance of the properties over the respective repayment terms. In addition, during 2002 the Company recorded an other than temporary impairment of $571,000, $546,000 of this amount related to the expiration in December 2002, of an option to acquire one of its equity interests. This change in circumstances was unrelated to the Company's decision to sell its interest. These assets are held by both the Company and its equity affiliates. The resultant charges that would have been recognized regardless of the Company's decision to sell the assets is reflected in the consolidated statement of operations within the line items as follows:

	2003	2002
Impairment of assets held as general partner	$ 822	$ 1,085
Equity in earnings (losses) of unconsolidated affiliates	971	3,092
	$1,793	$4,177

The summary of the impairment and other charges made in 2002 related to the assets associated with the affordable property limited partnerships referenced in the previous paragraphs is as follows (in thousands):

	Sale Impairment			Other Charges			Totals		
Assets	Company[1]	Affiliates[2]	Total	Company[1]	Affiliates[2]	Total	Company[1]	Affiliates[2]	Combined
Loans, advances and other receivables	$ 564	$11,799	$12,363	$ 514	$3,092	$3,606	$ 1,078	$14,891	$15,969
Intangible assets	985	-	985	-	-	-	985	-	985
General partner equity	899	-	899	571	-	571	1,470	-	1,470
	$2,448	$11,799	$14,247	$1,085	$3,092	$4,177	$3,533	$14,891	$18,424

1 Recorded by the Company in the line item "Impairment of assets held as General Partner"

2 Recorded by the Affiliates, and reflected by the Company in the line item "Equity in earnings (losses) of unconsolidated affiliates"

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

3 VARIABLE INTEREST ENTITIES (INVESTMENT IN AND ADVANCES TO AFFILIATES) (Continued)

The following table reconciles various items described in this Note 3 and Note 4 to the Consolidated Financial Statements with respect to various unconsolidated affiliates the Management Companies on the Company's Consolidated Statements of Operations for the items "Impairment of assets held as General Partner" and "Equity in earnings (losses) of unconsolidated affiliates":

	2003	2002
Impairment of assets held as General Partner (Note 3):		
Sale impairment	$1,696	$ 2,448
Advance impairment	822	1,085
	$2,518	$ 3,533
Equity in earnings (losses) of unconsolidated affiliates:		
Company's share of net income (loss) from general partnership investments (Note 3)	($ 921)	($ 1,171)
Company direct EITF 99-10 advance losses (Note 3)	(971)	-
Equity in earnings (losses) of unconsolidated Management Companies (Note 4)	-	(16,322)
	($1,892)	($17,493)

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

4 MANAGEMENT COMPANIES

Certain property management, leasing and development activities are performed by Home Properties Management, Inc. and Home Properties Resident Services, Inc. (together, the "Management Companies"). Both are Maryland corporations and, effective January 1, 2001, elected to convert to taxable REIT subsidiaries under the Tax Relief Extension Act of 1999. The Operating Partnership owned non-voting common stock in the Management Companies which entitles it to receive 95% and 99% of the economic interest in Home Properties Management, Inc. and Home Properties Resident Services, respectively. Effective March 1, 2001, the Company recapitalized Home Properties Resident Services, Inc. by contributing to capital $23.7 million of loans due from affiliated partnerships. Simultaneous with the recapitalization, the Company increased its effective economic interest from 95% to 99% diluting the economic interest held by certain of the Company's officers and inside directors. Effective January 1, 2003, the accompanying consolidated financial statements include the accounts of the Management Companies. The Operating Partnership acquired all of the shares held by the Leenhoutses in the first quarter of 2003. The value of the Leenhoutses shares was based upon an internal valuation and amounted to approximately $81. The Company's share of income from the Management Companies, included in "Equity in earnings (losses) of unconsolidated affiliates" in the Consolidated Statements of Operations, for the twelve months ended December 31, 2002 is summarized as follows:

	2002
Management fees	$ 2,864
Interest income	867
General and administrative	(3,850)
Interest expense	(734)
Other expenses	(767)
Impairment and other charges	(14,891)
Net income (loss)	($16,511)
Equity in earnings (losses) of unconsolidated affiliates	($16,322)
Equity in earnings (losses) of unconsolidated affiliates, after minority interest	($10,188)
Total assets	$18,468
Total liabilities	$12,741

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

As discussed in Note 3, in 2002 the "Impairment and other charges" of $14,891 is a result of the Company's decision to sell the assets associated with the affordable property limited partnerships ($11,799), and the operating losses directly associated with the performance of certain limited partnerships due to the weak economy ($3,092).

In connection with the adoption of FIN 46R on March 31, 2004, the Company consolidated the accounts and results of operations related to its investments in affordable limited partnerships for which the Company was the primary beneficiary. As result, all intercompany notes and other receivables have been eliminated in consolidation as of December 31, 2004. Included in assets of the Company for 2003 and of the Management Companies for 2002 are notes and other receivables due from affiliated partnerships (Note 3) of approximately $6,748 and $12,599, net of allowances, impairments and other charges of $10,514 and $10,091 at December 31, 2003 and 2002, respectively. The interest rates of the notes receivable include both fixed and variable rate terms. The variable rate loans are at one percent over the prime rate of interest. The fixed rate agreements range from 8.47% to 10% per annum. The maturity dates for these notes receivable range from 2018 to 2032.

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

5 MORTGAGE NOTES PAYABLE

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

	2004	2003
Fixed rate mortgage notes payable	$1,516,926	$1,350,056
Variable rate mortgage notes payable	127,796	30,640
Total mortgage notes payable	$1,644,722	$1,380,696

Mortgage notes payable are collateralized by certain apartment communities and mature at various dates from 2005 through 2042. The weighted average interest rate of the Company's variable rate notes and credit facility was 2.98% and 2.32% at December 31, 2004 and 2003, respectively. The weighted average interest rate of the Company's fixed rate notes was 6.23% and 6.47% at December 31, 2004 and 2003, respectively.

Principal payments on the mortgage notes payable for years subsequent to December 31, 2004 are as follows:

2005	$ 40,006
2006	72,295
2007	198,502
2008	203,215
2009	62,952
Thereafter	1,067,752
	$1,644,722

The Company determines the fair value of the mortgage notes payable based on the discounted future cash flows at a discount rate that approximates the Company's current effective borrowing rate for comparable loans. Based on this analysis, the Company has determined that the fair value of the mortgage notes payable approximates $1,704,410 and $1,463,499, at December 31, 2004 and 2003, respectively.

Included in the consolidated mortgage balance of $1,644,722 as of December 31, 2004 is $77,637 of mortgage notes payable related to the Company’s affordable limited partnerships, consolidated in connection with the Company’s adoption of FIN 46R.

Prepayment penalties of approximately $305, $1,610, and $3,275 were incurred for the years ended December 31, 2004, 2003, and 2002, respectively. For 2004 the prepayment penalties were incurred in connection with both debt restructurings and the sale of property, whereas in 2003 the prepayment penalties were incurred strictly in connection with the sale of property. In 2002, the Company incurred such penalties on certain debt restructurings. During 2004, repayments on three debt instruments totaled $14,338 and were refinanced by three new borrowings of $52,957. In addition, the Company added additional financing on six properties totaling $76,853. The 2003 repayments on two debt instruments totaled $23,800 and were refinanced by two new borrowings of $46,045. The 2002 repayments on thirteen debt instruments totaled $101,341 and were refinanced by sixteen new borrowings in excess of $236,000.

6 LINE OF CREDIT

As of December 31, 2004, the Company had an unsecured line of credit of $115 million. The Company’s outstanding balance as of December 31, 2004 was $58 million. The line of credit is led by M&T Bank, as Administrative Agent, with three other participants: Chevy Chase Bank FSB, Citizens Bank of Rhode Island, and Comerica Bank. Borrowings under the line of credit bear interest at 1.05% over the one-month LIBOR rate. The one-month Libor rate was 2.4% at December 31, 2004.

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

6 LINE OF CREDIT (Continued)

Increases in interest rates will increase the Company's interest expense on any outstanding balances and as a result would affect the Company's results of operations and financial condition. The line of credit expires on September 1, 2005. The LIBOR interest rate was 2.4% at December 31, 2004. The Credit Agreement relating to this 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 Operating Partnership 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 and the impairment charges recorded in the fourth quarter of 2002, (see Note 3) the Company did not meet the required ratio. The funds from operations payout ratio was 91% and 94%, respectively, when measured for the calendar years. Waivers have been granted by the participating banks for the excess payout incurred in 2003 and 2002 as indicated above.

On November 23, 2004, the Company signed a supplemental demand note with M&T Bank. The note has a maximum principal amount of $42 million. Borrowings on the note bear interest at 1.25% over the one-month LIBOR rate. The demand note was entered into to fund the Company's stock repurchase program. The Company had no outstanding balance on the note as of December 31, 2004.

7 MINORITY INTEREST

Minority interest in the Company relates to the interest in the Operating Partnership and affordable limited partnerships not owned by Home Properties, Inc. Holders of UPREIT Units may redeem a Unit for one share of the Company's common stock or cash equal to the fair market value at the time of the redemption, at the option of the Company.

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

	2004	2003
Balance, beginning of year	$330,544	$333,061
Issuance of UPREIT Units associated with property acquisitions	12,104	4,806
Issuance of UPREIT units associated with 1031 exchange transaction	-	2,400
Adjustment between minority interest and stockholders' equity	(5,630)	20,006
Exchange of UPREIT Units for Common Shares	(14,106)	(7,432)
Net income	18,987	16,706
Accumulated other comprehensive loss	117	232
Distributions	(38,918)	(39,235)
Effect of consolidating affordable limited partnerships under FIN 46R	7,677	-
Balance, end of year	$310,775	$330,544

8 PREFERRED STOCK AND STOCKHOLDERS' EQUITY

Preferred Stock

On September 30, 1999, the Company privately placed 2,000,000 of its 8.36% Series B convertible cumulative preferred stock ("Series B Preferred Shares"), $25 liquidation preference per share. This offering generated net proceeds of approximately $48.7 million after offering costs of $1.3 million. The net proceeds were used to pay down Company borrowings. The Series B Preferred Shares were convertible at any time by the holder into Common Shares at a conversion price of $29.77 per Common Share, equivalent to a conversion ratio of .8398

8 PREFERRED STOCK AND STOCKHOLDERS' EQUITY (Continued)

Preferred Stock (Continued)

Common Shares for each Series B Preferred Share (equivalent to 1,679,543 Common Shares assuming 100% converted). The Series B Preferred Shares are non-callable for five years. Each Series B Preferred Share received the greater of a quarterly distribution of $0.5225 per share or the dividend paid on a share of common stock on an as converted basis. On February 14, 2002, 1.0 million of the Series B Preferred Stock were converted into 839,771 shares of common stock. The conversion had no effect on the reported results of operations. On May 24, 2002 the Company repurchased the remaining 1.0 million shares outstanding at an amount equivalent to 839,772 common shares (as if the preferred shares had been converted). The Company repurchased the shares for $29,392, equal to the $35.00 common stock trading price when the transaction was consummated. A premium of $5,025 was incurred on the repurchase and has been reflected as a charge to net income available to common shareholders' in the consolidated statement of operations. As of December 31, 2002, there were no Series B preferred shares outstanding.

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

In June 2000, the Company privately placed 250,000 of its 8.78% Series D convertible cumulative preferred stock ("Series D Preferred Shares"), $100 liquidation preference per share. This offering generated net proceeds of approximately $25 million. The net proceeds were used to fund Company acquisitions and property upgrades. The Series D Preferred Shares are convertible at any time by the holder into Common Shares at a conversion price of $30.00 per Common Share, equivalent to a conversion ratio of 3.333 Common Shares for each Series D Preferred share (equivalent to 833,333 Common Shares assuming 100% converted). The Series D Preferred shares are non-callable for five years. Each Series D Preferred share will receive the greater of a quarterly distribution of $2.195 per share or the dividend paid on a share of common stock on an as-converted basis.

In December 2000, the Company privately placed 300,000 of its 8.55% Series E convertible cumulative preferred stock ("Series E Preferred Shares"), $100 liquidation preference per share. This offering generated net proceeds of approximately $30 million. The net proceeds were used to pay down Company borrowings. The Series E Preferred Shares are convertible at any time by the holder into Common Shares at a conversion price of $31.60 per Common Share, equivalent to a conversion ratio of 3.1646 Common Shares for each Series E Preferred Share (equivalent to 949,367 Common Shares assuming 100% converted). The Series E Preferred Shares are non-callable for five years. Each Series E Preferred Share received the greater of a quarterly distribution of $2.1375 per share or the dividend paid on a share of common stock on an as-converted basis. In addition, the Company issued warrants to purchase

8 PREFERRED STOCK AND STOCKHOLDERS' EQUITY (Continued)

Preferred Stock (Continued)

285,000 common shares at a price of $31.60 per share, expiring in 2005. On August 20, 2002, 63,200 of the Series E Convertible Preferred Shares were converted into 200,000 shares of common stock. On May 6, 2003, 36,800 shares of Series E Preferred Shares were converted into 116,456 shares of common stock. The conversions had no effect on the reported results of operations. On August 26, 2003 the remaining 200,000 shares of Series E Preferred Shares were converted into 632,911 of common stock. On September 9, 2003, 17,100 warrants were exercised, resulting in the issuance of 17,100 shares of common stock. During the fourth quarter of 2003, the remaining 267,900 common stock warrants were exercised, resulting in the issuance of 267,900 shares of common stock. Neither the conversions nor the warrant exercise had an effect on the reported results of operations. As of December 31, 2003, there were no Series E preferred shares outstanding.

In March 2002, the Company issued 2,400,000 shares of its 9.00% Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Shares"), with a $25.00 liquidation preference per share. This offering generated net proceeds of approximately $58 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).

Common Stock

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action did not establish a target price or a specific timetable for repurchase. At December 31, 2001, there was approval remaining to purchase 1,135,800 shares. On August 6, 2002 the Board of Directors approved a 2,000,000-share increase in the stock repurchase program. During 2004, the Company repurchased 1,135,800 shares at a total cost of $47.4 million. During 2003 and 2002, there were no shares or UPREIT Units repurchased by the Company. At December 31, 2004 the Company had authorization to repurchase 2,000,000 shares of common stock and UPREIT Units under the stock repurchase program. From January 1, 2005 through February 16, 2005, the Company repurchased 1,300,700 additional shares at a cost of $53.3 million, leaving a remaining share authorization level of 699,300 shares. On February 16, 2005, the Board of Directors approved a 2,000,000-share increase in the stock repurchase program, resulting in an authorization level of 2,699,300 shares.

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

Dividend Reinvestment Plan

The Company has a Dividend Reinvestment Plan (the "DRIP"). The DRIP provides the stockholders of the Company an opportunity to automatically invest their cash dividends in common stock. In addition, eligible participants may make monthly payments or other voluntary cash investments in shares of common stock. The maximum monthly investment without prior Company approval is currently $1,000. 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 $5,000 to $1,000. As expected, these changes significantly reduced participation in the Plan. Effective December 10, 2004, the discount was further reduced from 2% to 0%. In addition, in the fourth quarter of 2004, the Company has begun meeting share demand in

8 PREFERRED STOCK AND STOCKHOLDERS' EQUITY (Continued)

Dividend Reinvestment Plan (Continued)

the program through share repurchase by the transfer agent in the open market on the Company's behalf instead of new share issuance. This removes essentially 100% of the dilution caused by issuing new shares at a price less than the net asset value in an economic and efficient manner. A total of $18 million, $30 million, and $27 million was raised through this program during 2004, 2003, and 2002, respectively.

Officer/Director Notes for Stock Purchases and Stock Purchase and Loan Plan

On August 12, 1996, eighteen officers and the six independent directors purchased an aggregate of 208,543 shares of Common Stock through the DRIP at the price of $19.79. The purchases were financed 50% from a bank loan and 50% by a recourse loan from the Company. The Company loans bear interest at 7% per annum and mature in August 2016. The Company loans are subordinate to the above-referenced bank loans, and are collateralized by pledges of the 208,543 Common Shares. The loans are paid from the regular quarterly dividends paid on the shares of common stock pledged, after the corresponding bank loans are paid in full. During 2002 certain key officers and directors repaid their loans in full in connection with the Company's recently issued Corporate Governance policies.

On November 10, 1997, twenty-one officers and five of the independent directors purchased an aggregate of 169,682 shares of common stock through the DRIP at the price of $26.66. The purchases were financed 50% from a bank loan and 50% by a recourse loan from the Company. The Company loans bear interest at 6.7% per annum and mature in November 2017. The Company loans are subordinate to the above-referenced bank loans, and are collateralized by pledges of the 169,682 common shares. The loans are expected to be repaid from the regular quarterly dividends paid on the shares of common stock pledged, after the corresponding bank loans are paid in full. During 2002 certain key officers and directors repaid their loans in full in connection with the Company's recently issued Corporate Governance policies.

In May 1998, the Company adopted the Director, Officer and Employee Stock Purchase and Loan Plan (the "Stock Purchase Plan"). The program provides for the sale and issuance, from time to time as determined by the Board of Directors, of up to 500,000 shares of the Company's Common Stock to the directors, officers and key employees of the Company for consideration of not less than 97% of the market price of the Common Stock. The Stock Purchase Plan also allowed the Company to loan, on a recourse basis, the participants up to 100% of the purchase price (50% for non-employee directors).

On August 12, 1998, thirty officers/key employees and the six independent directors purchased an aggregate of 238,239 shares of common stock through the Stock Purchase Plan at the price of $24.11. The purchases for the officers/key employees were financed 100% by a recourse loan from the Company (50% for non-employee directors). The loans bear interest at 7.13% per annum and mature on the earlier of the maturity of the 1996 and 1997 phases of the loan program or August 2018. The loans are collateralized by pledges of the common stock and are expected to be repaid from the regular quarterly dividends paid on the shares. During 2002 certain key officers and directors repaid their loans in full in connection with the Company's recently issued Corporate Governance policies.

On February 1, 2001, one officer purchased an aggregate of 75,000 shares of common stock through the Stock Purchase Plan at the price of $26.20. The purchases were financed by a recourse loan from the Company. The loan is collateralized by pledges of the common stock, bears interest at 8% per annum and matures on February 15, 2021. The loan was repaid in full on January 25, 2002.

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

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

8 PREFERRED STOCK AND STOCKHOLDERS' EQUITY (Continued)

Dividends

Stockholders are taxed on dividends and must report such dividends as either ordinary income, capital gains, or as return of capital. The Company has declared a $2.49 distribution per common share (CUSIP 437306103) and a $2.25 distribution per Series F preferred share (CUSIP 437306509) during its most recent fiscal year. Pursuant to Internal Revenue Code Section 857 (b) (3) (C), for the years ended December 31, 2004, 2003, and 2002, the Company designates the taxable composition of the following cash distributions to holders of common and preferred shares in the amounts set forth in the tables below and on the next page:

Common				Distribution Type			
Declaration Dates	Record Dates	Payable Dates	Distributions Per Share	Ordinary Taxable Dividend	Return of Capital	20% Long-Term Capital Gain	Unrecaptured Sec. 1250 Gain
2/3/2004	2/17/2004	2/27/2004	$0.62	41.83%	0%	55.24%	0%
5/4/2004	5/17/2004	5/28/2004	$0.62	41.83%	0%	55.24%	0%
8/3/2004	8/16/2004	8/27/2004	$0.62	41.83%	0%	55.24%	0%
11/2/2004	11/16/2004	11/26/2004	$0.63	41.83%	0%	55.24%	0%
		TOTALS	$2.49	41.83%	0%	55.24%	0%

The taxable composition of cash distributions for each common share for 2003 and 2002 is as follows:

		Distribution Type			
Year	Distributions Per Share	Ordinary Taxable Dividend	Return of Capital	20% Long-Term Capital Gain	Unrecaptured Sec. 1250 Gain
2003	$2.45	55.62%	38.12%	0.00%	6.21%
2002	$2.41	62.28%	37.17%	0.00%	0.55%

Series F Preferred				Distribution Type			
Declaration Dates	Record Dates	Payable Dates	Distributions Per Share	Ordinary Taxable Dividend	Return of Capital	20% Long-Term Capital Gain	Unrecaptured Sec. 1250 Gain
2/3/2004	2/17/2004	3/1/2004	$0.56250	93.44%	0%	0%	6.56%
5/4/2004	5/17/2004	6/1/2004	$0.56250	93.44%	0%	0%	6.56%
8/3/2004	8/16/2004	8/31/2004	$0.56250	93.44%	0%	0%	6.56%
11/2/2004	11/16/2004	11/30/2004	$0.56250	93.44%	0%	0%	6.56%
		TOTALS	$2.25000	93.44%	0%	0%	6.56%

The taxable composition of cash distributions for each common share for 2003 and 2002 is as follows:

		Distribution Type			
Year	Distributions Per Share	Ordinary Taxable Dividend	Return of Capital	20% Long-Term Capital Gain	Unrecaptured Sec. 1250 Gain
2003	$2.25	89.87%	0.00%	0.00%	10.04%
2002	$1.55	99.11%	0.00%	0.00%	0.89%

8 PREFERRED STOCK AND STOCKHOLDERS' EQUITY (Continued)

Total Shares/Units Outstanding

At December 31, 2004, 32,625,413 common shares, 833,333 convertible preferred shares (assuming a conversion of the Preferred Shares to Common Shares) and 15,591,300 UPREIT Units were outstanding for a total of 49,050,046 common share equivalents.

In addition, 2,400,000 shares of Series F cumulative redeemable preferred shares were outstanding as of December 31, 2004.

9 STOCK BENEFIT PLAN

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

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

On February 1, 2000, the Company adopted the 2000 Stock Benefit Plan (the "2000 Plan"). The 2000 Plan participants include directors, officers, regional managers and on-site property managers. The 2000 Plan limits the number of shares issuable under the plan to 2,755,000, of which 205,000 were to be available for issuance to the non-employee directors. No additional options will be granted under the 2000 Plan to non-employee directors. At December 31, 2004, 775,666 common shares were available for future grant of options or awards under the 2000 plan for officers and employees.

On May 6, 2003, the Company adopted the 2003 Stock Benefit Plan (the “2003 Plan”). Plan participants include directors, officers, regional managers and on-site property managers. The 2003 Plan limits the number of shares issuable under the plan to 1,450,000, of which 200,000 are to be available for issuance to the non-employee directors. At December 31, 2004, 206,010 and 84,400 common shares were available for future grant of options or awards under the 2003 plan for officers and employees and non-employee directors, respectively.

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

9 STOCK BENEFIT PLAN (Continued)

Details of stock option activity during 2004, 2003, and 2002 are as follows:

	Number of Options	Weighted Average Exercise Price Per Option
Options outstanding at January 1, 2002 (764,819 shares exercisable)	2,105,102	$28.69
Granted, 2002	682,590	$34.77
Exercised, 2002	(185,255)	$23.92
Cancelled, 2002	(175,084)	$30.16
Options outstanding at December 31, 2002 (921,781 shares exercisable)	2,427,353	$30.66
Granted, 2003	678,370	$36.80
Exercised, 2003	(255,502)	$28.31
Cancelled, 2003	(221,088)	$32.50
Options outstanding at December 31, 2003 (1,070,995 shares exercisable)	2,629,133	$32.32
Granted, 2004	607,160	$38.75
Exercised, 2004	(605,053)	$29.47
Cancelled, 2004	(177,524)	$34.63
Options outstanding at December 31, 2004 (959,292 shares exercisable)	2,453,716	$34.41

The following table summarizes information about options outstanding at December 31, 2004:

Year Granted	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Fair Value of Options on Grant Date	Weighted Average Exercise Price	Number Exercisable	Exercise Price Range Per Option
1996	6,517	1	$1.20	$19.637	6,517	$19.00-$20.50
1997	4,750	3	$1.55	26.500	4,750	$26.50
1998	16,017	4	$1.32	25.125	16,017	$25.125
1999	83,963	5	$1.57	27.125	83,963	$27.125
2000	245,096	6	$1.88	31.206	176,456	$28.313-$31.375
2001	467,672	7	$1.64	29.354	308,592	$27.01-$31.60
2002	489,981	8	$1.95	34.817	248,457	$32.20-$36.03
2003	558,860	9	$1.78	36.786	114,540	$36.28-$36.85
2004	580,860	10	$3.33	38.749	-	$37.91-$38.83
Totals	2,453,716	8	$2.15	$34.411	959,292	$19.00-$38.83

9 STOCK BENEFIT PLAN (Continued)

In 2004 and 2003, the Company granted 65,932 and 198,420 shares of restricted stock. The restricted stock outstanding at December 31, 2004 and 2003, was 267,928 and 236,170 shares, respectively. The 62,332 shares of restricted stock granted to key employees of the Company during 2004, vests 25% on each anniversary of the date of grant for the period of four years. The 65,850 shares of restricted stock granted to key employees of the Company during 2003, vests 100% on the fifth anniversary of the date of grant. In addition, in the fourth quarter of 2003, $5,000 of restricted stock was granted to the Leenhoutses (129,870 shares at $37.75 per share). The total amount of the grant was expensed in the fourth quarter of 2003 as it was part of their retirement award and was fully earned at that date. The restrictions on this restricted stock granted to the Leenhoutses vests 20% on each anniversary of the grant date. The restricted shares were granted during 2003 and 2004 at a weighted average price of $35.64 to $40.10 per share, respectively. Total compensation cost recorded for the years ended December 31, 2004, 2003 and 2002 for the restricted share grants was $1,171, $5,537, and $241, respectively.

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

10 SEGMENT REPORTING

The Company is engaged in the ownership and management of market rate apartment communities. Each apartment community is considered a separate operating segment. Each segment on a stand alone basis is less than 10% of the revenues, profit or loss, and assets of the combined reported operating segments. The operating segments are aggregated and segregated as Core and Non-core properties.

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

Core properties consist of all apartment communities owned throughout 2003 and 2004 where comparable operating results are available. 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.

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 (including loss associated with early extinguishment of debt in connection with the sale) or non-cash real estate impairment charge, 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.

During 2003 and 2004, the Company reclassified certain property related operating expenses from general and administrative to operating and maintenance which would impact the segment contribution of FFO. This reclassification is also reflected in the prior period presentations.

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

10 SEGMENT REPORTING (Continued)

The revenues, profit (loss), and assets for each of the reportable segments are summarized as follows for the years ended December 31, 2004, 2003, and 2002.

	2004	2003	2002
Revenues			
Apartments owned			
Core properties	$ 425,844	$ 409,916	$ 342,739
Non-core properties	29,179	5,172	26,251
Reconciling items	3,307	4,942	3,292
Total Revenue	$ 458,330	$ 420,030	$ 372,282
Profit (loss)			
Funds from operations:			
Apartments owned			
Core properties	$ 234,927	$ 229,798	$ 197,544
Non-core properties	17,617	3,517	16,863
Reconciling items	3,307	4,942	3,292
Segment contribution to FFO	255,851	238,257	217,699
General & administrative expenses	(23,978)	(22,607)	(12,649)
Interest expense	(90,506)	(84,368)	(76,783)
Prepayment penalties included in interest	36	1,610	3,275
Depreciation of unconsolidated affiliates	556	2,441	1,346
Non-real estate depreciation/amortization	(3,446)	(2,327)	(1,174)
FAS 141 acquisition rent /intangibles	1,111	46	-
Redeemable preferred dividend	(5,400)	(5,400)	(4,155)
Equity in earnings (losses) of unconsolidated affiliates	(538)	(1,892)	(17,493)
Impairment of assets held as General Partner	(1,116)	(2,518)	(3,533)
Impairment of affordable assets not in FFO	945	2,034	1,470
Loss on disposition of discontinued operations before minority interest	(9,725)	-	-
Income from discontinued operations before minority interest depreciation and loss on disposition of property	3,163	7,527	13,742
Funds from Operations	126,953	132,803	121,745
Depreciation – apartments owned	(88,454)	(77,089)	(66,573)
Depreciation of unconsolidated affiliates	(1,998)	(2,441)	(1,346)
FAS 141 acquisition rent /intangibles	(1,111)	(46)	
Prepayment penalties	-	-	(3,275)
Prepayment penalties in connection with sale of real estate	(36)	(1,610)	-
Impairment of real property	-	(423)	(1,565)
Redeemable preferred dividend	5,400	5,400	4,155
Impairment of affordable assets not in FFO	(945)	(2,034)	(1,470)
Minority interest in earnings	(13,637)	(13,965)	(9,451)
Loss on disposition of discontinued operations before minority interest	9,725	-	-
Income from discontinued operations before minority interest and loss on disposition of property	250	(3,894)	(7,253)
Income from continuing operations	$ 36,147	$ 36,701	$ 34,967
Assets			
Apartments owned			
Core properties	$2,277,130	$2,252,103	
Non-core properties	440,852	170,827	
Reconciling items	98,814	90,387	
Total Assets	$2,816,796	$2,513,317	
Real Estate Capital Expenditures			
New property acquisitions	$ 256,208	$ 96,801	
Additions to properties			
Core properties	91,151	101,398	
Non-core properties	11,549	4,948	
Increase in real estate associated with the purchase of UPREIT Units	11,864	5,600	
Total Real Estate Capital Expenditures	$ 370,772	$208,747	

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

11 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

Original Notional Amount	Fixed Interest Rate	Variable Interest Rate	Maturity Date
$16,384,396	5.35%	LIBOR + 1.50%	June 25, 2007
$10,000,000	5.39%	LIBOR + 1.50%	June 25, 2007
$3,000,000	8.22%	LIBOR + 1.40%	June 25, 2007
$4,625,000	8.40%	LIBOR + 1.40%	June 25, 2007

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

11 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

As of December 31, 2004, the aggregate fair value of the Company's interest rate swaps was $659 prior to the allocation of minority interest, and is included in accrued expenses and other liabilities in the consolidated balance sheets. For the twelve months ending December 31, 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 Company expects that within the next twelve months it will reclassify as a charge to earnings $382, prior to the allocation of minority interest, of the amount recorded in accumulated other comprehensive loss. 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.

12 TRANSACTIONS WITH AFFILIATES

The Company and the Management Companies recognized management and development fee revenue, interest income and other miscellaneous income from affiliated entities of $696, $3,679, and $5,783 for the years ended December 31, 2004, 2003, and 2002, respectively. The Company had accounts receivable outstanding due from affiliated entities of $12 and $162 at December 31, 2004 and 2003, respectively.

On January 1, 2004, the Company sold certain assets of its commercial property management division to Home Leasing, LLC, which is owned by Nelson and Norman Leenhouts. This division managed approximately 2.2 million square feet of gross leasable area, as well as certain planned communities. The initial amount paid was $82. In addition, the Company is entitled to receive a percentage of the management fee received by Home Leasing in connection with the management of one of the commercial properties for a period not to exceed 36 months. The expected monthly fee as outlined in the contract is approximately $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 $55.2 has been received for the year ended December 31, 2004. The current gain recorded on the sale of these assets as of December 31, 2004 amounts to $24.4. If the management of this property is retained for the entire three years, the Company expects to receive an additional $110.4 for the period January 1, 2005 through January 1, 2007. The gain on sale would then be approximately $134.8.

On March 2, 2004, the Company acquired Wellington Trace Apartments from an affiliated partnership owned by one of the Company’s directors for $27.1 million.

A director and former officer of the Company provided consulting services to the Company during 2002 for fees approximating $54.

In 1997, certain officers and inside directors of the Company entered into a lease termination agreement with the Company. The agreement provided for a contingent termination fee based on the performance of the underlying property. In 2002, an amount of $312 became payable to the Company under the terms of the agreement. This amount was classified in "Property other income" in the Consolidated Statements of Operations. The agreement expired in 2002.

The Company leases its corporate office space from an affiliate. The lease requires an annual base rent of $884 and $895 for the years ended 2005 and 2006, respectively. The lease also requires the Company to pay a pro rata portion of property improvements, real estate taxes and common area maintenance. Rental expense was $1,694, $1,609, and $1,296 for the years ended December 31, 2004, 2003, and 2002, respectively.

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

13 COMMITMENTS AND CONTINGENCIES

Property Lease

On December 1, 2004 the Company entered in to a lease agreement with a third party owner to manage the operations of one of their communities with 1,387 apartment units. The lease has a term of five years, but after two years (from the 24th month to the 36th month), the owner may require us to buy the property. From the 36th month to the end of the lease term, the Company has the right to require the owner to sell the property to the Company. It is the Company's expectation that closing on the acquisition of the property will occur no later than 36 months after the commencement of the lease. The estimated future acquisition price of the property is $140 million. The agreement required an initial deposit of $5,000, with an additional $1,000 estimated deposit requirement for each of the next two years, representing capital improvements paid by the owner. The net operating income of the property (as defined in the lease agreement) is remitted back to the owner as rent on a monthly basis. In exchange for services, the Company is entitled to receive monthly; a management fee equal to 5% of Collected Income, as defined in the lease, an incentive fee of $25, and interest payments equal to 3% annual interest on the outstanding deposit. Including interest, the total income recognized by the Company for the year-end December 31, 2004 amounted to $98.

Ground Lease

The Company has a non-cancelable operating ground lease for one of its properties. The lease expires May 1, 2020, with options to extend the term of the lease for two successive terms of twenty-five years each. The lease provides for contingent rental payments based on certain variable factors. The lease also requires the lessee to pay real estate taxes, insurance and certain other operating expenses applicable to the leased property. Ground lease expense was $226, $219, and $210, including contingent rents of $156, $149, and $140, for the years ended December 31, 2004, 2003, and 2002, respectively. At December 31, 2004, future minimum rental payments required under the lease are $70 per year until the lease expires.

401(k) Savings Plan

The Company sponsors a contributory savings plan. Under the plan, the Company will match 75% of the first 4% of participant contributions. The matching expense under this plan was $690, $1,010, and $638 for the years ended December 31, 2004, 2003, and 2002, respectively.

Incentive Compensation Plan

The Incentive Compensation Plan provides that eligible officers and key employees may earn a cash bonus based on the percentage growth in the Company's "funds from operations" per share/unit (computed based on the diluted shares/units outstanding) as compared against the industry average growth. The bonus expense charged to operations (including that portion allocated to the Management Companies) was $3,414, $1,729, and $2,764 for the years ended December 31, 2004, 2003 and 2002, respectively.

Contingencies

In 2001, the Company underwent a state tax audit. The state has assessed taxes of $469 for the 1998 and 1999 tax years under audit. If the state's position is applied to all tax years through December 31, 2001, the assessment would be $1.3 million. At the time, the Company believed the assessment and the state's underlying position were not supportable by the law nor consistent with previously provided interpretative guidance from the office of the State Secretary of Revenue. After two subsequent enactments by the state legislation during 2002 affecting the pertinent tax statute, the Company has been advised by outside tax counsel that its filing position for 1998-2001 should prevail. During December 2003, the state's governor signed legislation which included the REIT tax provisions. Based upon this, Company's tax counsel 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

13 COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies (Continued)

should subject the Company to a much lower level of tax going forward. During the fourth quarter of 2004, the State Department of Revenue formally approved the settlement offer of $29 on the 1998 tax year which was made during the third quarter. 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.

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 $68 for the six-month period ended December 31, 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.

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

Debt Covenants

The line of credit loan agreement contains restrictions which, among other things, require maintenance of certain financial ratios and limit the payment of dividends (See Note 6).

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.

13 COMMITMENTS AND CONTINGENCIES (Continued)

Debt Covenants (Continued)

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

Calculation Presented for Series F Covenants

	Three-months ended			
	Dec. 31 2004	Sept. 30 2004	June 30 2004	Mar. 31 2004
EBITDA				
Total revenues	$118,357	$118,942	$118,017	$113,197
Net operating income from discontinued operations	2,143	1,364	1,069	-
Operating and maintenance	(52,227)	(50,372)	(51,081)	(54,232)
General and administrative	(9,482)	(4,879)	(4,892)	(4,725)
Impairment of assets held as General Partner	-	-	-	(1,116)
Equity in earnings (losses) of unconsolidated affiliates	-	25	(25)	(538)
	$ 58,791	$ 65,080	$ 63,088	$ 52,586
Fixed Charges				
Interest expense	$ 23,891	$ 23,496	$ 23,783	$ 21,332
Interest expense on discontinued operations	442	40	476	-
Preferred dividends	1,898	1,898	1,899	1,898
Capitalized interest	191	230	171	171
	$ 26,422	$ 25,664	$ 26,329	$ 23,401
Times Coverage ratio:	2.23	2.54	2.40	2.25

Guarantees

As of December 31, 2004, the Company, through its general partnership interests in certain affordable property limited partnerships, has guaranteed the Low Income Housing Tax Credits to limited partners in 10 partnerships totaling approximately $21,000. As of December 31, 2004, there were no known conditions that would make such payments necessary, and no amounts have been recorded. In addition, the Company, acting as general partner in certain partnerships, is obligated to advance funds to meet partnership operating deficits.

Executive Retention Plan

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

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

14 PROPERTY ACQUISITIONS

For the years ended December 31, 2004, 2003, and 2002, the Company has acquired the communities listed below:

Community	Market Area	Date Acquired	Year Constructed	Number of Units	Cost of Acquisition	Cost of Acquisition Per Unit
11 Property Portfolio	Long Island	3/1-5/31/02	1949-79	1,688	$152,794	$ 87
Gardencrest	Boston	6/28/02	1948	696	$ 85,885	$123
Brittany Place	Northern VA	8/22/02	1968	591	$ 44,336	$ 70
Cider Mill	Northern VA	9/27/02	1978	864	$ 81,490	$ 85
5 Property Portfolio	Hudson Valley	10/11/02	1969	224	$ 13,990	$ 57
W. Springfield Terrace	Northern VA	11/18/02	1978	244	$ 34,198	$140
The Sycamores	Northern VA	12/16/02	1978	185	$ 20,350	$110
Stone Ends	Boston	2/12/03	1972	280	$ 34,028	$121
Falkland Chase	Northern VA	9/10/03	1937	450	$ 58,942	$131
Chatham Hill	New Jersey	1/30/04	1967	308	$ 48,215	$157
Northwood	New Jersey	1/30/04	1965	134	$ 15,186	$113
Fairmount	New Jersey	1/30/04	1943	54	$ 2,256	$ 42
Kensington	New Jersey	1/30/04	1943	38	$ 1,843	$ 49
Wellington Trace	Northern VA	3/2/04	2002	240	$ 27,134	$113
Village @ Marshfield	Boston	3/17/04	1972	276	$ 31,695	$115
Woodleaf	Northern VA	3/19/04	1985	228	$ 20,672	$ 91
The Hamptons/Vinings	Southeast Florida	7/7/04	1986-1989	836	$ 70,381	$ 84
Regency Club	New Jersey	9/24/04	1974	372	$ 37,610	$101

15 DISCONTINUED OPERATIONS

The Company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective January 1, 2002. This standard addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It also retains the basic provisions for presenting discontinued operations in the income statement but broadened the scope to include a component of an entity rather than a segment of a business. Pursuant to the definition of a component of an entity in the SFAS, assuming no significant continuing involvement by the former owner after the sale, the sale of an apartment community is now considered a discontinued operation. In addition, apartment communities classified as held for sale are also considered a discontinued operation. The Company generally considers assets to be held for sale when all significant contingencies surrounding the closing have been resolved, which often corresponds with the actual closing date. Properties classified in this manner through December 31, 2004, as discussed below, were reclassified as such in the accompanying Consolidated Statements of Operations for each of the three years ended December 31, 2004.

Included in discontinued operations for the three years ended December 31, 2004 are the operating results, net of minority interest, of twenty four apartment community dispositions (five sold in 2004, seven sold in 2003 and twelve sold in 2002). In addition, discontinued operations for the year ended December 31, 2004 includes the operating results, net of minority interest of twenty two VIE’s sold during 2004 and twelve VIE’s held for sale as of December 31, 2004. For purposes of the discontinued operations presentation, the Company only includes interest expense associated with specific mortgage indebtedness of the properties that are considered discontinued operations.

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

15 DISCONTINUED OPERATIONS (Continued)

The operating results of discontinued operations are summarized as follows for the years ended December 31, 2004, 2003, and 2002:

	2004	2003	2002
Revenues:			
Rental Income	$26,860	$19,877	$29,783
Property other income	1,677	983	1,193
Total Revenues	28,537	20,860	30,976
Operating and Maintenance	17,388	9,805	13,194
Interest expense	6,256	3,528	4,040
Depreciation and amortization	5,300	3,210	4,924
Impairment of real property	1,100	423	1,565
Total Expenses	30,044	16,966	23,723
Income (loss) from discontinued operations before minority interest and gain (loss) on disposition of property	(1,507)	3,894	7,253
Minority interest in limited partnerships	1,273	-	-
Minority interest in operating partnerships	80	(1,387)	(2,775)
Income from discontinued operations	($ 154)	$ 2,507	$ 4,478

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

	Owned Communities	VIE's	Total
Revenues			
Rental Income	$ 11,444	$15,416	$26,860
Property other income	639	1,038	1,677
Total Revenues	12,083	16,454	28,537
Expenses			
Operating and Maintenance	5,451	11,937	17,388
Interest expense	2,168	4,088	6,256
Depreciation and amortization	1,971	3,329	5,300
Impairment of real property	1,100	-	1,100
Total Expenses	10,690	19,354	30,044
Income (loss) from discontinued operations before minority interest and gain (loss) on disposition of property	1,393	(2,900)	(1,507)
Minority interest in limited partnerships	-	1,273	1,273
Minority interest in operating partnerships	448	(528)	(80)
Income (loss) from discontinued operations	$ 945	($1,099)	($ 154)

The results of discontinued operations in the table above have been presented for the year-ended December 31, 2004 only, as the discontinued operations for 2003 and 2002 solely represents the results from owned communities.

16 PROFORMA CONDENSED FINANCIAL INFORMATION

The Company acquired ten apartment communities ("2004 Acquired Communities") with a combined 2,486 units in six unrelated transactions during the twelve-month period ended December 31, 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.

The following unaudited proforma information was prepared as if: (i) the 2004 transactions related to the acquisition of the "2004 Acquired Communities" occurred on January 1, 2003, and (ii) the 2003 transactions related

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

16 PROFORMA CONDENSED FINANCIAL INFORMATION (Continued)

to the acquisition of two apartment communities in two separate transactions had occurred on January 1, 2002. The proforma financial information is based upon the historical consolidated financial statements and is not necessarily indicative of the consolidated results which actually would have occurred if the transactions had been consummated at January 1, 2002 or 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 twelve months ended December 31, 2004, 2003, and 2002 consist principally of providing net operating activity and recording interest, depreciation and amortization from January 1, 2002 or 2003 to the acquisition date as appropriate.

	For the years ended December 31, (unaudited)	
	2004	2003
Total revenues	$467,738	$448,251
Net income available to common shareholders before cumulative effect of change in accounting principle	28,936	27,584
Net income available to common shareholders	28,615	27,584
Per common share data:		
Net income available to common shareholders before cumulative effect of change in accounting principle		
Basic	$0.88	$0.94
Diluted	$0.87	$0.93
Net income available to common shareholders:		
Basic	$0.87	$0.94
Diluted	$0.86	$0.93
Weighted average numbers of shares outstanding:		
Basic	32,911,945	29,208,242
Diluted	33,314,038	29,575,660

	For the years ended December 31, (unaudited)	
	2003	2002
Total revenues	$424,316	$381,491
Net income available to common shareholders	25,872	18,600
Per common share data:		
Net income available to common shareholders:		
Basic	$0.89	$0.71
Diluted	$0.89	$0.71
Weighted average numbers of shares outstanding:		
Basic	29,208,242	26,054,535
Diluted	29,575,660	26,335,316

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

17 SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow information including non cash financing and investing activities for the years ended December 31, 2004, 2003, and 2002 are as follows:

	2004	2003	2002
Cash paid for interest	$92,150	$85,895	$76,326
Mortgage loans assumed associated with property acquisitions	90,568	25,239	153,581
Issuance of UPREIT Units associated with property and other acquisitions	12,105	4,806	11,522
Increase in real estate associated with the purchase of UPREIT Units	12,470	5,600	2,200
Exchange of UPREIT Units for common shares	14,106	7,442	4,411
Fair value of hedge instruments	659	956	1,618
Compensation cost of stock options issued	948	804	-
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	-	-

18 GAIN (LOSS) ON DISPOSITION OF PROPERTY AND BUSINESS

During 2004, the Company disposed of five apartment communities with 1,646 units in four unrelated transactions. The total sales price of $92.5 million equates to $56 per unit. The total gain on sale of these transactions amounted to approximately $26.6 million.

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

During 2002, the Company disposed of twelve apartment communities with 1,724 units in eight unrelated transactions. The total sales price of $87 million equates to $50 per unit. The total gain on sale of these transactions amounted to approximately $7.6 million.

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

19 QUARTERLY FINANCIAL STATEMENT INFORMATION (UNAUDITED)

Quarterly financial information for the years ended December 31, 2004 and 2003 are as follows:

	2004			
	First	Second	Third	Fourth
Revenues	$109,556	$113,894	$116,523	$118,357
Adjustment for discontinued operations	3,641	4,123	2,419	-
Revenues as reported on Form 10-Q	113,197	118,017	118,942	118,357
Net Income	6,478	10,641	4,925	24,978
Per share data:				
Basic earnings per share data:				
Net income available to common shareholders	$0.14	$0.27	$0.09	$0.70
Diluted earnings per share data:				
Net income available to common shareholders	$0.14	$0.26	$0.09	$0.69

	2003			
	First	Second	Third	Fourth
Revenues	$101,631	$104,266	$106,358	$107,775
Adjustment for discontinued operations	3,502	2,396	2,412	3,683
Revenues as reported on Form 10-Q	105,133	106,662	108,770	111,458
Net Income	7,389	12,134	11,604	10,669
Per share data:				
Basic earnings per share data:				
Net income available to common shareholders	$0.14	$0.32	$0.30	$0.28
Diluted earnings per share data:				
Net income available to common shareholders	$0.14	$0.31	$0.30	$0.27

Full year per share data does not equal the sum of the quarterly data due to the impact of the convertible securities on the quarterly results and not the year to date amounts. The quarterly reports for the years ended December 31, 2004 and 2003 have been reclassified to reflect discontinued operations in accordance with SFAS No. 144.

20 SUBSEQUENT EVENTS

On January 13, 2005 the Company acquired a 204-unit community in Westminster, Maryland. The total purchase price of $19.7 million, including closing costs, equates to approximately $96 per apartment unit. Consideration for this property was funded through the use of the Company's line of credit.

On March 1, 2005, the Company acquired a 198-unit community in Hackensack, New Jersey. The total purchase price of $12.9 million, including closing costs, equates to approximately $65 per apartment unit. Consideration for this property included assumed debt of $4.9 million and $8.0 million in UPREIT units of the Company. In addition, the Company acquired a 148-unit community in Aberdeen, New Jersey. The total purchase price of $7.4 million, including closing costs, equates to approximately $50 per apartment unit. Consideration for this property included assumed debt of $3.0 million and $4.4 million in UPREIT units of the Company.

SCHEDULE II

HOME PROPERTIES, INC.

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

	Balance at beginning of year	Charged to Costs and Expenses	Amounts Written Off	Balance at end of year
Allowance for Doubtful Receivables				
December 31, 2004:	$ 241	3,527	(3,201)	$ 567
December 31, 2003:	$ 125	2,954	(2,838)	$ 241
December 31, 2002:	$ 12	1,934	(1,821)	$ 125
Deferred Tax Valuation Allowance				
December 31, 2004:	$8,185	495	-	$8,680
December 31, 2003:	$ 559	7,626	-	$8,185
December 31, 2002:	$ 360	199	-	$ 559

SCHEDULE III

HOME PROPERTIES, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2004
(IN THOUSANDS)

Community	Encum-brances	Land	Initial Cost Buildings, Improvements & Equipment	Adjust-ments (a)	Costs Capitalized Subsequent to Acquisition	Land	Total Cost Buildings, Improvements & Equipment	Total(b)	Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Year of Acquisition
1600 East Avenue		1,000	8,527		5,092	1,000	13,619	14,619	3,219	11,400	1997
1600 Elmwood	11,027	299	5,698	3,339	4,326	299	13,363	13,662	7,129	6,533	1983
Bayview/Colonial	5,428	1,600	8,471		3,732	1,600	12,203	13,803	1,452	12,351	2000
Beechwood		560	3,442		2,258	560	5,700	6,260	1,146	5,114	1998
Blackhawk	13,736	2,968	14,568		4,661	2,968	19,229	22,197	2,422	19,775	2000
Bonnie Ridge	36,068	4,830	42,769		19,891	4,830	62,660	67,490	10,075	57,415	1999
Braddock Lee	21,915	3,810	8,842		4,973	3,810	13,815	17,625	3,181	14,444	1998
Brittany Place	19,049	4,728	39,608		5,897	4,728	45,505	50,233	3,027	47,206	2002
Brook Hill		330	7,920		4,717	330	12,637	12,967	3,955	9,012	1994
Cambridge Village	3,246	2,460	3,188		1,501	2,460	4,689	7,149	359	6,790	2002
Canterbury -MD	30,072	4,944	21,384		4,747	4,944	26,131	31,075	3,737	27,338	1999
Canterbury Square	5,955	2,352	10,791		4,871	2,352	15,662	18,014	3,559	14,455	1997
Carriage Hill - MI	3,380	840	5,974		1,896	840	7,870	8,710	1,613	7,097	1998
Carriage Hill - NY	5,841	570	3,827		2,984	570	6,811	7,381	1,843	5,538	1996
Carriage Park	4,878	1,280	8,184		3,205	1,280	11,389	12,669	2,472	10,197	1998
Castle Club	6,804	948	8,909		2,246	948	11,155	12,103	1,463	10,640	2000
Cedar Glen		715	2,018		1,880	715	3,898	4,613	839	3,774	1998
Charter Square	10,058	3,952	18,247		8,217	3,952	26,464	30,416	5,642	24,774	1997
Chatham Hill	27,220	1,848	46,150		1,553	1,848	47,703	49,551	1,132	48,419	2004
Cherry Hill Club	1,937	492	4,096		3,182	492	7,278	7,770	1,566	6,204	1998
Cherry Hill Village	5,205	1,120	6,835		2,556	1,120	9,391	10,511	1,834	8,677	1998
Chesterfield	7,764	1,482	8,206		4,224	1,482	12,430	13,912	2,785	11,127	1997
Cider Mill	64,585	15,552	65,938		4,234	15,552	70,172	85,724	4,312	81,412	2002
Cornwall Park	5,645	439	2,947		4,039	439	6,986	7,425	1,800	5,625	1996
Country Village	6,193	2,236	11,149		6,019	2,236	17,168	19,404	3,416	15,988	1998
Courtyards Village	4,983	3,360	9,824		2,098	3,360	11,922	15,282	1,165	14,117	2001
Coventry Village		784	2,328		2,539	784	4,867	5,651	996	4,655	1998
Curren Terrace	14,998	1,908	10,957		5,722	1,908	16,679	18,587	3,739	14,848	1997
Cypress Place	6,219	2,304	7,861		3,005	2,304	10,866	13,170	1,361	11,809	2000
Deerfield Woods	3,148	864	4,877		1,769	864	6,646	7,510	888	6,622	2000
Devonshire Hills	23,583	14,850	32,934		4,122	14,850	37,056	51,906	3,504	48,402	2001
East Hill		231	1,560		987	231	2,547	2,778	510	2,268	1998
East Meadow	7,140	2,250	10,803		753	2,250	11,556	13,806	1,336	12,470	2000
East Winds		960	5,079		2,263	960	7,342	8,302	900	7,402	2000
Elmwood Terrace	21,761	6,048	14,680		4,029	6,048	18,709	24,757	2,386	22,371	2000

Community	**Encum- brances**	**Land**	**Initial Cost Buildings, Improvements & Equipment**	**Adjust- ments (a)**	**Costs Capitalized Subsequent to Acquisition**	**Land**	**Total Cost Buildings, Improvements & Equipment**	**Total(b)**	**Accumulated Depreciation**	**Total Cost, Net of Accumulated Depreciation**	**Year of Acquisition**
Emerson Square	2,230	384	2,019		1,120	384	3,139	3,523	854	2,669	1997
Executive	3,162	600	3,420		2,563	600	5,983	6,583	1,385	5,198	1997
Fairmount		324	1,914		62	324	1,976	2,300	50	2,250	2004
Fairview	7,503	580	5,305	2,828	3,716	580	11,849	12,429	5,885	6,544	1985
Falcon Crest	15,297	2,772	11,116		5,459	2,772	16,575	19,347	2,773	16,574	1999
Falkland Chase	40,058	9,000	49,705		1,205	9,000	50,910	59,910	1,737	58,173	2003
Fenland Field	12,295	3,510	11,050		2,598	3,510	13,648	17,158	1,304	15,854	2001
Fordham Green	2,756	802	5,280		2,802	802	8,082	8,884	1,689	7,195	1997
Gardencrest Apartments		24,360	61,525		11,207	24,360	72,732	97,092	4,941	92,151	2002
Gateway Village	7,074	1,320	6,621		1,275	1,320	7,896	9,216	1,141	8,075	1999
Glen Brook		1,414	4,816		1,948	1,414	6,764	8,178	1,044	7,134	1999
Glen Manor	5,999	1,044	4,564		1,942	1,044	6,506	7,550	1,304	6,246	1997
Golf Club	15,946	3,990	21,236		10,400	3,990	31,636	35,626	4,497	31,129	2000
Greentrees	4,421	1,152	8,608		3,325	1,152	11,933	13,085	2,576	10,509	1997
Hampton Court	3,297	1,252	4,615		3,496	1,252	8,111	9,363	1,009	8,354	2000
Harborside	8,555	250	6,113		4,274	250	10,387	10,637	3,561	7,076	1995
Hawthorne Consolidation	38,245	8,940	23,447		12,609	8,940	36,056	44,996	2,713	42,283	2002
Heritage Square	6,482	2,000	4,805		1,180	2,000	5,985	7,985	431	7,554	2002
Hill Brook Place	11,568	2,192	9,118		3,448	2,192	12,566	14,758	1,851	12,907	1999
Holiday/Muncy Consolidation	3,582	3,575	6,109		722	3,575	6,831	10,406	480	9,926	2002
Home Properties of Bryn Mawr	13,306	3,160	17,907		8,875	3,160	26,782	29,942	3,777	26,165	2000
Home Properties of Devon	28,892	6,280	35,545		18,651	6,280	54,196	60,476	7,122	53,354	2000
Home Properties of Newark	16,858	2,592	12,713		11,242	2,592	23,955	26,547	3,910	22,637	1999
Idylwood	8,623	700	16,927		9,754	700	26,681	27,381	8,223	19,158	1995
Kensington		228	1,593		63	228	1,656	1,884	42	1,842	2004
Kingsley	6,027	1,640	11,671		4,246	1,640	15,917	17,557	3,449	14,108	1997
Lake Grove	26,691	7,360	11,952		11,454	7,360	23,406	30,766	5,626	25,140	1997
Lakeshore	5,047	573	3,849		3,799	573	7,648	8,221	1,872	6,349	1996
Lakeview	8,917	636	4,552		2,403	636	6,955	7,591	1,453	6,138	1998
Macomb Manor	3,681	1,296	7,357		1,505	1,296	8,862	10,158	1,199	8,959	2000
Maple Tree		840	4,445		1,414	840	5,859	6,699	723	5,976	2000
Mid-Island	6,675	4,160	6,567		4,353	4,160	10,920	15,080	2,662	12,418	1997
Mill Company	2,525	384	1,671		989	384	2,660	3,044	565	2,479	1982
Mill Towne Village	8,530	3,840	13,747		7,876	3,840	21,623	25,463	2,193	23,270	2001
Morningside	18,054	6,147	28,699		18,398	6,147	47,097	53,244	10,017	43,227	1998
New Orleans Consolidation	7,980	2,920	13,215		7,571	2,920	20,786	23,706	4,229	19,477	1997&1999
Newcastle		197	4,007	3,684	3,444	197	11,135	11,332	5,431	5,901	1982
Northwood	8,423	804	14,286		174	804	14,460	15,264	345	14,919	2004
Oak Manor	6,054	616	4,111		2,199	616	6,310	6,926	1,345	5,581	1998
Oak Park Manor	4,708	1,192	9,188		4,399	1,192	13,587	14,779	2,957	11,822	1997
Orleans Village	43,745	8,510	58,912		12,316	8,510	71,228	79,738	8,566	71,172	2000
Owings Run	31,450	5,537	32,622		1,968	5,537	34,590	40,127	5,040	35,087	1999
Paradise	8,753	972	7,134		3,950	972	11,084	12,056	3,157	8,899	1997
Park Shirlington	14,557	4,410	10,180		6,511	4,410	16,691	21,101	3,752	17,349	1998

Community	Encum-brances	Land	Initial Cost Buildings, Improvements & Equipment	Adjust-ments (a)	Costs Capitalized Subsequent to Acquisition	Land	Total Cost Buildings, Improvements & Equipment	Total(b)	Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Year of Acquisition
Patricia	5,353	600	4,196		2,253	600	6,449	7,049	1,279	5,770	1998
Pavilion	29,236	5,184	25,314		23,330	5,184	48,644	53,828	7,056	46,772	1999
Pearl Street	1,105	49	1,189		685	49	1,874	1,923	582	1,341	1995
Perinton Manor	9,282	224	6,120	3,629	3,102	224	12,851	13,075	6,354	6,721	1982
Pleasant View	49,019	5,710	47,816		16,121	5,710	63,937	69,647	12,921	56,726	1998
Pleasure Bay	15,502	1,620	6,234		5,221	1,620	11,455	13,075	2,036	11,039	1998
Racquet Club	21,937	1,868	23,107		5,191	1,868	28,298	30,166	5,271	24,895	1998
Racquet Club South	2,879	309	3,891		1,654	309	5,545	5,854	1,051	4,803	1999
Raintree	6,973	-	6,654	3,217	9,504	-	19,375	19,375	8,164	11,211	1985
Redbank Village	15,577	2,000	14,030		7,283	2,000	21,313	23,313	4,024	19,289	1998
Regency Club	27,198	2,604	34,825		443	2,604	35,268	37,872	309	37,563	2004
Rider Terrace		240	1,270		436	240	1,706	1,946	196	1,750	2000
Ridley Brook	10,012	1,952	7,719		2,683	1,952	10,402	12,354	1,646	10,708	1999
Riverton	5,682	240	6,640	2,523	5,230	240	14,393	14,633	7,315	7,318	1983
Royal Garden	32,933	5,500	14,067		11,460	5,500	25,527	31,027	6,257	24,770	1997
Scotsdale	8,687	1,692	11,920		3,632	1,692	15,552	17,244	3,187	14,057	1997
Selford Townhomes	3,960	1,224	4,200		1,943	1,224	6,143	7,367	968	6,399	1999
Seminary Hill	9,900	2,960	10,194		6,248	2,960	16,442	19,402	2,371	17,031	1999
Seminary Towers	29,442	5,480	19,348		10,751	5,480	30,099	35,579	4,631	30,948	1999
Shakespeare Park	2,397	492	3,433		397	492	3,830	4,322	563	3,759	1999
Sherry Lake	20,120	2,441	15,618		7,331	2,441	22,949	25,390	3,869	21,521	1998
Sherwood Consolidation	7,915	3,255	10,735		2,301	3,255	13,036	16,291	781	15,510	2002
South Bay	8,000	1,098	1,958		3,605	1,098	5,563	6,661	745	5,916	2000
Southern Meadows	19,484	9,040	31,874		3,794	9,040	35,668	44,708	3,365	41,343	2001
Southpointe Square	2,495	896	4,610		2,593	896	7,203	8,099	1,630	6,469	1997
Spanish Gardens	5,600	398	9,263		4,116	398	13,379	13,777	4,189	9,588	1994
Springwells Park	10,213	1,515	16,840		4,525	1,515	21,365	22,880	3,429	19,451	1999
Stephenson House	1,382	640	2,407		1,215	640	3,622	4,262	881	3,381	1997
Stone Ends	23,642	5,600	28,428		814	5,600	29,242	34,842	1,454	33,388	2003
Stratford Greens	15,680	12,565	33,779		3,827	12,565	37,606	50,171	2,772	47,399	2002
Sunset Gardens	8,802	696	4,663		3,598	696	8,261	8,957	2,050	6,907	1996
Tamarron	5,200	1,320	8,474		850	1,320	9,324	10,644	1,388	9,256	1999
Terry Apartments		650	3,439		665	650	4,104	4,754	469	4,285	2000
The Apts at Wellington Trace		3,060	23,904		2,453	3,060	26,357	29,417	536	28,881	2004
The Colony Apartments		7,830	34,121		8,886	7,830	43,007	50,837	6,325	44,512	1999
The Hamptons	55,634	5,749	50,647		359	5,749	51,006	56,755	558	56,197	2004
The Lakes		2,821	23,086		3,933	2,821	27,019	29,840	3,896	25,944	1999
The Landings	12,940	2,459	16,753		7,175	2,459	23,928	26,387	5,244	21,143	1996
The Manor Apts. (MD)	21,545	8,700	27,703		4,652	8,700	32,355	41,055	3,039	38,016	2001
The Manor Apts. (VA)	5,600	1,386	5,738		3,105	1,386	8,843	10,229	1,756	8,473	1999
The Meadows	3,381	208	2,776	1,216	1,650	208	5,642	5,850	2,753	3,097	1984
The New Colonies	21,255	1,680	21,350		9,535	1,680	30,885	32,565	6,593	25,972	1998
The Sycamores		4,625	15,725		976	4,625	16,701	21,326	925	20,401	2002
The Village at Marshfield	24,460	3,158	28,351		182	3,158	28,533	31,691	616	31,075	2004

Community	Encum- brances	Land	Initial Cost Buildings, Improvements & Equipment	Adjust- ments (a)	Costs Capitalized Subsequent to Acquisition	Land	Total Cost Buildings, Improvements & Equipment	Total(b)	Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Year of Acquisition
Timbercroft	6,633	1,704	6,826		2,111	1,704	8,937	10,641	1,312	9,329	1999
Trexler Park	10,140	2,490	13,802		5,054	2,490	18,856	21,346	2,514	18,832	2000
Valley View	3,615	1,056	4,960		3,866	1,056	8,826	9,882	1,982	7,900	1997
Village Green	9,008	1,103	13,223		5,880	1,103	19,103	20,206	6,119	14,087	1994-1996
Village Square-MD	21,432	2,590	13,306		4,602	2,590	17,908	20,498	2,577	17,921	1999
Village Square-PA	3,842	768	3,582		3,081	768	6,663	7,431	1,550	5,881	1997
Vinings		1,772	12,214		68	1,772	12,282	14,054	135	13,919	2004
Virginia Village	9,115	5,160	21,918		5,175	5,160	27,093	32,253	2,950	29,303	2001
Wayne Village	14,255	1,925	12,895		5,183	1,925	18,078	20,003	3,710	16,293	1998
Wellington Lakes	7,604	1,600	4,868		2,578	1,600	7,446	9,046	773	8,273	2001
Wellington Woods		1,140	3,468		1,818	1,140	5,286	6,426	502	5,924	2001
West Springfield Terrace		2,440	31,758		1,037	2,440	32,795	35,235	1,852	33,383	2002
Westminster	6,619	861	5,763		2,856	861	8,619	9,480	2,371	7,109	1996
Westwood Village	17,008	7,260	22,757		6,912	7,260	29,669	36,929	2,290	34,639	2002
William Henry	23,312	4,666	22,220		8,210	4,666	30,430	35,096	4,016	31,080	2000
Windsor Realty	4,800	402	3,300		1,535	402	4,835	5,237	978	4,259	1998
Woodgate	3,183	480	3,797		2,193	480	5,990	6,470	1,441	5,029	1997
Woodholme Manor	3,800	1,232	4,599		2,671	1,232	7,270	8,502	819	7,683	2001
Woodland Garden	5,664	2,022	10,480		4,073	2,022	14,553	16,575	3,214	13,361	1997
Woodleaf	8,087	2,862	17,716		227	2,862	17,943	20,805	392	20,413	2004
Woodmont Village		2,880	5,699		1,526	2,880	7,225	10,105	540	9,565	2002
Yorkshire Village	1,535	1,200	2,016		476	1,200	2,492	3,692	200	3,492	2002
Corporate Assets	1,207	3,900	-		19,799	3,900	19,799	23,699	8,595	15,104	Various
Affordable Limited Partnerships(c)	77,637	6,776	107,530	-	-	6,776	107,530	114,306	35,594	78,711	
	$1,644,722	$409,396	$2,075,933	$20,436	$653,731	$409,396	$2,750,100	$3,159,496	$441,514	$2,717,982	

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

(b) The aggregate cost for Federal Income Tax purposes was approximately $2,568,593.

(c) The net real-estate related to the affordable limited partnerships is presented on the Consolidated Balance sheet as held for sale.

(d) The $1,207,000 in Corporate Asset Encumbrances consists of two notes payable

SCHEDULE III

HOME PROPERTIES, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2004
(IN THOUSANDS)

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

Buildings and improvements	5-40 years
Resident improvements	Life of related lease

The changes in total real estate assets for the three years ended December 31, 2004, are as follows:

	2004	2003	2002
Balance, beginning of year	$2,752,992	$2,597,278	$2,135,078
Management Companies	-	5,846	-
New property acquisition	256,208	96,801	433,043
Additions	102,700	106,346	115,692
Increase in real estate associated with the conversion of UPREIT Units	11,864	5,600	2,200
Assets held for sale associated with consolidated affordable limited partnerships	78,711	-	-
Disposals, retirements and impairments	(78,574)	(58,879)	(88,735)
Balance, end of year	$3,123,901	$2,752,992	$2,597,278

The changes in accumulated depreciation for the three years ended December 31, 2004, are as follows:

	2004	2003	2002
Balance, beginning of year	$330,062	$257,284	$201,564
Management Companies	-	2,287	-
Depreciation for the year	90,787	79,187	67,610
Disposals and retirements	(14,930)	(8,696)	(11,890)
Balance, end of year	$405,919	$330,062	$257,284

HOME PROPERTIES, INC.
FORM 10-K
For Fiscal Year Ended December 31, 2004
Exhibit Index

Exhibit Number	Exhibit	Location
2.1	Agreement among Home Properties of New York, Inc. and Philip J. Solondz, Daniel Solondz and Julia Weinstein Relating to Royal Gardens I, together with Amendment No. 1	Incorporated by reference to the Form 8- K filed by Home Properties of New York, Inc. dated 6/6/97 (the "6/6/97 8-K")
2.2	Agreement among Home Properties of New York, Inc and Philip Solondz and Daniel Solondz relating to Royal Gardens II, together with Amendment No. 1	Incorporated by reference to the 6/6/97 8-K
2.15	Contribution Agreement, dated October __, 1997 between Home Properties of New York between Home Properties of New York, L.P. and Berger/Lewiston Associates Limited Partnership; Stephenson-Madison Heights Company Limited Partnership; Kingsley- Moravian Company Limited Partnership; Woodland Garden Apartments Limited Partnership; B&L Realty Investments Limited Partnership; Southpointe Square Apartments Limited Partnership; Greentrees Apartments Limited Partnership; Big Beaver-Rochester Properties Limited Partnership; Century Realty Investment Company Limited Partnership	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. dated 10/7/97
2.24	Contribution Agreement dated March 2, 1998 among Home Properties of New York, L.P., Braddock Lee Limited Partnership and Tower Construction Group, LLC	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc., dated 3/24/98 (the "3/24/98 8-K")
2.25	Contribution Agreement dated March 2, 1998 among Home Properties of New York, L.P., Park Shirlington Limited Partnership and Tower Construction Group, LLC	Incorporated by reference to the 3/24/98 8-K
2.27	Form of Contribution Agreement among Home Properties of New York, L.P. and Strawberry Hill Apartment Company LLLP, Country Village Limited Partnership, Morningside Six, LLLP, Morningside North Limited Partnership and Morningside Heights Apartment Company Limited Partnership with schedule setting forth material details in which documents differ from form	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. on 5/22/98 (the "5/22/98 8-K")
2.29	Form of Contribution Agreement dated June 7, 1999, relating to the CRC Portfolio with schedule setting forth material details in which documents differ from form	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. on 7/2/99 (the "7/2/99 8-K")
2.30	Form of Contribution Agreement relating to the Mid-Atlantic Portfolio with schedule setting forth material details in which documents differ from form	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. on 7/30/99

Exhibit Number	Exhibit	Location
2.31	Contribution Agreement among Home Properties of New York, L.P., Leonard Klorfine, Ridley Brook Associates and the Greenacres Associates	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. on 10/5/99 (the "10/5/99 8-K")
2.33	Contribution Agreement among Home Properties of New York, L.P., Gateside-Bryn Mawr Company, L.P., Willgold Company, Gateside-Trexler Company, Gateside-Five Points Company, Stafford Arms, Gateside-Queensgate Company, Gateside Malvern Company, King Road Associates and Cottonwood Associates	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. on 4/5/00
2.34	Contribution Agreement between Old Friends Limited Partnership and Home Properties of New York, L.P. and Home Properties of New York, Inc., along with Amendments Number 1 and 2 thereto	Incorporated by reference to the Form 8-K/A filed by Home Properties of New York, Inc. on 12/5/00 (the "12/5/00 8-K")
2.35	Contribution Agreement between Deerfield Woods Venture Limited Partnership and Home Properties of New York, L.P.	Incorporated by reference to the 12/5/00 8-K/A
2.36	Contribution Agreement between Macomb Apartments Limited Partnership and Home Properties of New York, L.P.	Incorporated by reference to the 12/5/00 8-K/A
2.37	Contribution Agreement between Home Properties of New York, L.P. and Elmwood Venture Limited Partnership	Incorporated by reference to the 12/5/00 8-K/A
2.38	Sale Purchase and Escrow Agreement between Bank of America as Trustee and Home Properties of New York, L.P.	Incorporated by reference to the 12/5/00 8-K/A
2.39	Contribution Agreement between Home Properties of New York, L.P., Home Properties of New York, Inc. and S&S Realty, a New York General Partnership (South Bay)	Incorporated by reference to the 12/5/00 8-K/A
2.40	Contribution Agreement between Hampton Glen Apartments Limited Partnership and Home Properties of New York, L.P.	Incorporated by reference to the 12/5/00 8-K/A
2.41	Contribution Agreement between Home Properties of New York, L.P. and Axtell Road Limited Partnership	Incorporated by reference to the 12/5/00 8-K/A
2.42	Contribution Agreement between Elk Grove Terrace II and III, L.P., Elk Grove Terrace, L.P. and Home Properties of New York, L.P.	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. on 1/10/01
3.1	Articles of Amendment and Restatement of Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by reference to Home Properties of New York, Registration Statement on Form S-11, File No. 33-78862 (the "S-11 Registration Statement")

Exhibit Number	Exhibit	Location
3.2	Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by reference to the Home Properties of New York, Inc. Registration Statement on Form S-3 File No. 333-52601 filed May 14, 1998 (the "5/14/98 S-3")
3.3	Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by reference to 7/2/99 8-K
3.4	Amended and Restated Articles Supplementary of Series A Senior Convertible Preferred Stock of Home Properties of New York, Inc.	Incorporated by reference to the Home Properties of New York, Inc. Registration Statement on Form S-3, File No. 333-93761, filed 12/29/99 (the "12/29/99 S-3")
3.5	Series B Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by reference to the Home Properties of New York, Inc. Registration Statement on Form S-3, File No. 333-92023, filed 12/3/99
3.6	Series C Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by reference to the Form 8-K filed by Home filed by Home Properties of New York, Inc. on 5/22/00 (the "5/22/00 8-K")
3.7	Series D Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. on 6/12/00 (the "6/12/00 8-K")
3.8	Series E Convertible Cumulative Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. on 12/22/00 (the "12/22/00 8-K)
3.9	Amended and Restated By-Laws of Home Properties of New York, Inc. (Revised 12/30/96)	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. dated December 23, 1996 (the "12/23/96 8- K")
3.10	Series F Cumulative Redeemable Preferred Stock Articles Supplementary to the Amended and Restated Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by reference to the Form 8-A12B filed by Home Properties of New York, Inc. on March 20, 2002
3.11	Articles of Amendment of the Articles of Incorporation of Home Properties of New York, Inc.	Incorporated by reference to the Form 10-Q filed by Home Properties, Inc. for the quarter ended 3/31/2004 (the "3/31/2004 10-Q")
3.12	Amendment Number One to Home Properties of New York, Inc. Amended and Restated By-laws	Incorporated by reference to the 3/31/2004 10-Q

Exhibit Number	Exhibit	Location
4.1	Form of certificate representing Shares of Common Stock	Incorporated by reference to the Form 10- K filed by Home Properties of New York, Inc. for the period ended 12/31/94 (the "12/31/94 10-K")
4.2	Agreement of Home Properties of New York, Inc. to file instruments defining the rights of holders of long-term debt of it or its subsidiaries with the Commission upon request	Incorporated by reference to the 12/31/94 10-K
4.7	Spreader, Consolidation, Modification and Extension Agreement between Home Properties of New York, L.P. and John Hancock Mutual Life Insurance Company, dated as of October 26, 1995, relating to indebtedness in the principal amount of $20,500,000	Incorporated by reference to the Form 10-K filed by Home Properties New York, Inc. for the period ended 12/31/95 (the "12/31/95 10-K")
4.8	Amended and Restated Stock Benefit Plan of Home Properties of New York, Inc.	Incorporated by reference to the 6/6/97 8-K
4.9	Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc., dated 12/23/97
4.10	Amendment No. One to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by reference to the Home Properties of New York, Inc. Registration Statement on Form S-3, File No. 333-49781, filed on 4/9/98 (the "4/9/98 S-3")
4.11	Amendment No. Two to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by reference to the Home Properties of New York Inc. Registration Statement on Form S-3, File No. 333-58799, filed on 7/9/98 (the "7/9/98 S-3")
4.12	Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by reference to Home Properties of New York, Inc. Form 10-Q for the Quarter ended 6/30/98 (the "6/30/98 10-Q")
4.13	Amendment No. Three to Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by reference to the Home Properties of New York, Inc. Registration Statement on Form S-3, Registration No. 333-67733, filed on 11/23/98 (the "11/23/98 S-3")
4.14	Directors' Stock Grant Plan	Incorporated by reference to the 5/22/98 8-K
4.16	Home Properties of New York, Inc., Home Properties of New York, L.P. Executive Retention Plan	Incorporated by reference to the 7/2/99 8-K

Exhibit Number	Exhibit	Location
4.17	Home Properties of New York, Inc. Deferred Bonus Plan	Incorporated by reference to the 7/2/99 8-K
4.18	Fourth Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by reference to the Registration Statement on Form S-3, File No. 333-94815 filed on 1/18/2000
4.19	Directors Deferred Compensation Plan	Incorporated by reference to the Home Properties of New York, Inc. Form 10-K for the period ended 12/31/99 (the "12/31/99 10-K")
4.23	Home Properties of New York, Inc. Amendment Number One to the Amended and Restated Stock Benefit Plan	Incorporated by reference to the Form 10-Q of Home Properties of New York, Inc. for the quarter ended 3/31/00 (the "3/31/00 10-Q")
4.24	Fifth Amended and Restated Dividend Reinvestment, Stock Purchase, Resident Stock Purchase and Employee Stock Purchase Plan	Incorporated by reference to the Registration Statement on Form S-3, file No. 333-54160, filed 1/23/01
4.25	Sixth Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan	Incorporated by reference to the Form 10-K filed by Home Properties of New York, Inc., for the annual period ended 12/31/00 (the "12/31/00 10-K")
4.26	Home Properties of New York, Inc. Amendment Number Two to the Amended and Restated Stock Benefit Plan	Incorporated by reference to the Form 10-K filed by Home Properties of New York, Inc. for the annual period ended 12/31/01 (the "12/31/01 10-K")
4.27	Amendment No. One to Home Properties of New York, Inc. Deferred Bonus Plan	Incorporated by reference to the 12/31/01 10-K
4.28	Amended and Restated Director Deferred Compensation Plan	Incorporated by reference to Form 10-K of Home Properties of New York, Inc. filed for the annual period ended 12/31/02 (the "12/31/02 10-K")
4.29	Amendment No. Two to Deferred Bonus Plan	Incorporated by reference to the 12/31/02 10-K
4.30	Amendment Number One to Sixth Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan	Filed herewith
10.1	Second Amended and Restated Agreement Limited Partnership of Home Properties of New York, L.P.	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. dated 9/26/97 (the "9/26/97 8-K")

Exhibit Number	Exhibit	Location
10.2	Amendments No. One through Eight to the Second Amended and Restated Agreement of Limited Partnership of Home Properties of New York, L.P.	Incorporated by reference to Form 10-K of Home Properties of New York, Inc. for the period ended 12/31/97 (the "12/31/97 10-K")
10.3	Articles of Incorporation of Home Properties Management, Inc.	Incorporated by reference to the S-11 Registration Statement
10.4	By-Laws of Home Properties Management, Inc.	Incorporated by reference to S-11 Registration Statement
10.5	Articles of Incorporation of Conifer Realty Corporation	Incorporated by reference to 12/31/95 10-K
10.6	Articles of Amendment to the Articles of Incorporation of Conifer Realty Corporation Changing the name to Home Properties Resident Services, Inc.	Incorporated by reference to the 12/31/00 10-K
10.7	By-Laws of Conifer Realty Corporation (now Home Properties Resident Services, Inc.)	Incorporated by reference to the 12/31/95 10-K
10.8	Home Properties Trust Declaration of Trust, dated September 19, 1997	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. dated 9/26/97 (the "9/26/97 10-K")
10.13	Indemnification Agreement between Home Properties of New York, Inc. and certain officers and directors	Incorporated by reference to the Form 10-Q filed by Home Properties of New York, Inc. for the quarter ended 6/30/94 (the "6/30/94 10-Q")
10.15	Indemnification Agreement between Home Properties of New York, Inc. and Alan L. Gosule	Incorporated by reference to the Form 10-K filed by Home Properties of New York, Inc. for the annual period ended 12/31/96 (the 12/31/96 10-K")
10.17	Agreement of Operating Sublease, dated October 1, 1986, among KAM, Inc., Morris Massry and Raintree Island Associates, as amended by Letter Agreement Supplementing Operating Sublease dated October 1, 1986	Incorporated by reference to the S-11 Registration Statement
10.26	Amendment No. Nine to the Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership	Incorporated by reference to 5/14/98 S-3
10.27	Master Credit Facility Agreement by and among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp., dated as of August 28, 1998	Incorporated by reference to the Home Properties of New York, Inc. Form 10-Q for the quarter ended 9/30/98 (the "9/30/98 10-Q")

Exhibit Number	Exhibit	Location
10.28	First Amendment to Master Credit Facility Agreement, dated as of December 11, 1998 among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp. and Fannie Mae	Incorporated by reference to the Form 10-K filed by Home Properties of New York, Inc. for the annual period ended 12/31/98 (the "12/31/98 10-K")
10.29	Second Amendment to Master Credit Facility Agreement, dated as of August 30, 1999 among Home Properties of New York, Inc., Home Properties of New York, L.P., Home Properties WMF I LLC and Home Properties of New York, L.P. and P-K Partnership doing business as Patricia Court and Karen Court and WMF Washington Mortgage Corp. and Fannie Mae	Incorporated by reference to the 12/31/99 10-K
10.30	Amendments Nos. Ten through Seventeen to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the 12/31/98 10-K
10.31	Amendments Nos. Eighteen through Twenty- Five to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the Home Properties of New York, Inc. Form 10-Q for the quarter ended 9/30/99 (the "9/30/99 10-Q")
10.32	Credit Agreement, dated 8/23/99 between Home Properties of New York, L.P., certain Lenders and Manufacturers and Traders Trust Company as Administrative Agent	Incorporated by reference to the 9/30/99 10-Q
10.33	Amendment No. Twenty-Seven to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the 12/29/99 S-3
10.34	Amendments Nos. Twenty-Six and Twenty-Eight through Thirty to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the 12/31/99 10-K
10.37	2000 Stock Benefit Plan	Incorporated by reference to the 12/31/99 10-K
10.39	Purchase Agreement between Home Properties of New York, Inc. and The Equitable Life Assurance Society of the United States	Incorporated by reference to the 6/12/00 8-K
10.41	Home Properties of New York, L.P. Amendment Number One to Executive Retention Plan	Incorporated by reference to the 3/31/00 10-Q
10.42	Amendments No. Thirty-One and Thirty-Two to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the 3/31/00 10-Q
10.49	Amendment No. Thirty Three to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the 12/31/00 10-K

Exhibit Number	Exhibit	Location
10.50	Amendment No. Thirty Five to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the 12/31/00 10-K
10.51	Amendment No. Forty Two to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the 12/31/00 10-K
10.52	Amendments Nos. Thirty Four, Thirty Six through Forty One, Forty Three and Forty Four to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the 12/31/00 10-K
10.57	Amendment Nos. Forty-Five through Fifty-One to the Second Amendment and Restated Limited Partnership Agreement	Incorporated by reference to the 12/31/01 10-K
10.58	Home Properties of New York, Inc. Amendment No. One to 2000 Stock Benefit Plan	Incorporated by reference to the 12/31/01 10-K
10.59	Home Properties of New York, Inc. Amendment No. Two to 2000 Stock Benefit Plan	Incorporated by reference to the 12/31/01 10-K
10.60	Amendment Nos. Fifty-Two to Fifty-Five to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the Form 10-Q filed by Home Properties of New York, Inc. for the quarter ended 9/30/02 (the "9/30/02 10-Q")
10.61	Amendment Nos. Fifty-Six to Fifty-Eight to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to the Form 10-K filed by Home Properties of New York, Inc. for the annual period ended 12/31/02 (the "12/31/02 10-K")
10.62	Amendment No. Two to Credit Agreement	Incorporated by reference to the 9/30/02 10Q
10.63	Purchase and Sale Agreement, dated as of January 1, 2004 among Home Properties of New York, L.P., Home Properties Management, Inc. and Home Leasing, LLC, dated January 1, 2004	Incorporated by reference to the Form 10-K filed by Home Properties, Inc. for the period ended 12/31/2003 (the "12/31/2003 10-K")
10.64	Amendment Nos. Fifty-Nine through Sixty-Seven to the Second Amended and Restated Limited Partnership Agreement	Incorporated by reference to 12/31/2003 10-K
10.65	Home Properties of New York, Inc. Amendment No. Three to 2000 Stock Benefit Plan	Incorporated by reference to 12/31/2003 10-K
10.66	Employment Agreement, dated as of October 28, 2003 between Home Properties, L.P., Home Properties, Inc., and Nelson B. Leenhouts	Incorporated by reference to the Form 8-K filed by Home Properties of New York, Inc. on 10/29/03 (the "10/29/03 8-K")
10.67	Employment Agreement, dated as of October 28, 2003 between Home Properties, L.P., Home Properties, Inc. and Norman B. Leenhouts	Incorporated by reference to the 10/29/03 8-K

Exhibit Number	Exhibit	Location
10.68	Home Properties of New York, Inc. 2003 Stock Benefit Plan	Incorporated by reference to Schedule 14A filed by Home Properties of New York, Inc. on March 28, 2003
10.69	Amendment Number Two to Home Properties of New York, Inc. and Home Properties of New York, L.P. Executive Retention Plan	Incorporated by reference to 12/31/2003 10-K
10.70	Employment Agreement, dated as of May 17, 2004, between Home Properties, L.P., Home Properties, Inc. and Edward J. Pettinella	File herewith
10.71	Amendment Nos. Sixty-Eight through Seventy-Three to the Second Amended and Restated Limited Partnership Agreement	File herewith
10.72	Summary of Non-Employee Director Compensation Effective January 1, 2005	File herewith
10.73	Summary of Named Executive Compensation Effective January 1, 2005	File herewith
10.74	Amendment No. Three to Credit Agreement, dated April 1, 2004, between Home Properties, L.P., certain Lenders, and Manufacturers and Traders Trust Company as Administrative Agent	File herewith
10.75	Amended and Restated Incentive Compensation Plan	File herewith
10.76	LIBOR Grid Note, dated November 23, 2004 from Home Properties, L.P. to Manufacturers and Traders Trust Company	File herewith
10.77	Mutual Release, dated January 24, 2005, given by Home Properties, L.P. and Home Properties, Inc. and Boston Capital Tax Credit Fund XIV, a Limited Partnership, Boston Capital Tax Credit Fund XV, a Limited Partnership, and BCCC, Inc. relating to certain obligations pertaining to Green Meadows and related Letter Agreement.	Incorporated by reference to the Form 8-K filed by Home Properties , Inc. dated January 24, 2005
11	Computation of Per Share Earnings Schedule	Filed herewith
14.1	Home Properties , Inc. Code of Ethics for Senior Finance Officers	Incorporated by reference to 12/31/2003 10-K
14.2	Home Properties, Inc. Code of Business Conduct and Ethics	Incorporated by reference to 12/31/2003 10-K
21	List of Subsidiaries of Home Properties, Inc.	Filed herewith
23	Consent of PricewaterhouseCoopers LLP	Filed herewith

Exhibit Number	Exhibit	Location
31.1	Section 302 Certification of Chief Executive Officer	Furnished herewith
31.2	Section 302 Certification of Chief Financial Officer	Furnished herewith
32.1	Section 906 Certification of Chief Executive Officer	Filed herewith
32.2	Section 906 Certification of Chief Financial Officer	Filed herewith
99	Additional Exhibits - Debt Summary Schedule	Filed herewith

Exhibit 31.1

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

I, Edward J Pettinella, certify that:

1. I have reviewed this annual report on Form 10-K of Home Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Edward J. Pettinella

Edward J. Pettinella
President and Chief Executive Officer
March 15, 2005

Exhibit 31.2

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

I, David P. Gardner, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ David P. Gardner
David P. Gardner
Executive Vice President and Chief Financial Officer
March 15, 2005

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 S-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 Annual Report of Home Properties, Inc. (the "Company") on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on March 15, 2005 (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.

/s/ Edward J. Pettinella

Edward J. Pettinella
President and Chief Executive Officer
March 15, 2005

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 S-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 Annual Report of Home Properties, Inc. (the "Company") on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on March 15, 2005 (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: /s/ David P. Gardner

David P. Gardner
Executive Vice President and
Chief Financial Officer
March 15, 2005

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.