SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

OR

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

Commission File Number 1-13136

HOME PROPERTIES, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	16-1455126
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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

(585) 546-4900
(Registrant's telephone number, including area code)

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

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

YES __X__ NO ____

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

YES _X_ No

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

Class of Common Stock	Outstanding at April 30, 2005
$.01 par value	31,504,438

HOME PROPERTIES, INC.

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ITEM 1. FINANCIAL STATEMENTS

HOME PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2005 AND DECEMBER 31, 2004
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2005 (Unaudited)	2004 (Note 1)
ASSETS		
Real estate:		
Land	$ 408,186	$ 402,620
Buildings, improvements and equipment	2,695,288	2,642,570
Real estate held for sale or disposal, net	40,636	78,711
	3,144,110	3,123,901
Less: accumulated depreciation	(429,886)	(405,919)
Real estate, net	2,714,224	2,717,982
Cash and cash equivalents	9,895	7,925
Cash in escrows	39,735	43,883
Accounts receivable	4,872	6,664
Prepaid expenses	18,292	18,224
Deferred charges	12,512	13,778
Other assets	9,301	8,340
Total assets	$2,808,831	$2,816,796
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage notes payable	$1,688,986	$1,644,722
Line of credit	92,000	58,000
Accounts payable	18,140	24,600
Accrued interest payable	8,493	8,876
Accrued expenses and other liabilities	21,256	26,750
Security deposits	22,838	22,651
Total liabilities	1,851,713	1,785,599
Commitments and contingencies		
Minority interest	294,886	310,775
Stockholders' equity:		
Cumulative redeemable preferred stock, $.01 par value; 2,400,000 shares issued and outstanding at March 31, 2005 and December 31, 2004	60,000	60,000
Convertible cumulative preferred stock, $.01 par value; 10,000,000 shares authorized; 250,000 shares issued and outstanding at March 31, 2005 and December 31, 2004	25,000	25,000
Common stock, $.01 par value; 80,000,000 shares authorized; 31,442,679 and 32,625,413 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively	314	326
Excess stock, $.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	770,014	807,212
Accumulated other comprehensive income	(9)	(362)
Distributions in excess of accumulated earnings	(193,087)	(171,754)
Total stockholders' equity	662,232	720,422
Total liabilities and stockholders' equity	$2,808,831	$2,816,796

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2005	2004
Revenues:		
Rental income	$112,958	$105,061
Property other income	5,173	4,593
Interest and dividend income	68	152
Other income	588	465
Total revenues	118,787	110,271
Expenses:		
Operating and maintenance	57,511	53,110
General and administrative	5,405	4,725
Interest	24,943	20,925
Depreciation and amortization	24,196	21,050
Impairment of assets held as General Partner	-	1,116
Total expenses	112,055	100,926
Income from operations	6,732	9,345
Equity in earnings (losses) of unconsolidated affiliates	-	(538)
Income before minority interest and discontinued operations	6,732	8,807
Minority interest in operating partnership	(1,598)	(2,289)
Income from continuing operations	5,134	6,518
Discontinued operations		
Income (loss) from operations, net of ($2,521) in 2005 and $179 in 2004 allocated to minority interest	(5,106)	361
Gain (loss) on disposition of property, net of ($6) in 2004 allocated to minority interest	-	(13)
Discontinued operations	(5,106)	348
Income before loss on disposition of property and business and cumulative effect of change in accounting principle	28	6,866
Loss on disposition of property and business, net of $33 in 2004 allocated to minority interest	-	(67)
Income before cumulative effect of change in accounting principle	28	6,799
Cumulative effect of change in accounting principle, net of $159 in 2004 allocated to minority interest	-	(321)
Net income	28	6,478
Preferred dividends	(1,898)	(1,898)
Net income (loss) available to common shareholders	($ 1,870)	$ 4,580
Basic earnings per share data:		
Income from continuing operations	$ .10	$ .14
Discontinued operations	(.16)	.01
Cumulative effect of change in accounting principle	-	(.01)
Net income (loss) available to common shareholders	($ .06)	$ .14
Diluted earnings per share data:		
Income from continuing operations	$ .10	$ .14
Discontinued operations	(.16)	.01
Cumulative effect of change in accounting principle	-	(.01)
Net income (loss) available to common shareholders	($ .06)	$ .14
Weighted average number of shares outstanding:		
- Basic	31,785,440	32,321,929
- Diluted	32,227,972	32,874,561

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED, IN THOUSANDS)

	2005	2004
Net income	$ 28	$ 6,478
Other comprehensive income (net of minority interest):		
Change in fair value of hedge instruments	353	72
Comprehensive income	$ 381	$ 6,550

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED, IN THOUSANDS)

	2005	2004
Cash flows from operating activities:		
Net income	$ 28	$ 6,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in losses of unconsolidated affiliates	-	538
Income (loss) allocated to minority interest	(923)	2,270
Depreciation and amortization	24,756	22,090
Impairment of assets held as General Partner	7,725	1,116
Gain on disposition of property and business	-	119
Cumulative effect of change in accounting principle	-	480
Changes in assets and liabilities:		
Other assets	165	1,491
Accounts payable and accrued liabilities	(10,661)	2,777
Total adjustments	21,062	30,881
Net cash provided by operating activities	21,090	37,359
Cash flows used in investing activities:		
Purchase of properties and other assets, net of mortgage notes assumed and UPREIT Units issued	(19,553)	(64,376)
Additions to properties	(18,215)	(19,996)
Proceeds from sale of affordable properties, net	-	137
Advances to affiliates	-	(795)
Payments on advances to affiliates	-	89
Net cash used in investing activities	(37,768)	(84,941)
Cash flows from financing activities:		
Proceeds from sale of common stock, net	3,271	14,509
Repurchase of common stock	(54,265)	-
Proceeds from mortgage notes payable	82,040	15,717
Payments of mortgage notes payable	(12,626)	(19,939)
Proceeds from line of credit	99,200	96,000
Payments on line of credit	(65,200)	(25,000)
Payments of deferred loan costs	(506)	(129)
Additions to cash escrows, net	(1,761)	(990)
Repayment of officer loans	-	235
Dividends and distributions paid	(31,505)	(31,670)
Net cash provided by financing activities	18,648	48,733
Net increase in cash and cash equivalents	1,970	1,151
Cash and cash equivalents:		
Beginning of year	7,925	5,103
Cash assumed in connection with FIN 46R consolidation	-	850
End of period	$ 9,895	$ 7,104
Supplemental disclosure of non-cash operating, investing and financing activities:		
Mortgage loans assumed associated with property acquisitions	$7,916	$ 69,782
Exchange of UPREIT Units/partnership interest for common shares	156	5,267
Fair value of hedge instruments	131	849
Issuance of UPREIT Units associated with property and other acquisitions	12,611	12,105
Compensation cost of stock options issued	171	248
Net real estate disposed in connection with FIN 46R consolidation	(30,651)	-
Other assets disposed in connection with FIN 46R consolidation	(4,403)	-
Mortgage debt disposed in connection with FIN 46R consolidation	(30,021)	-
Other liabilities disposed in connection with FIN 46R consolidation	(827)	-
Increase in real estate associated with the purchase of UPREIT Units	-	4,940
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

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

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

1. Unaudited Interim Financial Statements

The interim consolidated financial statements of Home Properties, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission. Accordingly, certain disclosures that would accompany annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair presentation of the consolidated financial statements for the interim periods have been included. The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2004.

2. Organization and Basis of Presentation

Organization

The Company is engaged primarily in the ownership, management, acquisition, and rehabilitation of residential apartment communities in the Northeastern, Mid-Atlantic, Midwestern and Southeast Florida regions of the United States. As of March 31, 2005, the Company operated 163 apartment communities with 47,186 apartment units. Of this total, the Company owned 153 communities, consisting of 42,326 apartment units (“Owned Communities”), managed as general partner 2,051 apartment units and fee managed 2,809 apartments for affiliates and third parties.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its 66.5% (67.1% at March 31, 2004) partnership interest in Home Properties, L.P. (the “Operating Partnership”). Such interest has been calculated as the percentage of outstanding common shares divided by the total outstanding common shares and Operating Partnership Units ("UPREIT Units") outstanding. The remaining 33.5% (32.9% at March 31, 2004) is reflected as Minority Interest in these consolidated financial statements. The Company owns a 1.0% general partner interest in the Operating Partnership and the remainder as a limited partner through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of the limited partner, Home Properties Trust. Home Properties Trust was formed in September 1997, as a Maryland real estate trust and as a qualified REIT subsidiary ("QRS") and owns the Company's share of the limited partner interests in the Operating Partnership. For financing purposes, the Company has formed a limited liability company (the "LLC") and a partnership (the "Financing Partnership"), which beneficially own certain apartment communities encumbered by mortgage indebtedness. The LLC is wholly owned by the Operating Partnership. The Financing Partnership is owned 99.9% by the Operating Partnership and 0.1% by the QRS.

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

2. Organization and Basis of Presentation (continued)

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

As of March 31, 2004, the Company was the general partner in 41 limited partnerships in Upstate New York, Pennsylvania, Ohio and Maryland. The Company had made a determination that all 41 limited partnerships were Variable Interest Entities ("VIEs"). The Company had further determined that it was the primary beneficiary in 34 of the VIEs and therefore consolidated these entities effective March 31, 2004. Beginning with the second quarter of 2004, the Company consolidated the results of operations of the VIEs. During 2004, the Company sold most of these consolidated VIEs such that three partnerships (two properties) remain as of March 31, 2005. The results of operations for 5 VIEs for the three month period ending March 31, 2005, are included in discontinued operations (two VIEs were sold in March 2005). These properties are classified as held for sale because as of March 31, 2005, the Company is under a letter of intent to sell one of the partnerships for which due diligence is in process and the remaining two partnerships are being disposed of through a default on the non-recourse financing. During March 2005, the mortgage notes were sold by HUD. The Company is currently discussing transferring title to the property to either the new mortgage holder or other interested buyers.

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, two of which remained as of March 31, 2005. These two investments will continue to be accounted for under the equity method. The Company will continue to record its allocable share of the respective partnership's income or loss based on the terms of the agreements. 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 2004 consolidated financial statements to conform to the 2005 presentation.

3. Adoption of New Accounting Policies

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 June 15, 2005. On January 1, 2003, the Company adopted the provisions of SFAS No. 148 *Accounting for Stock-Based Compensation – Transition and Disclosure*, an Amendment to SFAS No. 123. 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 Company does not expect the issuance of SFAS No. 123R to have a material impact on the Company's results of operations, financial position or liquidity.

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

4. Earnings Per Common Share

Basic earnings per share ("EPS") is computed as net income available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation including stock options, restricted stock, phantom shares under the Company's incentive compensation plan, warrants and the conversion of any cumulative convertible preferred stock. The exchange of an Operating Partnership Unit for common stock will have no effect on diluted EPS as Unitholders and stockholders effectively share equally in the net income of the Operating Partnership. Income from continuing operations is the same for both the basic and diluted calculation.

The reconciliation of the basic and diluted earnings per share for the three-months ended March 31, 2005 and 2004 is as follows:

	Three Months	
	2005	2004
Income from continuing operations	$5,134	$ 6,518
Add: Gain (loss) on disposal of property	-	(67)
Less: Preferred dividends	(1,898)	(1,898)
Basic and Diluted – Income from continuing operations applicable to common shareholders	3,236	4,553
Less: Cumulative effect of change in accounting principle	-	(321)
Discontinued operations	(5,106)	348
Net income available to common shareholders	($ 1,870)	$ 4,580
Basic weighted average number of shares outstanding	31,785,440	32,321,929
Effect of dilutive stock options	357,856	448,698
Effect of phantom and restricted shares	84,676	103,934
Diluted weighted average number of shares outstanding	32,227,972	32,874,561
Basic earnings per share		
Income from continuing operations	$.10	$.14
Discontinued operations	(.16)	.01
Cumulative effect of change in accounting principle	-	(.01)
Net Income available to common shareholders	($.06)	$.14
Basic earnings per share		
Income from continuing operations	$.10	$.14
Discontinued operations	(.16)	.01
Cumulative effect of change in accounting principle	-	(.01)
Net Income available to common shareholders	($.06)	$.14

For the three-month periods ended March 31, 2005 and 2004, no unexercised stock options to purchase shares of the Company's common stock were excluded in the computations of diluted EPS as the options' exercise prices were less than the average market price of the Company's stock during each period. For the three-month periods ended March 31, 2005 and 2004, the 833,333 common stock equivalents on an as-converted basis of the Series D Convertible Cumulative Preferred Stock have an antidilutive effect and are not included in the computation of diluted EPS. To the extent the preferred stock was converted, the common shares would be included in outstanding shares from the date of conversion.

5. Other income

Other income for the three-month periods ended March 31, 2005 and 2004 is management and other real-estate service fees.

6. Variable interest entities

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

The Company determined that it was not the primary beneficiary in seven partnerships syndicated under U.S. Department of Housing and Urban Development subsidy programs of which five have been sold as of March 31, 2005. The two remaining partnerships are under contract to be sold as of March 31, 2005. These two 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 partnerships in January, 1996. These partnerships were set up to provide low income housing to residents through subsidized rents and below market debt governed by HUD. The Company as general partner and managing agent manages the day-to-day operations of the partnership for a fee (5% of rents collected). The Company's economic benefit from these partnerships is the management fee. There is no exposure to the Company of loss as a result of its involvement with these partnerships. No management fees were recognized on these partnerships during the three month period ended March 31, 2005. The assets and liabilities of the two partnerships totaled $2.9 million and $4.9 million at March 31, 2005, respectively. Unconsolidated non-recourse debt associated with the two partnerships continuing to be accounted for under the equity method amounted to $4.6 million, of which the Company's proportionate share, based on its legal ownership, was $179.

The Company had further determined that it was the primary beneficiary in 34 of the VIEs and therefore consolidated these entities effective March 31, 2004. Beginning with the second quarter of 2004, the Company consolidated the results of operations of the VIEs. The results of operations of the remaining five of the original 34 VIEs for the three month period ending March 31, 2005 are included in discontinued operations as all of the VIEs are held for sale as described below.

The Company was the general partner in these 34 VIEs syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company managed the day-to-day operations of these partnerships for a management fee. In addition, the Company has certain operating deficit guarantees and tax credit guarantees to its limited partners (as discussed in Note 11). The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards when cash flow reach certain levels. The effect on the consolidated balance sheet as of March 31, 2005 is an increase in Total assets of $44 million, an increase in Total liabilities of $48 million, an increase in Minority interest of $1 million, and a decrease in Stockholders' equity of $4.9 million. In connection with the adoption of FIN 46R, the Company recorded a $321 charge, net of minority interest, for 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 $48 million increase in total liabilities, $46.5 million represented non-recourse mortgage debt.

6. Variable interest entities (continued)

Effective March 31, 2005, the Company has closed on the sale of all but five of the 41 VIEs. In addition, the Company is under contract or letter of intent for the sale of three of the remaining five VIEs. Based on the offer received in the first quarter on one of these three VIEs, the Company has recorded an impairment charge of $400 for the three month period ended March 31, 2005. The remaining two VIEs (not under contract for sale) are being disposed of through a default on the non-recourse financing. The Company 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 performed a valuation analysis on the underlying real estate, and as a result, recorded a $7.3 million impairment of real estate to adjust the net book value of the property to the Company's estimate of fair market value. The mortgage note was sold in March, 2005. The Company is currently discussing transferring title of the property to either the new mortgage holder or other interested buyers. A transfer is expected to occur later in the year. At that time, the Company would be relieved of its obligation on the non-recourse financing and would record an offsetting $7.3 million gain from debt forgiveness in excess of the new reduced basis on the real estate that would in essence zero out the $7.3 million impairment charge recorded.

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

7. Segment Reporting

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

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

Core properties consist of all apartment communities which have been owned more than one full calendar year. Therefore, the Core Properties represent communities owned as of January 1, 2004. Non-core properties consist of apartment communities acquired during 2004 and 2005, such that full year comparable operating results are not available.

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

The Company assesses and measures segment operating results based on a performance measure referred to as Funds from Operations ("FFO"). FFO is defined as net income (computed in accordance with GAAP) excluding gains or losses from the sales of property and business 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.

HOME PROPERTIES, INC.

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

7. Segment Reporting (continued)

The revenues, profit (loss), and assets for each of the reportable segments are summarized as of and for the three-month periods ended March 31, 2005, and 2004 as follows.

	Three Months	
	2005	2004
Revenues		
Apartments owned		
Core properties	$109,704	$107,964
Non-core properties	8,427	1,690
Reconciling items	656	617
Total Revenue	$118,787	$110,271
Profit (loss)		
Funds from operations:		
Apartments owned		
Core properties	$56,049	$55,518
Non-core properties	4,571	1,026
Reconciling items	656	617
Segment contribution to FFO	61,276	57,161
General & administrative expenses	(5,405)	(4,725)
Interest expense	(24,943)	(20,925)
Prepayment penalty on sale included in interest	-	-
Depreciation of unconsolidated affiliates	-	543
Non-real estate depreciation/amortization	(813)	(742)
FAS 141 acquisition rent / intangibles	219	182
Equity in earnings (losses) of unconsolidated affiliates	-	(538)
Impairment of assets held as General Partner	-	(1,116)
Impairment of affordable assets not in FFO	-	945
Loss on sale of business	-	(17)
Income from discontinued operations before minority interest and depreciation	(7,627)	1,201
Redeemable preferred dividend (Series F)	(1,350)	(1,350)
Funds from Operations	21,357	30,619
Depreciation – apartments owned	(23,383)	(20,969)
Depreciation of unconsolidated affiliates	-	(543)
FAS 141 acquisition rent/intangibles	(219)	(182)
Redeemable preferred dividend	1,350	1,350
Impairment of affordable assets not in FFO	-	(945)
(Income) loss from discontinued operations before minority interest and loss on disposition of property	7,627	(523)
Minority interest – in operating partnership	(1,598)	(2,289)
Income from continuing operations	$ 5,134	$ 6,518
Assets – As of March 31, 2005 and December 31, 2004		
Apartments owned:		
- Core	$2,362,479	$2,368,949
- Non-core	351,745	349,033
Reconciling items	94,607	98,814
Total Assets	$2,808,831	$2,816,796

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

8. Pro Forma Condensed Financial Information

The Company acquired three apartment communities ("2005 Acquired Communities") with a combined 550 apartment units in three unrelated transactions during the three-month period ended March 31, 2005. The total combined purchase price (including closing costs) of $40.2 million equates to approximately $73 per unit. Consideration for the communities was funded through the assumption or placement of new debt of $7.9 million, $19.7 million from the Company's line of credit and $12.6 million of UPREIT Units.

The following proforma information was prepared as if the 2005 transactions related to the acquisition of the 2005 Acquired Communities had occurred on January 1, 2004. 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 on January 1, 2004, nor does it purport to represent the results of operations for future periods. Adjustments to the proforma condensed combined statement of operations for the three-month periods ended March 31, 2005 and 2004, consist principally of providing net operating activity and recording interest, depreciation and amortization from January 1, 2004 to the acquisition date as appropriate.

	For the Three-months Ended March 31,	
	2005	2004
Total revenues	$119,363	$111,542
Net income available to common shareholders before cumulative effect of change in accounting principle	3,269	4,713
Net income available to common shareholders	3,269	4,392
Per common share data:		
Net income available to common shareholders before cumulative effect of change in accounting principle		
Basic	$0.10	$0.15
Diluted	$0.10	$0.14
Net income available to common shareholders		
Basic	$0.10	$0.14
Diluted	$0.10	$0.13
Weighted average numbers of shares outstanding:		
Basic	31,785,440	32,321,929
Diluted	32,227,972	32,874,561

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

9. Derivative Financial Instruments

The Company has four interest rate swaps that effectively convert variable rate debt to fixed rate debt. As of March 31, 2005, the aggregate fair value of the Company's interest rate swaps was $131 prior to the allocation of minority interest and is included in accrued expenses and other liabilities in the consolidated balance sheets. For the three-months ending March 31, 2005, as the critical terms of the interest rate swaps and the hedged items are the same, no ineffectiveness was recorded in the consolidated statements of operations. All components of the interest rate swaps were included in the assessment of hedge effectiveness. The fair value of the interest rate swaps is based upon the estimate of amounts the Company would receive or pay to terminate the contract at the reporting date and is estimated using interest rate market pricing models.

10. Disposition of Property and Discontinued Operation

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

Included in discontinued operations are the operating results, net of minority interest, of five VIEs for the three months ended March 31, 2005. Three of the VIEs are held for sale as of March 31, 2005. Assets and liabilities for these three VIEs of approximately $44.5 million and $48.2 million, respectively, are included in the Consolidated Balance Sheet and relate primarily to real estate and mortgage notes, respectively. Included in mortgage notes payable is approximately $46.5 million related to these three VIEs. For purposes of the discontinued operations presentation, the Company only includes interest expense associated with specific mortgage indebtedness of the properties that are sold or classified as held for sale.

The operating results of the components of discontinued operations are summarized for the three-month periods ended March 31, 2005 and 2004 as follows:

	Three months 2005	Three months 2004
Revenues		
Rental Income	$ 2,201	$3,465
Property other income	74	176
Interest and dividend income	-	-
Other income	(59)	-
Total Revenues	2,216	3,641
Expenses		
Operating and Maintenance	2,074	1,837
Interest expense	21	603
Depreciation and amortization	-	661
Impairment of real property	7,725	-
Total Expenses	9,820	3,101
Income (loss) from discontinued operations before minority interest and gain (loss) on disposition of property	(7,604)	540
Minority interest in limited partnership	(23)	-
Minority interest in operating partnership	2,521	(179)
Income (loss) from discontinued operations	($5,106)	$ 361

11. Commitments and Contingencies

Contingencies

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

In 2001, the Company underwent a state capital stock tax audit. The state has assessed taxes of $469 for the 1998 and 1999 tax years under audit. If the state's position is applied to all tax years through December 31, 2001, the assessment would be $1.3 million. At the time, the Company believed the assessment and the state's underlying position were not supportable by the law nor consistent with previously provided interpretative guidance from the office of the State Secretary of Revenue. After two subsequent enactments by the state legislation during 2002 affecting the pertinent tax statute, the Company was advised by outside tax counsel that its filing position for 1998-2001 should prevail. During December 2003, the state's governor signed legislation which included the REIT tax provisions. Based upon this, Company's tax counsel expects that the outstanding litigation should now be able to be resolved. Effective January 1, 2003, the Company reorganized the ownership of Home Properties Trust, which should subject the Company to a much lower level of tax going forward. In September 2004, the Company settled the 1998 year under audit for a total of $39, including interest. During the first quarter of 2005, the 1999 tax year has been filed with the Pennsylvania State Commonwealth Court. No settlement offer has been made or discussed related to the 1999 tax year. 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. This was included in the first quarter 2004 results and allocated $448 to expense and $413 capitalized to real estate assets for improvements.

As a result of this audit, during the second quarter of 2004, the Company examined its sales and use tax compliance in the other states in which the Company operates. Based upon its internal analysis, the Company estimated its liability as of June 30, 2004 in those states where it found non-compliance 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 has filed Voluntary Disclosure Agreements (VDAs) with the four states where it has financial exposure. During the first quarter of 2005, the Company has signed VDAs with two of the states which both have agreed to limit the VDA filing period back to January 1, 2001. For the three month period ended March 31, 2005, the Company has recorded adjustments to the liability for both the effects of signing the two VDA's as well as for the results of the Company's additional testing for the first quarter. The net impact of these adjustments resulted in an increase in real estate assets of $42, interest expense of $28 and a decrease in operating expenses of $43 for a net increase to the accrued liability of $27. 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.

11. Commitments and Contingencies (Continued)

Guarantees

As of March 31, 2005, the Company, through its general partnership interests in certain affordable property limited partnerships, had guaranteed the Low Income Housing Tax Credits to limited partners in 8 partnerships totaling approximately $17 million. As of March 31, 2005, there were no known conditions that would make such payments necessary relating to these guarantees. In addition, the Company, acting as general partner in certain partnerships, is obligated to advance funds to meet partnership operating deficits.

12. Related Party Transactions

On January 1, 2004, the Company sold certain assets of its commercial property management division to Home Leasing LLC, which is owned by Nelson and Norman Leenhouts. This division managed approximately 2.2 million square feet of gross leasable area, as well as certain planned communities. The initial amount paid was $82. In addition, the Company is entitled to receive a percentage of the management fee received by Home Leasing in connection with the management of one of the commercial properties for a period not to exceed 36 months. The expected monthly fee as outlined in the contract is approximately $4.6 or $55.2 per year. If Home Leasing continues to manage the property for three years, the Company is expected to receive total additional deferred purchase price of $165.6. No additional deferred purchase price was recognized during the three months ended March 31, 2005. The cumulative gain recognized on the sale of these assets through March 31, 2005 amounted 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 April 1, 2005 through January 1, 2007. The gain on sale would then be approximately $134.8.

13. Subsequent Events

On May 6, 2005, the Board of Directors approved a dividend of $.63 per share for the quarter ended March 31, 2005. This is the equivalent of an annual distribution of $2.52 per share. The dividend is payable May 27, 2005 to shareholders of record on May 17, 2005.

On May 6, 2005, the Company also declared a regular dividend of $.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending May 31, 2005. The dividend on the preferred shares is payable on May 31, 2005 to shareholders of record on May 17, 2005. This dividend is equivalent to an annualized rate of $2.25 per share.

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

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

Forward-Looking Statements

This discussion contains forward-looking statements. Although the Company believes expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Factors that may cause actual results to differ include general economic and local real estate conditions, the weather and other conditions that might affect operating expenses, the timely completion of repositioning activities within anticipated budgets, the actual pace of future acquisitions and sales, including the sale of the general partner interests in affordable properties, and continued access to capital to fund growth.

Liquidity and Capital Resources

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

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

As of March 31, 2005, the Company had an unsecured line of credit from M & T Bank of $115 million. The Company's outstanding balance as of March 31, 2005, was $92 million. Borrowings under the line of credit bear interest at 1.05% over the one-month LIBOR rate. Accordingly, increases in interest rates will increase the Company's interest expense and as a result will affect the Company's results of operations and financial condition. The Company is evaluating alternatives to replace or extend the line of credit as the existing agreement expires on September 1, 2005.

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. There was no balance outstanding as of March 31, 2005 on the supplemental demand note.

To the extent that the Company does not satisfy its long-term liquidity requirements through net cash flows provided by operating activities and its credit facility, it intends to satisfy such requirements through additional long term secured or unsecured indebtedness, proceeds from the sale of properties, the issuance of UPREIT Units, proceeds from the Dividend Reinvestment Plan ("DRIP"), or the issuance of additional equity securities. As of March 31, 2005, the Company owned 20 properties with 3,732 apartment units, which were unencumbered by debt.

In May 1998, the Company's Form S-3 Registration Statement was declared effective relating to the issuance of up to $400 million of common stock, preferred stock or other securities. The available balance on the shelf registration statement at March 31, 2005 was $144.4 million.

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

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

The issuance of UPREIT Units for property acquisitions continues to be a source of capital for the Company. During the first quarter of 2005, the Company acquired three communities with 550 units for a total purchase price of $40.2 million. The Company issued UPREIT Units valued at approximately $12.6 million as part of the consideration for two of the properties, with the balance funded by the assumption of debt and cash. During 2004, the Company acquired ten communities with 2,486 units for a total purchase price of $247.5 million. The Company issued UPREIT Units valued at approximately $12.1 million as part of the consideration for two of the properties, with the balance funded by the assumption of debt and cash.

During 2004, $17.6 million of common stock (net of $6 million share repurchase) was issued under the Company's DRIP. During the first quarter of 2005, the Company's additional capital raised under the DRIP netted to zero.

The DRIP was amended, effective December 10, 2004, 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 2% to 0%. The maximum monthly investment (without receiving approval from the Company) is currently $1 thousand. As expected, these changes significantly reduced participation in the plan. Management will continue to monitor the relationship between the Company's stock price and estimated net asset value. 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.

On February 16, 2005 the Board of Directors increased its authorization by 2,000,000 shares to repurchase its common stock or UPREIT Units in connection with the Company's stock repurchase program. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action does not establish a target stock price or a specific timetable for share repurchase. During the three months ended March 31, 2005, 1,300,700 shares were repurchased by the Company. At March 31, 2005 the Company had authorization to repurchase 2,699,300 shares of common stock and UPREIT Units under the stock repurchase program. 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.

As of March 31, 2005, the weighted average rate of interest on mortgage debt is 5.72% and the weighted average maturity is approximately eight years. Approximately 87% of the debt is fixed rate. This limits the exposure to changes in interest rates, minimizing the effect on results of operations and financial condition.

<u>Variable Interest Entities</u>

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

The Company determined that it was not the primary beneficiary in seven partnerships syndicated under U.S. Department of Housing and Urban Development subsidy programs of which five have been sold as of March 31, 2005. The two remaining partnership are under contract to be sold as of March 31, 2005. These two 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 partnerships in January, 1996. These partnerships were set up to provide low income housing to residents through subsidized rents and below market debt governed by HUD. The Company as general partner and managing agent manages the day-to-day operations of the partnership for a fee (5% of rents collected). The Company's economic benefit from these partnerships is the management fee. There is no exposure to the Company of loss as a result of its involvement with these partnerships. No management fees were recognized on these partnerships during the three month period ended March 31, 2005. The assets and liabilities of the two partnerships totaled $2.9 million and $4.9 million at March 31, 2005, respectively. Unconsolidated non-recourse debt associated with the two partnerships continuing to be accounted for under the equity method amounted to $4.6 million, of which the Company’s proportionate share, based on its legal ownership, was $179.

The Company had further determined that it was the primary beneficiary in 34 of the VIEs and therefore consolidated these entities effective March 31, 2004. Beginning with the second quarter of 2004, the Company consolidated the results of operations of the VIEs. The results of operations of the remaining five of the original 34 VIEs for the three month period ending March 31, 2005 are included in discontinued operations as all of the VIEs are held for sale as described below.

The Company was the general partner in these 34 VIEs syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company manages the day-to-day operations of these partnerships for a management fee. In addition, the Company has certain operating deficit guarantees and tax credit guarantees to its limited partners. The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards when cash flow reach certain levels. The effect on the consolidated balance sheet as of March 31, 2005 is an increase in Total assets of $44 million, an increase in Total liabilities of $48 million, an increase in Minority interest of $1 million, and a decrease in Stockholders’ equity of $4.9 million. In connection with the adoption of FIN 46R, the Company recorded a $321 charge, net of minority interest, for 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 $48 million increase in total liabilities, $46.5 million represented non-recourse mortgage debt.

Effective March 31, 2005, the Company has closed on the sale of all but five of the 41 VIEs. In addition, the Company is under contract or letter of intent for the sale of three of the remaining five VIEs. Based on the offer received on one of these three VIEs, the Company has recorded an impairment charge of $400 for the three month period ended March 31, 2005. The remaining two VIEs are being disposed of through a default on the non-recourse financing. The Company 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 performed a valuation analysis on the underlying real estate, and as a result, recorded a $7.3 million impairment of real estate to adjust the net book value of the property to the Company’s estimate of fair market value. The mortgage note was sold in March, 2005. The Company is currently discussing transferring title of the property to either the new mortgage holder or other interested buyers. A transfer is expected to occur later in the year. At that time, the Company would be relieved of its obligation on the non-recourse financing and would record an offsetting $7.3 million gain from debt forgiveness in excess of the new reduced basis on the real estate that would in essence zero out the $7.3 million impairment charge recorded.

During the first quarter of 2004, the Company recorded an impairment charge of $1.6 million to reduce the value of the assets associated with the VIEs to management's estimate of fair market value. The impairment charge is classified in the financial statements as “Impairment of assets held as general partner” of $1,116 and “Equity in earnings (losses) of unconsolidated affiliates” of $484. A portion of the total $1,116 charge, or $171, represents monies loaned to certain affordable properties during the first quarter of 2004 to fund operating shortfalls, which were 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.

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 8 partnerships totaling approximately $17 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. If operating deficits continue to occur, the Company would determine on an individual partnership basis if it is in the best interest of the Company to continue to fund these deficits.

The Company believes the properties’ operations conform to the applicable requirements as set forth above. In addition, the Company has required the buyer of its general partner interests in the limited partnerships to secure releases of the Company's guarantees from the limited partners.

As indicated above, the Company is working towards a complete disposition of its general partner interests in affordable properties. The following table summarizes the effect of the consolidation requirements of FIN 46R on the balance sheet as of March 31, 2005.

Consolidation Summary of the Balance Sheet as of March 31, 2005
(in thousands)

	March 31, 2005 (before FIN 46R)	Effect of FIN 46R Consolidation	March 31, 2005 (as reported)
ASSETS			
Real estate:			
Land	$ 408,186	$ -	$ 408,186
Buildings, improvements and equipment	2,695,288	-	2,695,288
Real estate held for sale or disposal, net	-	40,636	40,636
	3,103,474	40,636	3,144,110
Less: accumulated depreciation	(429,886)	-	(429,886)
Real estate, net	2,673,588	40,636	2,714,224
Cash and cash equivalents	9,499	396	9,895
Cash in escrows	38,875	860	39,735
Accounts receivable	4,752	120	4,872
Prepaid expenses	18,327	(35)	18,292
Investment in and advances to affiliates	161	(161)	-
Deferred charges	10,046	2,466	12,512
Other assets	9,094	207	9,301
Total assets	$2,764,342	$ 44,489	$2,808,831
LIABILITIES AND STOCKHOLDERS' EQUITY			
Mortgage notes payable	$1,642,519	$ 46,467	$1,688,986
Line of credit	92,000	-	92,000
Accounts payable	17,731	409	18,140
Accrued interest payable	7,891	602	8,493
Accrued expenses and other liabilities	20,797	459	21,256
Security deposits	22,568	270	22,838
Total liabilities	1,803,506	48,207	1,851,713
Minority interest	293,700	1,186	294,886
Stockholders' equity	667,136	(4,904)	662,232
Total liabilities and stockholders' equity	$2,764,342	$ 44,489	$2,808,831

Acquisitions and Dispositions

During the first three months of 2005, the Company acquired three apartment communities in three unrelated transactions. The acquisitions consisted of one apartment community in Maryland with a total of 204 units, and two apartment communities in New Jersey with a combined 346 units. The total purchase price of $40.2 million, including closing costs, equated to an average of $73.2 per apartment. Consideration included $7.9 million of assumed or new debt, $19.7 million in cash or line of credit, and $12.4 million of UPREIT Units (fair market value of $12.6 million). The UPREIT Units are exchangeable for shares of the Company's common stock on a one-for-one basis. For the two acquisitions involving the issuance of OP units, values of $41.25 and $39.25 per unit were used for the purpose of determining the number of OP Units issued in each acquisition. Both values were set when the transactions were negotiated. The combined weighted average expected first year capitalization rate on these acquisitions is 6.5%. Capitalization rate ("cap rate") is defined as the rate of interest used to convert the first year expected net operating income ("NOI") less a 3.0% management fee into a single present value. NOI is defined by the Company as rental income and property other income less operating and maintenance expenses. Management generally considers NOI to be an appropriate measure of operating performance because it helps investors to understand the operations of a community. In addition, the apartment communities are valued and sold in the market by using a multiple of NOI.

Contractual Obligations and Other Commitments

The primary obligations of the Company relate to its borrowings under the line of credit and mortgage notes payable. The Company's line of credit matures in September 2005, and had $92 million outstanding at March 31, 2005. No balance was outstanding at March 31, 2005 on the Company's supplemental demand note. The $1.7

billion in mortgage notes payable have varying maturities ranging from 1 to 37 years. The weighted average interest rate of the Company's fixed rate notes was 6.03% and 6.23% at March 31, 2005 and December 31, 2004, respectively. The weighted average interest rate of the Company's variable rate notes and credit facility was 3.5% and 2.98% at March 31, 2005 and December 31, 2004, respectively.

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

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

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 is $140 million.

As discussed in the section entitled "Variable Interest Entities," 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 8 partnerships totaling approximately $17 million. 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 seventh paragraph of the "Variable Interest Entities" 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's policy is to capitalize costs related to the acquisition, development, rehabilitation, construction and improvement of properties. Capital improvements are costs that increase the value and extend the useful life of an asset. Ordinary repair and maintenance costs that do not extend the useful life of the asset are expensed as incurred. Costs incurred on a lease turnover due to normal wear and tear by the resident are expensed on the turn. Recurring capital improvements typically include: appliances, carpeting and flooring, HVAC equipment, kitchen/ bath cabinets, new roofs, site improvements and various exterior building improvements. Non- recurring, revenue generating capital improvements include, among other items: community centers, new windows, and kitchen/ bath apartment upgrades. Revenue generating capital improvements will directly result in rental earnings or expense savings. The Company capitalizes interest and certain internal personnel costs related to the communities under rehabilitation and construction.

The Company estimates that on an annual basis $525 per unit is spent on recurring capital expenditures. During the three-month periods ended March 31, 2005 and 2004, approximately $131 per unit was estimated to be spent on recurring capital expenditures. The table below summarizes the actual total capital improvements, (before the effects of FIN 46R) incurred by major categories for the three -month periods ended March 31, 2005 and 2004 and an estimate of the breakdown of total capital improvements by major categories between recurring and non-recurring, revenue generating capital improvements for the three-month period ended March 31, 2005 as follows:

For the three-month period ended March 31,
(in thousands, except per unit data)

	2005						2004	
	Recurring Cap Ex	Per Unit (a)	Non-Recurring Cap Ex	Per Unit (a)	Total Capital Improvements	Per Unit(a)	Total Capital Improvements	Per Unit (a)
New Buildings	$ -	$ -	$ 1,329	$ 32	$ 1,329	$ 32	$ 553	$ 14
Major building improvements	957	23	1,317	31	2,274	54	3,395	85
Roof replacements	366	9	605	14	971	23	431	11
Site improvements	351	8	339	8	690	16	1,104	28
Apartment upgrades	691	16	4,034	96	4,725	112	6,334	159
Appliances	574	14	314	7	888	21	936	24
Carpeting/Flooring	1,801	42	404	10	2,205	52	2,233	56
HVAC/Mechanicals	531	13	2,048	49	2,579	62	2,794	70
Miscellaneous	234	6	687	16	921	22	994	25
Totals	$ 5,505	$131	$ 11,077	$ 263	$ 16,582	$ 394	$ 18,774	$ 472

[(a)] Calculated using the weighted average number of units outstanding, including 39,290 core units, 2004 acquisition units of 2,486 and 2005 weighted average acquisition units of 293 for the three-month period ended March 31, 2005 and 39,290 core units and 2004 weighted average acquisition units of 519 for the three-month period ended March 31, 2004.

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

For the three-month period ended March 31,
(in thousands, except per unit data)

	2005						2004	
	Recurring Cap Ex	Per Unit	Non-Recurring Cap Ex	Per Unit	Total Capital Improvements	Per Unit	Total Capital Improvements	Per Unit
Core Communities	$ 5,141	$131	$ 10,255	$ 261	$ 15,396	$ 392	$ 18,654	$ 475
2005 Acquisition Communities	38	131	3	10	41	141	-	-
2004 Acquisition Communities	326	131	819	330	1,145	461	120	231
Sub-total	5,505	131	11,077	263	16,582	394	18,774	472
2005 Disposed Communities	-	131	-	-	-	-	-	-
2004 Disposed Communities	-	-	-	-	-	-	492	299
Corporate office expenditures [(1)]	-	-	-	-	1,633	-	580	-
	$5,505	$131	$ 11,077	$ 263	$ 18,215	$ 394	$ 19,846	$ 465

Results of Operations

Summary of Core Properties

The Company had 139 apartment communities with 39,290 units which were owned throughout the three-month period being presented (the "Core Properties"). The Company has acquired an additional thirteen apartment communities with 3,036 units during 2005 and 2004 (the "Acquired Communities"). The Company also disposed of five properties with a total of 1,646 units during 2004 (the "Disposition Communities"). The Disposition Communities have been classified as discontinued operations. The inclusion of the Acquired Communities generally accounted for the significant changes in operating results for the three month period ended March 31, 2005.

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

	Three Months			
	2005	2004	$ Change	% Chg
Rental income	$104,758	$103,441	$1,317	1.3%
Property other income	4,946	4,523	423	9.4%
Total income	109,704	107,964	1,740	1.6%
Operating and Maintenance	(53,655)	(52,446)	(1,209)	(2.3%)
Net operating income	$ 56,049	$ 55,518	$ 531	1.0%

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

	Three Months			
	2005	2004	$ Change	% Chg
Rental income	$112,958	$105,061	$7,897	7.5%
Property other income	5,173	4,593	580	12.6%
Total income	118,131	109,654	8,477	7.7%
Operating and Maintenance	(57,511)	(53,110)	(4,401)	(8.3%)
Net operating income	$ 60,620	$ 56,544	$4,076	7.2%

Comparison of three-months ended March 31, 2005 to the same period in 2004

Of the $7,897 increase in rental income, $6,580 is attributable to the Acquired Communities. The balance of this increase, or $1,317 which is from the Core Properties, was the result of an increase of 2.7% in weighted average rental rates, offset by a decrease in occupancy from 93.6% to 92.3%. Occupancy is defined as total possible rental income, net of vacancy and bad debt expense as a percentage of total possible rental income. Total possible rental income is determined by valuing occupied units at contract rates and vacant units at market rents.

Property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport charges, corporate apartment revenue, cable revenue, pet charges, and miscellaneous charges to residents increased by $580. Of this increase, $157 is attributable to the Acquired Communities, with $423 representing a 9.4% increase from the Core Properties.

Other income, which reflects management fee income, increased $123 due primarily to an increase in the level of management activity as compared to the same period one year ago.

Of the $4,401 increase in operating and maintenance expenses, $3,192 is attributable to the Acquired Communities. The balance, a $1,209 increase, is attributable to the Core Properties and is primarily due to increases in natural gas heating costs, personnel costs and real estate taxes. These increases were offset in part by savings in repairs and maintenance and property insurance. Natural gas heating costs were up $610 or 7% over 2004. We have seen significant increases in the cost of natural gas per decatherm. Last year we had contracts at $4.52 per decatherm, this year the cost is $6.08. Personnel expenses were up $859, or 7.9%. Contributing to this is $95 for health insurance (up 14%), $181 or 56% for workers comp from increased incident reports, increase in accrued payroll from a year ago of $105, and a vacation accrual of $375 of which approximately $200k represents a catch-up from previous years as we now have the ability to track this in our HR system. Real estate taxes were up $893, or 8.2%. Of this, $258, or 2.4% is from a prepaid tax adjustment needed to bring our balance sheet to the proper amount. The balance is a 5.8% increase in normal increases in assessed values and tax rates. Repairs and maintenance were down $387 from a year ago, or 6.1%. Most of this came through the contract repair line item. The quarter one year ago included $312 from the NYS sales tax audit. Property insurance decreased for the quarter primarily due to a decrease in our property and general liability losses to date which have been projected using actuarial assumptions.

General and administrative expense increased in 2005 by $680, or 14.4%. General and administrative expenses as a percentage of total revenues were 4.5% for 2005 as compared to 4.1% for 2004. The results are primarily due to the increased expenses relating to the completion of the 404 compliance and audit work completed in the first quarter.

Interest expense increased in 2005 by $4,018 as a result of the increased borrowings in connection with acquisition of the 2005 Acquisition Communities, a full quarter of interest expense for the 2004 Acquisition Communities and additional mortgage debt and refinanced mortgage debt incurred during 2004 and 2005. Interest expense in the first quarter of 2004 was reduced by $996 when two mortgage loans were paid off early at amounts less than the amounts carried on the Company's balance sheet. During 2004, the Company closed on additional mortgage debt of $76,853 and refinanced $14,338 in existing mortgage debt resulting in new borrowings of approximately $53,000. During the first quarter of 2005, the Company closed on additional mortgage debt of $72,880 and refinanced $5,400 in existing mortgage debt resulting in new borrowings of approximately $67,480.

Depreciation and amortization expense increased $3,146 due to the depreciation on the Acquisition Communities and the capital additions to the Core Properties.

The Company has sold virtually all of the assets associated with its general partner interests in the affordable properties in order to focus solely on the direct ownership and management of market rate apartment communities. The assets included principally loans, advances and management contracts. During the first three-months of 2004, the Company recorded impairment charges of $1,116. Of this total, $171 represents advances made to certain of the affordable property limited partnerships which the Company believes will not be repaid upon the sale of the loans. The remaining $945 pertains to an additional net impairment charge taken on Phase III to reduce the assets to fair market value. In connection with FIN 46R, the Company was required to consolidate the majority of the affordable limited partnerships results of operations beginning April 1, 2004.

The equity in earnings (losses) of unconsolidated affiliates of $538 for the three-months ended March 31, 2004 is primarily the result of the general partner recording a greater share of the underlying investment's losses due to the loans and advances to certain of the affordable property limited partnerships where the limited partner has no capital account. This is pursuant to the accounting requirements of EITF 99-10, "Percentage Used to Determine the Amount of Equity Method Losses." Included and classified in this account are $484 of advances made during the first three months of 2004 which the Company believes will not be repaid upon sale.

Minority interest decreased $691 due to a general decrease in income from operations.

Included in discontinued operations for the three-month period ended March 31, 2005, are the results of operations of the five remaining affordable limited partnerships that in connection with FIN 46R were required to be consolidated beginning April 1, 2004. (See further detail supplied under "Variable Interest Entities" section).

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

Funds From Operations

Pursuant to the revised definition of Funds From Operations ("FFO") adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), FFO is defined as net income (computed in accordance with accounting principles generally accepted in the United States of America ("GAAP")) excluding gains or losses from sales of property, minority interest, extraordinary items and cumulative effect of change in accounting principle plus depreciation from real property including adjustments for unconsolidated partnerships and joint ventures less dividends from non-convertible preferred shares. NAREIT has recently changed guidance on the interpretation of impairment charges recorded against the value of real estate. The previous interpretation was that impairment charges in real estate would be an add back to arrive at FFO, similar to a loss on sale of real estate. The Company is following this new interpretation effective April 1, 2004 on a go-forward basis. The change is not suggested to be retroactive to any prior period reported. Because of the limitations of the FFO definition as published by NAREIT as set forth above, the Company has made certain interpretations in applying the definition. The Company believes all adjustments not specifically provided for are consistent with the definition.

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. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. FFO does not include the cost incurred for capital improvements (including capitalized interest) reflected as an increase to real estate assets. The total capital improvements include an annual reserve for anticipated recurring, non-revenue generating capitalized costs of $525 per apartment unit. Please refer to the Capital Improvement section above in MD&A. Cash provided by operating activities was $21,090 and $37,359 for the three-month period ended March 31, 2005 and 2004, respectively. Cash used in investing activities was $37,768 and $84,941 for the three-month period ended March 31, 2005 and 2004, respectively. Cash provided by financing activities was $18,648 and $48,733 for the three-month period ended March 31, 2005 and 2004, respectively. FFO should not be considered as an alternative to net income as an indication of the Company's performance or to cash flow as a measure of liquidity.

The calculation of FFO and reconciliation to GAAP net income available to common Shareholders for the three months ended March 31, 2005 and 2004 are presented below (in thousands):

	Three Months	
	2005	2004
Net income available to common shareholders	($ 1,870)	$ 4,580
Convertible preferred dividends	548	548
Minority interest	1,598	2,289
Minority interest – income (loss) from discontinued operations	(2,521)	179
Depreciation and amortization from real property	23,602	21,151
Depreciation from real property from unconsolidated entities	-	543
Impairment on General Partner real estate investment	-	945
Loss on disposition of property	-	50
(Gain) loss on disposition of discontinued operations, net of minority interest	-	13
Cumulative effect of change in accounting principle, net of minority interest	-	321
FFO as defined above	$21,357	$30,619
Weighted average common shares/units outstanding[1]:		
- Basic	47,477.1	48,340.8
- Diluted	47,919.7	48,893.5

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

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

Covenants

Series F Preferred Stock

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

Calculation Presented for Series F Covenants

	Three-months ended			
	Mar. 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004
EBITDA				
Total revenues	$118,787	$118,357	$118,942	$118,017
Net operating income from discontinued operations	142	2,143	1,364	1,069
Operating and maintenance	(57,511)	(52,227)	(50,372)	(51,081)
General and administrative	(5,405)	(9,482)	(4,879)	(4,892)
Equity in earnings (losses) of unconsolidated affiliates	-	-	25	(25)
	$ 56,013	$58,791	$ 65,080	$ 63,088
Fixed Charges				
Interest expense	$ 24,943	$23,891	$ 23,496	$ 23,783
Interest expense on discontinued operations	21	442	40	476
Preferred dividends	1,898	1,898	1,898	1,899
Capitalized interest	191	191	230	171
	$ 27,053	$26,422	$ 25,664	$ 26,329
Times Coverage ratio:	2.07	2.23	2.54	2.40

Line of Credit

The Credit Agreement relating to the Company's line of credit provides for the Company to maintain certain financial ratios and measurements. One of these covenants is that the Company may not pay any distribution to its shareholders and holders of its UPREIT Units if a distribution, when added to other distributions paid during the three immediately preceding fiscal quarters, exceeds the greater of : (i) 90% of funds from operations, and 110% of cash available for distribution; and (ii) the amount required to maintain the Company's status as a REIT. During the first quarter of 2005, the funds from operations payout ratio was 90.3% when measured for the current quarter and the three immediate preceding fiscal quarters. Due to the non-recurring legal settlement of $3.8 million in the fourth quarter of 2004, the Company did not meet the required ratio.. Appropriate waivers have been granted by the participating banks. The line of credit has not been used for long-term financing but adds a certain amount of flexibility, especially in meeting the Company's acquisition goals. Many times it is easier to temporarily finance an acquisition in a short-term nature through the line of credit, with long term secured financing or other sources of capital replenishing the line of credit availability.

Economic Conditions

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

Historically, real estate has been subject to a wide range of cyclical economic conditions, which affect various real estate sectors and geographic regions with differing intensities and at different times. During the past three years and continuing into 2005 many regions of the United States have experienced varying degrees of economic recession and certain recessionary trends, such as the cost of obtaining sufficient property and liability insurance coverage, short-term interest rates, and a temporary reduction in occupancy. In light of this, we will continue to review our business strategy however, we believe that given our property type and the geographic regions in which we are located, we do not anticipate any changes in our strategy or material effects in financial performance.

Declaration of Dividend

On May 6, 2005, the Board of Directors approved a dividend of $.63 per share for the quarter ended March, 31 2005. This is the equivalent of an annual distribution of $2.52 per share. The dividend is payable May 27, 2005 to shareholders of record on May 17, 2005.

On May 6, 2006 the Company also declared a regular dividend of $0.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending May 31, 2005. The dividend on the preferred shares is payable on May 31, 2005, to shareholders of record on May 17, 2005. This dividend is equivalent to an annualized rate of $2.25 per share.

Contingency

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

In 2001, the Company underwent a state tax audit. The state 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. During the first quarter of 2005, the 1999 tax year has been filed with the Pennsylvania State Commonwealth Court. No settlement offer has been made or discussed related to the 1999 tax year. 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 2004 results and allocated $448,000 to expense and $413,000 capitalized to real estate assets for improvements.

As a result of this audit, during the second quarter of 2004 the Company examined its sales and use tax compliance in the other states in which the Company operates. Based upon its internal analysis, the Company estimated its liability as of December 31, 2004 in those states where it found non-compliance and recorded at December 31, 2004 a liability of $1,780,000. This was included in the year end results and allocated $805,000 to expense and $975,000 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 December 31, 2004. The Company has filed Voluntary Disclosure Agreements (VDAs) with the four states where it has financial exposure. During the first quarter of 2005, the Company has signed VDAs with two of the states which both have agreed to limit the VDA filing period back to January 1, 2001. For the three month period ended

March 31, 2005, the Company has recorded adjustments to the liability for both the effects of signing the two VDA's as well as for the results of the Company's additional testing for the first quarter. The net impact of these adjustments resulted in an increase in real estate assets of $42,000, interest expense of $28,000 and a decrease in operating expenses of $43,000 for a net increase to the accrued liability of $27,000. 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.

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.

New Accounting Standards

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 Company does not expect the issuance of SFAS No. 123R to have a material impact on the Company's results of operations, financial position or liquidity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company’s primary market risk exposure is interest rate risk. At March 31, 2005 and December 31, 2004, approximately 87% and 89%, respectively, of the Company’s debt bore interest at fixed rates with a weighted average maturity of approximately 8 years and a weighted average interest rate of approximately 6.03% and 6.23%, respectively, including the $34.0 million of debt for both years 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 7 and 8 years, respectively, and a weighted average interest rate of 3.52% and 2.98%, respectively, at March 31, 2005 and December 31, 2004. The Company does not intend to utilize a significant amount of permanent variable rate debt to acquire properties in the future. On occasion, the Company may use its line of credit in connection with a property acquisition with the intention to refinance at a later date. The Company believes, however, that in no event would increases in interest expense as a result of inflation significantly impact the Company's distributable cash flow.

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

At March 31, 2005 and December 31, 2004, the fair value of the Company’s fixed rate debt, including the $34 million which was swapped to a fixed rate, amounted to a liability of $1.72 billion compared to its carrying amount of $1.69 billion. The Company estimates that a 100 basis point increase in market interest rates at March 31, 2005 would have changed the fair value of the Company’s fixed rate debt to a liability of $1.65 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 March 31, 2005, the Company had no other material exposure to market risk.

ITEM 4. 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 March 31, 2005, the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15-d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and have determined that such disclosure controls and procedures are effective.

There have been no changes in the internal controls over financial reporting identified in connection with that evaluation, or that occurred during the first quarter of the year ended December 31, 2005 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.

PART II - OTHER INFORMATION

HOME PROPERTIES, INC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action does not establish a specific target stock price or a specific timetable for share repurchase. Recently, the Company's Board of Directors removed certain price restrictions, which substantially enhances the Company's ability to repurchase shares. At December 31, 2004, the Company had authorization to repurchase 2,000,000 shares of common stock and UPREIT Units under the stock repurchase program. On February 16, 2005, the Board of Directors approved a 2,000,000 share increase in the stock repurchase program. In addition, participants in the Company's Stock Benefit Plan can use common stock of the Company that they already own to pay all or a portion of the exercise payable to the Company upon the exercise of an option. In such event, the common stock used to pay the exercise price is returned to authorized but unissued status, and for purposes of this table is deemed to have been repurchased by the Company. The following table summarizes the total number of shares (units) repurchased by the Company during the three month period ending March 31, 2005.

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 December 31, 2004:				2,000,000
January 1, 2005 to January 31, 2005	717,792	$40.85	716,000	1,284,000
February 1, 2005 to February 28, 2005	599,975	$41.06	584,700	699,300
Board approved increase February 16, 2005				2,000,000
March 1, 2005 to March 31, 2005	1,796	$40.38	-	-
Balance March 31, 2005:	1,319,563	$40.95	1,300,700	2,699,300

(1) During the three months ended March 31, 2005, the Company repurchased 18,863 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. Exhibits

Exhibit 31.1 Section 302 Certifications of Chief Executive Officer
Exhibit 31.2 Section 302 Certification of Chief Financial Officer
Exhibit 32.1 Section 906 Certifications of Chief Executive Officers
Exhibit 32.2 Section 906 Certification of Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOME PROPERTIES, INC.
(Registrant)

Date: May 10, 2005

By: /s/ Edward J. Pettinella
Edward J. Pettinella
President and Chief Executive Officer

Date: May 10, 2005

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

Exhibit 31.1

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

I, Edward J Pettinella, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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

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

/s/ Edward J. Pettinella
Edward J. Pettinella
President and Chief Executive Officer
May 10, 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 quarterly report on Form 10-Q of Home Properties, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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

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

/s/ David P. Gardner
David P. Gardner
Executive Vice President and Chief Financial Officer
May 10, 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 5-K.

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

In connection with the Quarterly Report of Home Properties, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2005, as filed with the Securities and Exchange Commission on May 10, 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.

By: /s/ Edward J. Pettinella
Edward J. Pettinella
President and Chief Executive Officer
May 10, 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 5-K.

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

In connection with the Quarterly Report of Home Properties, Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2005, as filed with the Securities and Exchange Commission on May 10, 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
May 10, 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.