UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

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

COMMISSION FILE NUMBER: 1-13136

HOME PROPERTIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND	16-1455126
(State of incorporation)	(I.R.S. Employer Identification No.)

---

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 fiscal year, if changed since last report)

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

Yes __X__ No _____

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

Large accelerated filer __X__ Accelerated filer _____ Non-accelerated filer _____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes _____ No __X_

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d)of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes _____ No _____

APPLICABLE ONLY TO CORPORATE ISSUERS:

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 July 31, 2006
$.01 par value	33,204,038

HOME PROPERTIES, INC.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
HOME PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2006 AND DECEMBER 31, 2005
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2006	2005
	(Unaudited)	(Note 1)
ASSETS		
Real estate:		
Land	$ 417,276	$ 402,299
Construction in progress	7,503	4,471
Buildings, improvements and equipment	2,858,177	2,704,372
Real estate held for sale or disposal, net	-	219,776
	3,282,956	3,330,918
Less: accumulated depreciation	(495,738)	(446,367)
Real estate, net	2,787,218	2,884,551
Cash and cash equivalents	7,180	5,391
Cash in escrows	77,207	36,760
Accounts receivable	7,979	7,386
Prepaid expenses	11,547	16,141
Deferred charges	11,283	11,156
Other assets	11,509	12,536
Other assets held for sale	-	3,949
Total assets	$ 2,913,923	$ 2,977,870
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage notes payable	$ 1,822,305	$ 1,768,483
Line of credit	47,000	82,000
Accounts payable	17,104	19,458
Accrued interest payable	8,681	8,274
Accrued expenses and other liabilities	25,338	22,565
Security deposits	22,173	21,742
Liabilities held for sale	-	75,267
Total liabilities	1,942,601	1,997,789
Commitments and contingencies		
Minority interest	267,309	323,269
Stockholders' equity:		
Cumulative redeemable preferred stock, $.01 par value; 2,400,000 shares issued and outstanding at June 30, 2006 and December 31, 2005.	60,000	60,000
Common stock, $.01 par value; 80,000,000 shares authorized; 33,091,373 and 31,184,256 shares issued and outstanding at June 30, 2006 and December 31, 2005.	331	312
Excess stock, $.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	847,422	773,396
Accumulated other comprehensive income	319	206
Distributions in excess of accumulated earnings	(204,059)	(177,102)
Total stockholders' equity	704,013	656,812
Total liabilities and stockholders' equity	$ 2,913,923	$ 2,977,870

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2006	2005
Revenues:		
Rental income	$ 113,358	$ 103,037
Property other income	7,966	5,385
Interest income	119	73
Other income	504	439
Total revenues	121,947	108,934
Expenses:		
Operating and maintenance	49,397	47,593
General and administrative	6,057	4,144
Interest	27,717	23,445
Depreciation and amortization	25,591	21,551
Total expenses	108,762	96,733
Income from operations	13,185	12,201
Minority interest in operating partnerships	(3,678)	(3,494)
Income from continuing operations	9,507	8,707
Discontinued operations		
Income from operations, net of $218 and $543 in 2006 and 2005 allocated to minority interest, respectively	485	1,089
Gain (loss) on disposition of property, net of $1,064 and ($39) in 2006 and 2005 allocated to minority interest, respectively	2,361	(77)
Discontinued operations	2,846	1,012
Net income	12,353	9,719
Preferred dividends	(1,350)	(1,681)
Net income available to common shareholders	$ 11,003	$ 8,038
Basic earnings per share data:		
Income from continuing operations	$ 0.24	$ 0.22
Discontinued operations	0.09	0.03
Net income available to common shareholders	$ 0.33	$ 0.25
Diluted earnings per share data:		
Income from continuing operations	$ 0.24	$ 0.22
Discontinued operations	0.09	0.03
Net income available to common shareholders	$ 0.33	$ 0.25
Weighted average number of shares outstanding:		
Basic	32,936,880	31,843,551
Diluted	33,598,725	32,279,115
Dividends declared per share	$ 0.64	$ 0.63

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2006	2005
Revenues:		
Rental income	$ 224,996	$ 203,922
Property other income	15,136	9,899
Interest income	210	141
Other income	1,021	1,027
Total revenues	241,363	214,989
Expenses:		
Operating and maintenance	107,532	98,819
General and administrative	11,096	9,549
Interest	54,912	46,646
Depreciation and amortization	50,637	42,819
Impairment of assets held as General Partner	-	400
Total expenses	224,177	198,233
Income from operations	17,186	16,756
Minority interest in operating partnerships	(4,600)	(4,373)
Income from continuing operations	12,586	12,383
Discontinued operations		
Income (loss) from operations, net of $1,503 and ($1,259) in 2006 and 2005 allocated to minority interest, respectively	2,894	(2,559)
Gain (loss) on disposition of property, net of $1,064 and ($39) in 2006 and 2005 allocated to minority interest, respectively	2,361	(77)
Discontinued operations	5,255	(2,636)
Net income	17,841	9,747
Preferred dividends	(2,700)	(3,579)
Net income available to common shareholders	$ 15,141	$ 6,168
Basic earnings per share data:		
Income from continuing operations	$ 0.31	$ 0.27
Discontinued operations	0.16	(0.08)
Net income available to common shareholders	$ 0.47	$ 0.19
Diluted earnings per share data:		
Income from continuing operations	$ 0.30	$ 0.27
Discontinued operations	0.16	(0.08)
Net income available to common shareholders	$ 0.46	$ 0.19
Weighted average number of shares outstanding:		
Basic	32,101,587	31,831,604
Diluted	32,722,174	32,252,276
Dividends declared per share	$ 1.28	$ 1.26

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 JUNE 30, 2006 AND 2005
(UNAUDITED, IN THOUSANDS)

	2006	2005
Net income	$ 12,353	$ 9,719
Other comprehensive income (loss):		
Change in fair value of hedged instruments	30	(82)
Net comprehensive income	$ 12,383	$ 9,637

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED, IN THOUSANDS)

	2006	2005
Net income	$ 17,841	$ 9,747
Other comprehensive income:		
Change in fair value of hedged instruments	113	271
Net comprehensive income	$ 17,954	$ 10,018

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED, IN THOUSANDS)

	2006	2005
Cash flows from operating activities:		
Net income	$ 17,841	$ 9,747
Adjustments to reconcile net income to net cash provided by operating activities:		
Income allocated to minority interest	7,167	3,075
Depreciation and amortization	51,144	49,719
Impairment of assets held as General Partner	-	400
Impairment of real property	-	7,325
Loss (gain) on disposition of property and business	(3,425)	116
Issuance of restricted stock, compensation cost of stock options and deferred compensation	2,287	1,350
Changes in assets and liabilities:		
Other assets	8,093	5,277
Accounts payable and accrued liabilities	(375)	(13,005)
Total adjustments	64,891	54,257
Net cash provided by operating activities	82,732	64,004
Cash flows from investing activities:		
Purchase of properties and other assets, net of mortgage notes assumed and UPREIT Units issued	(20,164)	(19,561)
Additions to properties	(50,825)	(42,226)
Proceeds from sale of properties and business, net	235,145	-
Additions to funds held in escrow from tax-free exchanges	(41,383)	-
Net cash provided by (used in) investing activities	122,773	(61,787)
Cash flows from financing activities:		
Proceeds from sale of common stock, net	13,806	4,263
Repurchase of common stock	(86,356)	(53,320)
Proceeds from mortgage notes payable	122,980	150,207
Payments of mortgage notes payable	(155,515)	(54,741)
Proceeds from line of credit	210,800	152,200
Payments on line of credit	(245,800)	(132,200)
Payments of deferred loan costs	(1,369)	(1,641)
Withdrawals from (additions to) cash escrows, net	1,284	(1,909)
Dividends and distributions paid	(63,546)	(62,928)
Net cash used in financing activities	(203,716)	(69)
Net increase in cash and cash equivalents	1,789	2,148
Cash and cash equivalents:		
Beginning of year	5,391	7,925
End of period	$ 7,180	$ 10,073

Supplemental disclosure of non-cash operating, investing and financing activities:		
Cash paid for interest	$ 60,101	$ 51,174
Mortgage loans assumed associated with property acquisitions	13,151	7,916
Issuance of UPREIT Units associated with property and other acquisitions	-	12,611
Increase in real estate associated with the purchase of UPREIT Units	99,559	2,856
Exchange of UPREIT Units for common shares	59,173	2,136
Fair value of hedge instruments	357	253
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)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, 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, 2005.

2. Organization and Basis of Presentation

Organization

Home Properties, Inc. (the "Company ") was formed in November 1993, as a Maryland corporation and is engaged primarily in the ownership, management, acquisition, and rehabilitation of residential apartment communities in the Northeastern, Mid-Atlantic, Midwestern and Southeast Florida regions of the United States. The Company conducts its business through Home Properties, L.P. (the "Operating Partnership"), a New York limited partnership. As of June 30, 2006, the Company operated 140 apartment communities with 42,194 apartments. Of this total, the Company owned 135 communities, consisting of 38,625 apartments, managed as general partner one partnership that owned 868 apartments, and fee managed four communities, consisting of 2,701 apartments for third parties.

The Company elected to be taxed as a REIT under the Internal Revenue Code, as amended, for all periods presented. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, the Company generally will not be subject to corporate level tax on taxable income it distributes currently to its stockholders. Management believes that all such conditions for the avoidance of income taxes have been met for the periods presented. Accordingly, no provisions for federal and state income taxes have been made.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its 71.0% (65.2% at December 31, 2005 and 67.3% at June 30, 2005) interest in the Operating Partnership. Such interest has been calculated as the percentage of outstanding common shares divided by the total outstanding common shares and Operating Partnership Units ("UPREIT Units") outstanding. The remaining 29.0% (34.8% at December 31, 2005 and 32.7% at June 30, 2005) is reflected as Minority Interest in these consolidated financial statements. The Company owns a 1.0% general partner interest in the Operating Partnership and the remainder indirectly as a limited partner through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of the limited partner, Home Properties Trust. Home Properties Trust was formed in September 1997, as a Maryland real estate trust and as a qualified REIT subsidiary ("QRS") and owns the Company's share of the limited partner interests in the Operating Partnership. For financing purposes, the Company has formed a limited liability company (the "LLC") and a partnership (the "Financing Partnership"), which beneficially own certain apartment communities encumbered by mortgage indebtedness. The LLC is wholly owned by the Operating Partnership. The Financing Partnership is owned 99.9% by the Operating Partnership and 0.1% by the QRS.

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

2. Organization and Basis of Presentation (continued)

During the second quarter of 2006, there were 3.0 million shares of UPREIT Units converted to common stock. The Company made a $96.5 million adjustment to record the fair market value of the conversion. This conversion resulted in the Company recording a step-up in basis of the carrying values of land, buildings and intangibles in accordance with SFAS 141.

The accompanying consolidated financial statements include the accounts of Home Properties Management, Inc. and Home Properties Resident Services, Inc. (the “Management Companies”). The Management Companies are wholly owned subsidiaries of the Company. In addition, the Company consolidates one affordable housing limited partnership in accordance with FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*. All significant inter-company balances and transactions have been eliminated in these consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2005 consolidated financial statements to conform to the 2006 presentation.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 addresses the recognition and measurement of assets and liabilities associated with tax positions taken or expected to be taken in a tax return. The Company is reviewing its current tax positions for any potential uncertain tax positions that would qualify under FIN 48. Based on its preliminary review, the Company does not anticipate that the adoption of FIN 48 in January 2007 will have a material impact on the Company’s financial position or results of operations.

3. Stock Benefit Plan

The Company’s 1994 Stock Benefit Plan (the "1994 Plan") was adopted by the Company at the time of its initial public offering. On February 1, 2000, the Company adopted the 2000 Stock Benefit Plan, which was subsequently amended (the "2000 Plan"). On May 6, 2003, the Company adopted the 2003 Stock Benefit Plan and on May 6, 2005, the shareholders approved the Amended and Restated 2003 Stock Benefit Plan (the “2003 Plan”). No additional options will be issued under the 1994 Plan and the 2000 Plan. Participants in each of the above referenced plans (the “Option Plans”) include officers, non-employee directors, and key employees of the Company. The 1994 Plan provided for the issuance of up to 1,596,000 options to officers and employees and 154,000 options to non-employee directors. The 2000 Plan limits the number of shares issuable under the plan to 2,755,000, of which 205,000 were to be available for issuance to the non-employee directors. The 2003 Plan limits the number of shares issuable under the plan to 2,859,475, of which 249,475 are to be available for issuance to the non-employee directors. Under the 1994 Plan, 1,542,381 shares have been granted to employees and 153,654 shares have been granted to non-employee directors. Awards for 2,451,922 shares have been granted to employees and awards for 166,460 shares have been granted to non-employee directors under the 2000 Plan. Under the 2003 Plan and as of June 30, 2006, 2,260,226 awards for shares have been issued to employees and 204,475 awards for shares have been issued to non-employee directors and 639,874 and 45,000 common shares are available for future grant of awards under the 2003 Plan for officers and employees and non-employee directors, respectively. Options granted under the Option Plans vest 20% for each year of service until 100% vested on the fifth anniversary, except that options issued to certain officers (276,000) and all of the options issued to non-employee directors under the 1994 Plan and 2000 Plan vested immediately upon grant. The exercise price per share for stock options issued under all of the Option Plans may not be less than 100% of the fair market value of a share of common stock on the date the stock option is granted. Options granted to non-employee directors under the 1994 Plan and the 2000 Plan expire after five years from the date of grant. All other options expire after ten years from the date of grant. The Option Plans allow

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

3. Stock Benefit Plan (continued)

for the grant of options, stock appreciation rights and restricted stock awards. No stock appreciation rights have been granted.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share Based Payments* ("SFAS 123R"). The statement is a revision of SFAS No. 123 *Accounting for Stock-Based Compensation.* SFAS 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. Prior to January 1, 2006, the Company applied the provisions of SFAS No. 148 *Accounting for Stock-Based Compensation – Transition and Disclosure*, an Amendment to SFAS No. 123 ("SFAS 148"). Under SFAS 148, the Company recognized compensation cost related to stock option grants, based on the fair value on the date of the grant, over the service period of the employee receiving the award.

Generally, the approach in SFAS 123R is similar to the approach described in SFAS 148. The Company uses the Black-Scholes formula to estimate the fair value of stock options granted to employees for both SFAS 123R and SFAS 148. SFAS 123R and SFAS 148 require the estimation of forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period should actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change and which impacts the amount of unamortized compensation expense to be recognized in future periods. For options granted prior to January 1, 2006, the Company uses the nominal vesting period approach. For option grants after January 1, 2006, the Company applies the non-substantive vesting period approach which resulted in $677 additional compensation costs for retirement eligible employees and directors than would have been recognized under SFAS 148. As a result of the adoption of SFAS 123R, the Company began capitalizing stock-based compensation costs as a component of employee compensation that is capitalized as part of self-constructed fixed assets. The Company applied the modified prospective application in adopting SFAS 123R. The adoption of SFAS 123R did not have a material impact on the Company's results of operations, financial position or liquidity.

A summary of stock options activity for the six months ended June 30, 2006 is as follows:

	Number of Options	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding at December 31, 2005	2,662,581	$36.18		
Granted	550,530	51.06		
Exercised	(401,838)	33.28		
Cancelled	(103,618)	40.29		
Options outstanding at June 30, 2006	2,707,655	$ 39.48	7.6	$ 43,404
Options exercisable at June 30, 2006	901,017	$ 34.14	6.1	$ 19,255

The total cash received from the exercise of options was $13,373 and $4,394 during the six months ended June 30, 2006 and 2005. The total intrinsic value of options exercised was $6,693 and $1,595 during the six months ended June 30, 2006 and 2005. As of June 30, 2006, there was $3,831 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the stock option plans; that cost is expected to be recognized over a weighted-average period of 2.29 years.

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

3. Stock Benefit Plan (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the three and six month periods ended June 30, 2006 and 2005 as follows:

	Three Months		Six Months	
Assumption	2006	2005	2006	2005
Expected dividend yields	6.24%	6.55%	6.24%	6.55%
Expected volatility	19.15%	18.76%	19.15%	18.76%
Expected lives of the options with a lifetime of ten years	7.5 Years	7.5 Years	7.5 Years	7.5 Years
Expected lives of the options with a lifetime of five years	5.0 Years	5.0 Years	5.0 Years	5.0 Years
Risk free interest rate	5.09%	4.10%	5.09%	4.10%

Our computation of expected dividend yield is computed using an anticipated increase of the dividend by approximately 2% to 5% a year based on the annual dividend exercised each year over the Black-Scholes stock value. The expected volatility is based on the historical volatility of our stock over a time period from the initial public offering and ending on the grant date. Our computation of expected life was determined based upon historical experience of similar awards, giving consideration to the contractual terms of the share-based awards. The risk-free interest rates are based on the U.S. Treasury yield curve in effect at the time of grant plus 105 and 115 basis points for 2006 and 2005, respectively.

The Company recognized stock compensation costs related to its outstanding stock options of $673 and $284 for the three months ended June 30, 2006 and 2005 and $889 and $455 for the six months ended June 30, 2006 and 2005.

During the six months ended June 30, 2006 and 2005, the Company granted 60,566 and 57,375 shares of restricted stock to both employees and directors, respectively. The directors' grants included above for the six months ended June 30, 2006 and 2005 were 9,000 and 7,875, respectively. All of the directors' shares vest 100% on the fifth anniversary of the date of the grant. All of the 51,566 and 49,500 shares of restricted stock granted to key employees during 2006 and 2005 vest 25% on each anniversary of the date of the grant for a period of four years. The restricted shares were granted during 2006 and 2005 at a weighted average price of $50.81 and $41.47, respectively. Total compensation cost recorded for the six month periods ended June 30, 2006 and 2005 for the restricted shares was $1,282 and $801, respectively. The restricted stock outstanding at June 30, 2006 and 2005 was 295,679 and 306,771, respectively.

(UNAUDITED, 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 (using the treasury stock method), restricted stock, phantom shares under the Company's incentive compensation plan, and the conversion of any cumulative convertible preferred stock. The exchange of an UPREIT 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 and six months ended June 30, 2006 and 2005 follows:

	Three Months		Six Months	
	2006	2005	2006	2005
Income from continuing operations	$ 9,507	$ 8,707	$ 12,586	$ 12,383
Less: Preferred dividends	(1,350)	(1,681)	(2,700)	(3,579)
Basic and Diluted – Income from continuing operations applicable to common shareholders	8,157	7,026	9,886	8,804
Discontinued operations	2,846	1,012	5,255	(2,636)
Net income available to common shareholders	$ 11,003	$ 8,038	$ 15,141	$ 6,168
Basic weighted average number of shares outstanding	32,936,880	31,843,551	32,101,587	31,831,604
Effect of dilutive stock options	598,898	367,606	556,685	349,365
Effect of phantom and restricted shares	62,947	67,958	63,902	71,307
Diluted weighted average number of shares outstanding	33,598,725	32,279,115	32,722,174	32,252,276
Basic earnings per share data:				
Income from continuing operations	$ 0.24	$ 0.22	$ 0.31	$ 0.27
Discontinued operations	$ 0.09	0.03	0.16	(0.08)
Net income available to common shareholders	$ 0.33	$ 0.25	$ 0.47	$ 0.19
Diluted earnings per share data:				
Income from continuing operations	$ 0.24	$ 0.22	$ 0.30	$ 0.27
Discontinued operations	$ 0.09	0.03	0.16	(0.08)
Net income available to common shareholders	$ 0.33	$ 0.25	$ 0.46	$ 0.19

For the three and six month periods ended June 30, 2006 and 2005, unexercised stock options to purchase 531,930 and 547,000 shares of the Company's common stock were excluded in the computation of diluted EPS as the options' exercise prices were greater than the average market price of the Company's stock during each period, respectively.

For the three and six month periods ended June 30, 2005 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. On May 26, 2005, the Series D Convertible Cumulative Preferred Stock was converted and the common shares issued upon such conversion were included in outstanding common shares from the date of conversion.

5. Other Income

Other income for the three and six month periods ended June 30, 2006 and 2005 primarily reflects 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 is the general partner in one VIE 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 the partnership for a management fee. In addition, the Company has an operating deficit guarantee and tax credit guarantee 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 flows reach certain levels. The effect on the consolidated balance sheet as of June 30, 2006 is an increase in "Total assets" of $20,422, an increase in "Total liabilities" of $17,965, and an increase in "Minority interest" of $2,457. Of the $17,965 increase in "Total liabilities," $16,878 represents non-recourse mortgage debt.

Effective June 30, 2005, the Company was under contract or letter of intent for the sale of three VIEs. The Company performed a valuation analysis on the underlying investment of one VIE, and as a result, recorded an impairment charge of $400 for the six month period ended June 30, 2005 to adjust the net book value of the Company's investment in the property to the Company's estimate of fair market value. This VIE was no longer held for sale as of December 31, 2005, and is included in the consolidated results of operations for both the three and six month periods ended June 30, 2006 and 2005. The other two VIEs were disposed of through a transfer of deed in lieu of foreclosure in September 2005. The Company had repurchased the limited partner's interests in satisfaction of any tax credit guarantees or other obligations to that partner in January, 2005 for $5,700. In connection with the Company's decision to dispose of the property, the Company performed a valuation analysis on the underlying real estate, and as a result, recorded a $7,325 impairment of real estate during the first quarter of 2005 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. Finally, on September, 30, 2005, the deed was transferred to the mortgage holder in lieu of foreclosure resulting in a gain on sale of real estate of $7,686.

7. Line of Credit

As of June 30, 2006, the Company had an unsecured line of credit agreement with M&T Bank of $140 million which expires September 1, 2008. The Company's outstanding balance as of June 30, 2006, was $47 million. Borrowings under the line of credit bear interest at .75% over the one-month LIBOR rate.

On June 7, 2006, the Company signed a supplemental demand note with M&T Bank which expired on July 31, 2006. The note had a maximum principal amount of $40 million. Borrowings on the note bore interest at 0.95% 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 June 30, 2006 on the supplemental demand note.

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.

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

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

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

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, 2005. Non-core properties consist of apartment communities acquired during 2005 and 2006, such that full year comparable operating results are not available. In addition, Core properties do not include assets held for sale as of December 31, 2005.

The Company assesses and measures segment operating results based on a performance measure referred to as net operating income. Net operating income is defined as total revenues less operating and maintenance expenses.

The accounting policies of the segments are the same as those described in Notes 1 and 2 of the Company's Form 10-K for the year ended December 31, 2005.

The revenues, net operating income and assets for each of the reportable segments are summarized as follows for the three and six months ended June 30, 2006 and 2005 as follows:

	Three Months		Six Months	
	2006	2005	2006	2005
Revenues				
Apartments owned				
Core properties	$ 111,737	$ 105,970	$ 221,575	$ 209,583
Non-core properties	9,587	2,452	18,557	4,238
Reconciling items	623	512	1,231	1,168
Total revenues	$ 121,947	$ 108,934	$ 241,363	$ 214,989
Net operating income				
Apartments owned				
Core properties	$ 66,169	$ 59,754	$ 122,426	$ 113,345
Non-core properties	5,758	1,075	10,174	1,657
Reconciling items	623	512	1,231	1,168
Combined segment net operating income	72,550	61,341	133,831	116,170
General & administrative expenses	(6,057)	(4,144)	(11,096)	(9,549)
Interest expense	(27,717)	(23,445)	(54,912)	(46,646)
Depreciation and amortization	(25,591)	(21,551)	(50,637)	(42,819)
Impairment of assets held as General Partner	-	-	-	(400)
Minority interest in operating partnership	(3,678)	(3,494)	(4,600)	(4,373)
Income from continuing operations	$ 9,507	$ 8,707	$ 12,586	$ 12,383
Assets - As of June 30, 2006 and December 31, 2005				
Apartments owned				
Core properties	$ 2,411,994	$ 2,082,413		
Held for sale properties	-	219,776		
Non-core properties	375,224	582,362		
Reconciling items	126,705	93,319		
Total Assets	$ 2,913,923	$ 2,977,870		

9. Derivative Financial Instruments

The Company enters into financial derivative instruments only for the purpose of minimizing risk and, thereby, protecting income. Derivative instruments utilized as part of the Company's risk management strategy may include interest rate swaps and caps. All derivatives are recognized on the balance sheet at fair value. The Company does not employ leveraged derivative instruments, nor does it enter into derivative instruments for trading or speculative purposes.

The Company has four interest rate swaps that effectively convert variable rate debt to fixed rate debt. As of June 30, 2006, the aggregate fair value of the Company’s interest rate swaps was $357 prior to the allocation of minority interest and is included in the consolidated balance sheets. For the three and six month periods ending June 30, 2006 and 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. Acquisitions

On May 31, 2006, the Company purchased a 172 unit apartment community for a total purchase price of $17.9 million. The transaction consisted of the assumption of a $6.3 million mortgage at 6.99%, maturing on January 1, 2029 (fair market value of $6.6 million). The balance was funded through the Company’s line of credit. On June 6, 2006, the Company purchased a 107 unit apartment community for a total purchase price of $14.9 million. Consideration included the assumption of a $6.2 million mortgage at an interest rate of 6.79%, maturing on November 1, 2012 (fair market value of $6.5 million). The balance as funded through the Company’s line of credit.

11. Disposition of Property and Discontinued Operations

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.

On April 5, 2006, the Company sold two apartment communities with a total of 92 units, located in the New Jersey region for $9.2 million. A gain on sale of approximately $4.5 million (before allocation of minority interest) was recorded in the second quarter of 2006. On June 29, 2006, the Company completed the sale of its entire Detroit portfolio. The portfolio consisted of 19 properties containing 5,046 units and was sold for a total consideration of $230 million. The loss on sale amounted to $1.1 million and was recorded in the second quarter 2006.

Included in discontinued operations for the three and six months ended June 30, 2006 and 2005 are the operating results, net of minority interest, of twenty-one apartment communities sold during the three months ended June 30, 2006.

Included in discontinued operations for the three and six months ended June 30, 2005 are the operating results, net of minority interest, of four apartment community dispositions (all sold in 2005) and four VIE dispositions (all sold in 2005).

For purposes of the discontinued operations presentation, the Company only includes interest expense and losses from early extinguishment of debt associated with specific mortgage indebtedness of the properties that are sold.

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

11. Disposition of Property and Discontinued Operations (continued)

The operating results of discontinued operations are summarized for the three and six months ended June 30, 2006 and 2005 as follows:

	Three Months		Six Months	
	2006	2005	2006	2005
Revenues:				
Rental Income	$ 9,932	$ 14,008	$ 20,368	$ 28,282
Property other income	501	750	1,304	1,424
Total revenues	10,433	14,758	21,672	29,706
Operating and maintenance	5,483	8,150	11,705	16,509
Interest expense	4,247	2,007	5,533	3,770
Depreciation and amortization	-	2,969	37	5,897
Impairment of real property	-	-	-	7,325
Total expenses	9,730	13,126	17,275	33,501
Income (loss) from discontinued operations before minority interest and gain (loss) on disposition of property	703	1,632	4,397	(3,795)
Minority interest in limited partnerships	-	-	-	(23)
Minority interest in operating partnerships	(218)	(543)	(1,503)	1,259
Income (loss) from discontinued operations	$ 485	$ 1,089	$ 2,894	$ (2,559)

The major classes of assets and liabilities held for sale as of December 31, 2005 were as follows:

	2005
Real estate:	
Land	$ 27,820
Buildings, improvements and equipment	246,181
	274,001
Less: accumulated depreciation	(54,225)
Real estate held for sale, net	219,776
Other assets:	
Cash in escrows	348
Accounts receivable	650
Prepaid expenses	2,951
Other assets held for sale	3,949
Liabilities:	
Mortgage notes payable	73,603
Accrued expenses and other liabilities	431
Security deposits	1,233
Liabilities held for sale	75,267
Net assets held for sale	$ 148,458

12. 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.

12. Commitments and Contingencies (continued)

In connection with various UPREIT transactions, the Company has agreed to maintain certain levels of nonrecourse debt for a period of 5 to 10 years associated with the contributed properties acquired. In addition, the Company is restricted in its ability to sell certain contributed properties (45% by number of apartment units of the owned portfolio) for a period of 5 to 15 years except through a tax deferred Internal Revenue Code Section 1031 like-kind exchange.

Guarantees

As of June 30, 2006, the Company, through its general partnership interest in an affordable property limited partnership, has guaranteed low income housing tax credits to limited partners for a remaining period of nine years totaling approximately $3,000. As of June 30, 2006, there were no known conditions that would make such payments necessary relating to these guarantees. In addition, the Company, acting as general partner in this partnership, is obligated to advance funds to meet partnership operating deficits.

13. Related Party Transactions

On January 1, 2004, the Company sold certain assets of its commercial property management division to Home Leasing LLC ("Home Leasing"), 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 $3.4 or $40 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 $135. Additional deferred purchase price of $24 was recognized during the six months ended June 30, 2006. The cumulative gain recognized on the sale of these assets through June 30, 2006 amounted to $88. If the management of this property is retained for the entire three years the Company expects to receive an additional $16 for the period July 1, 2006 through January 1, 2007. The gain on sale would then be approximately $104.

14. Subsequent Events

On August 1, 2006, the Board of Directors approved a dividend of $.64 per share on its common stock for the quarter ended June 30, 2006. This is the equivalent of an annual distribution of $2.56 per share. The dividend is payable August 25, 2006 to shareholders of record on August 15, 2006.

On August 1, 2006, the Company also declared a regular dividend of $.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending August 31, 2006. The dividend on the preferred shares is payable on August 31, 2006 to shareholders of record on August 15, 2006. This dividend is equivalent to an annualized rate of $2.25 per share.

On August 1, 2006, the Company finalized its decision and the Board of Directors approved the marketing for sale of the Upstate New York property portfolio. The portfolio consists of eighteen communities with 4,567 units in total; four properties and 1,644 apartment units in Buffalo, NY, nine properties and 1,680 apartment units in Rochester, NY and five properties and 1,243 apartment units in Syracuse, NY. The Company anticipates the sales of the three portfolios to close in the fourth quarter of 2006 and the first quarter of 2007.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
(UNAUDITED, 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 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 UPREIT Unitholders, capital improvements and repairs and maintenance for the properties, acquisition of additional properties, property development, stock repurchases 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.

Cash provided by operating activities was $82,732 and $64,004 for the six-month period ended June 30, 2006 and 2005, respectively. Cash provided by (used in) investing activities was $122,773 and ($61,787) for the six-month period ended June 30, 2006 and 2005, respectively. Cash used in financing activities was $203,716 and $69 for the six-month period ended June 30, 2006 and 2005, respectively.

As of June 30, 2006, the Company has an unsecured line of credit agreement with M&T Bank of $140 million which expires September 1, 2008. The Company's outstanding balance as of June 30, 2006, was $47 million. Borrowings under the line of credit bear interest at .75% 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.

On June 7, 2006, the Company signed a supplemental demand note with M&T Bank which expired on July 31, 2006. The note has a maximum principal amount of $40 million. Borrowings on the note bore interest at 0.95% 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 June 30, 2006 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 property debt financing, 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 June 30, 2006, the Company owned 22 properties with 4,460 apartment units, which were unencumbered by debt.

A significant source of liquidity in 2006 is expected to be from the sale of properties. Management has included in its operating plan that the Company will strategically dispose of assets in 2006. The Company has sold $238 million to date. In August 2006, the Company announced their intention to strategically dispose of its Upstate New York portfolio.

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 June 30, 2006 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 carried 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 had a conversion price of $30 per share and a five-year, non-call provision. On May 26, 2005, all 250,000 shares of the Series D Preferred Stock were converted into 833,333 shares of common stock. The conversion of preferred shares to common shares did not have an effect on the reported results of operations.

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

The issuance of UPREIT Units for property acquisitions continues to be a source of capital for the Company. During 2005, the Company issued $55,600 of UPREIT Units as consideration for three acquired properties. During 2006, there were no UPREIT Units issued as consideration for the 2006 acquisitions.

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 began meeting share demand in the program through share repurchase by the transfer agent in the open market on the Company's behalf instead of new share issuance. This removes essentially 100% of the dilution caused by issuing new shares at a price less than the net asset value in an economic and efficient manner. During the first six months of 2006, the Company's additional capital raised under the DRIP netted to zero after taking into account share repurchases used in lieu of new stock issuance.

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its common stock or UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action did not establish a target stock price or a specific timetable for repurchase. During the six months ended June 30, 2006, 1,680,521 shares were repurchased by the Company. At June 30, 2006, the Company had authorization to repurchase an additional 1,539,674 shares. The Company will continue to monitor stock prices, the published net asset value, and acquisition alternatives to determine the current best use of capital between the two major uses of capital – stock buyback and acquisitions.

As of June 30, 2006, the weighted average rate of interest on mortgage debt is 5.8% and the weighted average maturity is approximately seven years. Approximately 96% of the debt bears interest at a fixed rate. This limits the exposure to changes in interest rates, minimizing the effect on results of operations and financial condition.

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 is the general partner in one VIE 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 the partnership for a management fee. In addition, the Company has an operating deficit guarantee and tax credit guarantee to its limited partner. The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards when cash flows reach certain levels. The effect on the consolidated balance sheet as of June 30, 2006 is an increase in "Total assets" of $20,422, an increase in "Total liabilities" of $17,965, and an increase in "Minority interest" of $2,457. Of the $17,965 increase in total liabilities, $16,878 represents non-recourse mortgage debt.

Effective June 30, 2005, the Company was under contract or letter of intent for the sale of three VIEs. The Company performed a valuation analysis on the underlying investment of one VIE, and as a result, recorded an impairment charge of $400 for the six month period ended June 30, 2005 to adjust the net book value of the Company's investment in the property to the estimate of fair market value. This VIE was no longer considered held for sale as of December 31, 2005, and is included in the consolidated results of operations for both the three and six month periods ending June 30, 2006 and 2005.

In addition, the two other VIEs were disposed of in the third quarter of 2005 through a transfer of deed in lieu of foreclosure. The Company had repurchased the limited partner's interests in satisfaction of any tax credit guarantees or other obligations to that partner in January, 2005 for $5,700. In connection with the Company's decision to dispose of the property, the Company performed a valuation analysis on the underlying real estate, and as a result, recorded a $7,325 impairment of real estate during the first quarter of 2005 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. Finally, on September, 30, 2005, the deed was transferred to the mortgage holder in lieu of foreclosure resulting in a gain on sale of real estate of $7,686.

The Company, through its general partnership interest in an affordable property limited partnership, has guaranteed the low income housing tax credits to the limited partners for a remaining period of nine years totaling approximately $3,000. Such guarantee requires the Company to operate the property in compliance with Internal Revenue Code Section 42 for 15 years. In addition, acting as the general partner in this partnership, the Company is obligated to advance funds to meet partnership operating deficits. The Company believes the property's operations conform to the applicable requirements as set forth above.

Acquisitions and Dispositions

On May 31, 2006, the Company purchased a 172 unit apartment community for a total purchase price of $17.9 million. The transaction consisted of the assumption of a $6.3 million mortgage at 6.99%, maturing on January 1, 2029 (fair market value of $6.6 million). The balance was funded through the Company's line of credit.

On June 6, 2006, the Company purchased a 107 unit apartment community for a total purchase price of $14.9 million. Consideration included the assumption of a $6.2 million mortgage at an interest rate of 6.79%, maturing on November 1, 2012 (fair market value of $6.5 million). The balance as funded through the Company's line of credit.

On April 5, 2006, the Company sold two apartment communities with a total of 92 units, located in the New Jersey region for $9.2 million. A gain on sale of approximately $4.5 million (before allocation of minority interest) was recorded in the second quarter of 2006. The weighted average first year capitalization rate projected on these dispositions is 3.95%.

On June 29, 2006, the Company completed the sale of its entire Detroit portfolio. The portfolio consisted of 19 properties containing 5,046 units and was sold for a total consideration of $230 million. The loss on sale amounted to $1.1 million and was recorded in the second quarter 2006. The weighted average first year capitalization rate projected on these dispositions is 8.30%.

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 2008 and had $47 million outstanding at June 30, 2006. The $1.8 billion in mortgage notes payable have varying maturities ranging from 1 to 36 years. The weighted average interest rate of the Company's fixed rate notes was 5.81% and 5.95% at June 30, 2006 and December 31, 2005, respectively. The weighted average interest rate of the Company's variable rate notes and credit facility was 5.67% and 4.82% at June 30, 2006 and December 31, 2005, 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 June 30, 2006, 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 affiliate and the office space for its regional offices from third parties. The corporate office space requires an annual base rent plus a pro-rata portion of property improvements, real estate taxes, and common area maintenance. The regional office leases require an annual base rent plus a pro-rata portion of real estate taxes.

On December 1, 2004, the Company entered into a lease agreement with a third party owner to manage the operations of one of its communities. The lease has a term of five years, but after two years, (from the 24^{th} month to the 36^{th} month) the owner may require the Company to buy the property. From the 36^{th} month to the end of the lease term, the Company has the right to require the owner to sell the property to the Company. It is the Company's expectation that closing on the acquisition of the property will occur no later than 36 months after the commencement of the lease. The estimated future acquisition cost is $141 million.

As discussed in the section entitled "Variable Interest Entities," the Company, through its general partnership interest in an affordable property limited partnership, has guaranteed low income housing tax credits to limited partners totaling approximately $3 million. With respect to the guarantee of the low income housing tax credits, the Company believes the property's operations conform to the applicable requirements and does not anticipate any payment on the guarantees. In addition, the Company, acting as general partner in this partnership, is obligated to advance funds to meet partnership operating deficits.

Capital Improvements

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

The Company estimates that on an annual basis $525 per unit is spent on recurring capital expenditures. During the three and six month periods ended June 30, 2006 and 2005, approximately $131 per unit and $263 per unit, respectively, was estimated to be spent on recurring capital expenditures. The table below summarizes the actual total capital improvements, (including assets held for sale) incurred by major categories for the three and six month periods ended June 30, 2006 and 2005 and an estimate of the breakdown of total capital improvements by major categories between recurring and non-recurring, revenue generating capital improvements for the three and six month period ended June 30, 2006 as follows:

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

	2006						2005	
	Recurring Cap Ex	Per Unit[a]	Non-Recurring Cap Ex	Per Unit[a]	Total Capital Improvement	Per Unit[a]	Total Capital Improvement	Per Unit[a]
					$		$	
New Buildings	$ -	$ -	$ 113	$ 3	$ 113	$ 3	$ 981	$ 27
Major building improvements	872	23	4,160	108	5,032	131	4,471	123
Roof replacements	316	8	425	11	741	19	958	26
Site improvements	316	8	2,371	62	2,687	70	1,987	55
Apartment upgrades	633	16	3,012	79	3,645	95	4,585	126
Appliances	537	14	422	11	959	25	971	27
Carpeting/Flooring	1,639	43	715	18	2,354	61	2,345	64
HVAC/Mechanicals	489	13	1,764	46	2,253	59	2,420	67
Miscellaneous	230	6	656	17	886	23	913	25
Totals	$5,032	$131	$13,638	$355	$18,670	$486	$19,631	$540

[a] Calculated using the weighted average number of units outstanding, including 35,820 core units, 2005 acquisition units of 2,430 and 2006 acquisition units of 89 for the three-month period ended June 30, 2006 and 35,820 core units and 2005 acquisition units of 550 for the three-month period ended June 30, 2005.

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

	2006						2005	
	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	$ -	$ -	$ 1,536	$ 40	$ 1,536	$ 40	$ 2,304	$ 64
Major building improvements	1,742	45	7,652	200	9,394	245	6,417	177
Roof replacements	632	17	895	23	1,527	40	1,922	53
Site improvements	632	17	3,048	80	3,680	97	2,604	72
Apartment upgrades	1,264	33	6,382	167	7,646	200	8,930	246
Appliances	1,072	28	879	23	1,951	51	1,799	50
Carpeting/Flooring	3,274	85	1,308	34	4,582	119	4,263	118
HVAC/Mechanicals	977	26	4,337	113	5,314	139	4,476	124
Miscellaneous	460	12	1,284	34	1,744	46	1,814	50
Totals	$10,053	$263	$27,321	$714	$37,374	$977	$34,529	$954

[a] Calculated using the weighted average number of units outstanding, including 35,820 core units, 2005 acquisition units of 2,430 and 2006 acquisition units of 45 for the six-month period ended June 30, 2006 and 35,820 core units and 2005 acquisition units of 422 for the six-month period ended June 30, 2005.

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

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

	2006						2005	
	Recurring Cap Ex	**Per Unit**	**Non-Recurring Cap Ex**	**Per Unit**	**Total Capital Improvements**	**Per Unit**	**Total Capital Improvements**	**Per Unit**
Core Communities	$ 4,702	$131	$ 11,814	$ 330	$ 16,516	$ 461	$ 19,278	$ 538
2006 Acquisition Communities	12	131	73	820	85	951	-	-
2005 Acquisition Communities	318	131	1,751	721	2,069	852	353	642
Sub-total	5,032	131	13,638	355	18,670	486	19,631	540
2006 Disposed Communities	647	131	873	177	1,520	308	1,559	303
2005 Disposed Communities	-	-	-	-	-	-	1,184	1,451
Corporate office expenditures(1)	-	-	-	-	893	-	213	-
Totals	$ 5,679	$131	$ 14,511	$ 335	$ 21,083	$ 466	$ 22,587	$ 529

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

	2006						2005	
	Recurring Cap Ex	**Per Unit**	**Non-Recurring Cap Ex**	**Per Unit**	**Total Capital Improvements**	**Per Unit**	**Total Capital Improvements**	**Per Unit**
Core Communities	$ 9,403	$263	$ 24,004	$ 670	$ 33,407	$ 933	$ 34,049	$ 951
2006 Acquisition Communities	12	263	73	1,622	85	1,885	-	-
2005 Acquisition Communities	638	263	3,244	1,335	3,882	1,598	480	1,137
Sub-total	10,053	263	27,321	714	37,374	977	34,529	954
2006 Disposed Communities	1,325	263	1,876	372	3,201	635	2,411	469
2005 Disposed Communities	-	-	-	-	-	-	2,102	2,576
Corporate office expenditures(1)	-	-	-	-	1,964	-	501	-
Totals	$ 11,378	$263	$ 29,197	$ 674	$ 42,539	$ 937	$ 39,543	$ 925

(1) No distinction is made between recurring and non-recurring expenditures for corporate office. Corporate office expenditures includes principally computer hardware, software and office furniture and fixtures.

Results of Operations

Summary of Core properties

The Company had 124 apartment communities with 35,820 units which were owned during the three and six month periods being presented (the "Core Properties"). The Company has acquired/developed an additional eleven apartment communities with 2,805 units during 2006 and 2005 (the "Acquisition Communities"). The Company also disposed of four properties with a total of 816 units during 2005 (the “2005 Disposition Communities”). During 2006, the Company disposed of twenty-one properties with a total of 5,138 units (the “2006 Disposition Communities”). The results of these disposed properties have been classified as discontinued operations and are not included in the table below. The inclusion of the Acquisition Communities generally accounted for the significant changes in operating results for the three and six months ended June 30, 2006. In addition, the reported income from operations include the consolidated report of one investment where the Company is the managing general partner that has been determined to be a VIE.

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

	Three Months				Six Months			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
Rent	$104,235	$100,702	$3,533	3.5%	$207,180	$199,837	$7,343	3.7%
Utility recovery revenue	1,840	176	1,664	945.5%	3,630	279	3,351	1201.1%
Other income	5,662	5,092	570	11.2%	10,765	9,467	1,298	13.7%
Total property other income	7,502	5,268	2,234	42.4%	14,395	9,746	4,649	47.7%
Total revenue	111,737	105,970	5,767	5.4%	221,575	209,583	11,992	5.7%
Operating and maintenance	(45,568)	(46,216)	648	1.4%	(99,149)	(96,238)	(2,911)	(3.0%)
Net operating income	$ 66,169	$ 59,754	$6,415	10.7%	$122,426	$113,345	$9,081	8.0%

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

	Three Months				Six Months			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
Rent	$113,358	$103,037	$10,321	10.0%	$224,996	$203,922	$21,074	10.3%
Utility recovery revenue	2,061	186	1,875	1008.1%	3,961	290	3,671	1265.9%
Other income	5,905	5,199	706	13.6%	11,175	9,609	1,566	16.3%
Total property other income	7,966	5,385	2,581	47.9%	15,136	9,899	5,237	52.9%
Total revenue	121,324	108,422	12,902	11.9%	240,132	213,821	26,311	12.3%
Operating and maintenance	(49,397)	(47,593)	(1,804)	(3.8%)	(107,532)	(98,819)	(8,713)	(8.8%)
Net operating income	$71,927	$60,829	$11,098	18.2%	$132,600	$115,002	$17,598	15.3%

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

Comparison of three-months ended June 30, 2006 to the same period in 2005

Of the $10,321 increase in rental income, $6,659 is attributable to the Acquired Communities and $129 is attributable to the VIE. The balance of this increase, or $3,533 which is from the Core Properties, was the result of an increase of 2.9% in weighted average rental rates, plus an increase in occupancy from 93.7% to 94.2%. Occupancy is defined as total possible rental income, net of vacancy and bad debt expense as a percentage of total possible rental income. Total possible rental income is determined by valuing occupied units at contract rates and vacant units at market rents.

Property other income, which consists primarily of income from utility recovery charges, operation of laundry facilities, late charges, administrative fees, garage and carport charges, revenue from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents increased by $2,581. Of this increase, $366 is attributable to the Acquired Communities and $2,234 represents a 42.4% increase from the Core Properties, partially offset by a $19 decrease attributable to the VIE. Included in the Core increase is $1,664 which represents increased utility recovery charges compared to 2005 attributable to the Company’s water & sewer and heat & electric recovery programs, which became fully phased in during the second quarter of 2006: and a $570 increase in

Core property other income resulting from increased emphasis on charging late fees and early termination fees and an increase in corporate rentals compared to 2005.

Other income increased $65 due primarily to the receipt of a development fee in connection with an affordable limited partnership.

Of the $1,804 increase in operating and maintenance expenses, $2,475 is attributable to the Acquired Communities, partially offset by a $23 decrease attributable to the consolidation of the VIE. The balance, a $648 decrease, is attributable to the Core Properties and is primarily due to increases in water & sewer and property insurance expense more than offset by reductions in natural gas heating costs, personnel costs, advertising and real estate taxes. Water & sewer costs were up $374 or 14% for the quarter due to general cost increases being assessed by local municipalities; however, our water & sewer recovery program, which became fully phased in during the second quarter of 2006, enables the Company to recapture much of these cost increases from our residents. Property insurance increased $213, or 14.5%, for the period primarily due to a general increase in our property and general liability premiums, and losses to date which have been projected using actuarial assumptions. Natural gas heating costs were down $269 or 7.3% over 2005 as the 2006 quarter experienced milder weather than in 2005 and the Company realized the benefits of conservation measures implemented during 2006. Personnel expenses were down $566, or 5.6%, due to favorable experience with workers compensation and health insurance, which resulted in a cost savings year over year. Advertising continues to provide positive comparisons as we target our dollar spend in ways that produce results, netting a $339 or 22.7% savings versus 2005. Real estate taxes were down $450 or 4.1% in the current period, driven by successful tax assessment appeals resulting in refunds of $555 recognized in the current period, which was partially offset by $105 or 1% higher taxes across the portfolio.

For the upcoming 2006/2007 heating season we now have fixed contracts for 98.5% of our natural gas usage at a weighted average cost of $9.63 per decatherm. The cost for the 2005/2006 heating season was approximately $10.20 per decatherm.

General and administrative expense increased in 2006 by $1,913. General and administrative expenses as a percentage of total revenues were 4.6% for 2006 as compared to 3.4% for 2005. The recently enacted accounting rules effecting stock options and restricted stock, SFAS 123R, required the Company to recognize compensation costs on the second quarter 2006 grant date for retirement eligible employees and directors, resulting in $677 expense for the quarter. The balance of the increase is the direct result of the increase in corporate incentive compensation bonus accrued in 2006, plus increases in external costs incurred for auditing, tax and consultation expense and external costs associated with the implementation of a property management software system.

Interest expense increased in 2006 by $4,272 as a result of the increased borrowings in connection the Acquisition Communities and additional mortgage debt and refinanced mortgage debt incurred during 2006.

Depreciation and amortization expense increased $4,040 due to the depreciation on the Acquisition Communities and the capital additions to the Core Properties.

In addition, included in discontinued operations for the three-months ended June 30, 2006 and 2005 are the operating results, net of minority interest, of twenty-one apartment communities sold as of June 30, 2006. For purposes of the discontinued operations presentation, the Company only includes interest expense associated with specific mortgage indebtedness of the properties that are sold.

Included in discontinued operations for the three-months ended June 30, 2005 are the operating results, net of minority interest, of four apartment community dispositions (all sold in 2005) and four VIE dispositions (all sold in 2005).

Included in the $2,361 net gain on disposition of property reported for the three-months ended June 30, 2006 is the sale of two apartment communities in New Jersey, where the Company recorded a gain on sale of in the second quarter, net of minority interest, of approximately $3,112. This gain was partially offset by the loss on sale of 19 properties located in southeast Michigan in the second quarter, where the Company recorded a loss, net of minority interest, of $751.

Comparison of six-months ended June 30, 2006 to the same period in 2005

Of the $21,074 increase in rental income, $13,478 is attributable to the Acquired Communities and $253 is attributable to the VIE. The balance of this increase, or $7,343 which is from the Core Properties, was the result of an increase of 2.7% in weighted average rental rates, plus an increase in occupancy from 93.3% to 94.1%. 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 utility recovery charges, operation of laundry facilities, late charges, administrative fees, garage and carport charges, revenue from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents increased by $5,237. Of this increase, $615 is attributable to the Acquired Communities and $4,649 represents a 47.7% increase from the Core Properties, partially offset by a $27 decrease attributable to the VIE. Included in the Core increase is $3,351 which represents increased utility recovery charges compared to 2005 and $1,298 increase in Core property other income resulting from increased emphasis on charging late fees and early termination fees and an increase in corporate rentals compared to 2005.

Of the $8,713 increase in operating and maintenance expenses, $5,346 is attributable to the Acquired Communities, and a $455 increase attributable to the consolidation of the VIE. The balance, a $2,911 increase, is attributable to the Core Properties and is primarily due to increases in natural gas heating costs, water & sewer and property insurance expense partially offset by reductions in personnel costs, advertising, real estate taxes and snow removal costs. Natural gas heating costs were up $2,105 or 17.3% over 2005. The natural gas costs in the first quarter of 2006 were up $2,374 or 28.0% over the same period of 2005, due primarily to significant increases in the cost of natural gas per decatherm. In last year's first quarter we had a weighted average cost of $6.23 per decatherm versus this year's first quarter average cost of $9.65. In the second quarter of 2006 we realized a savings versus the second quarter of 2005, due to a combination of milder weather and conservation measures put in place during 2006. Water & sewer costs were up $567 or 10.5% for the year due to general cost increases being assessed by local municipalities; however, our water & sewer recovery program, which became fully phased in during the second quarter of 2006, enables the Company to recapture much of these cost increases from our residents. Property insurance increased $948, or 32.5%, for the period primarily due to a general increase in our property and general liability premiums, and losses to date which have been projected using actuarial assumptions.   Personnel expenses were down $1,023 or 4.9%, due to favorable experience with workers compensation and health insurance, which resulted in a cost savings year over year. Advertising continues to provide positive comparisons as we target our dollar spend in ways that produce results, netting a $441 or 15.6% savings versus 2005. Real estate taxes were down $342 or 1.6% in the current period, driven by successful tax assessment appeals resulting in refunds of $555 recognized in the current period, which was partially offset by $213 or 1% higher taxes across the portfolio. Snow removal costs were down $547 or 48.1%. The first half of 2006 produced below normal snowfalls compared to normal snowfall in 2005.

For the upcoming 2006/2007 heating season we now have fixed contracts for 98.5% of our natural gas usage at a weighted average cost of $9.63 per decatherm. The cost for the 2005/2006 heating season was approximately $10.20 per decatherm.

General and administrative expense increased in 2006 by $1,547. General and administrative expenses as a percentage of total revenues were 4.3% for 2006 as compared to 4.0% for 2005. The recently enacted accounting rules effecting stock options and restricted stock, SFAS 123R, required the Company to recognize compensation costs on the second quarter 2006 grant date for retirement eligible employees and directors, resulting in $677 expense for the quarter. The balance of the increase is the direct result of the increase in corporate incentive compensation bonus accrued in 2006, plus external costs associated with the implementation of a property management software system, partially offset by a $910 reduction in external costs incurred for auditing, tax and consultation expense, including costs to comply with Section 404 of Sarbanes-Oxley. A significant portion of the costs in 2005 related to the non-recurring first year efforts for 404 compliance.

Interest expense increased in 2006 by $8,266 as a result of the increased borrowings in connection the Acquisition Communities and additional mortgage debt and refinanced mortgage debt incurred during 2006.

Depreciation and amortization expense increased $7,818 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. During the first three months of 2005, the Company recorded impairment charges of $400, which pertains to an impairment charge taken on the one remaining VIE to reduce its investment to fair market value.

In addition, included in discontinued operations for the six-months ended June 30, 2006 and 2005 are the operating results, net of minority interest, of twenty-one apartment communities sold as of June 30, 2006. For purposes of the discontinued operations presentation, the Company only includes interest expense associated with specific mortgage indebtedness of the properties that are sold.

Included in discontinued operations for the six-months ended June 30, 2005 are the operating results, net of minority interest, of four apartment community dispositions (all sold in 2005) and four VIE dispositions (all sold in 2005).

Included in the $2,361 net gain on disposition of property reported for the six-months ended June 30, 2006 is the sale of two apartment communities in New Jersey, where the Company recorded a gain on sale of in the second quarter, net of minority interest, of approximately $3,112. This gain was partially offset by the loss on sale of 19 properties located in southeast Michigan in the second quarter, where the Company recorded a loss, net of minority interest, of $751.

During the six-months ended June 30, 2005, the Company reported a combined $77 loss, net of minority interest, relating to additional expenses incurred in the same period for sales which took place during 2004. These costs represent a change in estimate from those accrued at the time of sale.

Funds From Operations

Pursuant to the revised definition of Funds From Operations ("FFO") adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), FFO is defined as net income (computed in accordance with accounting principles generally accepted in the United States of America ("GAAP")) excluding gains or losses from sales of property, minority interest, extraordinary items and cumulative effect of change in accounting principle plus depreciation from real property including adjustments for unconsolidated partnerships and joint ventures less dividends from non-convertible preferred shares. Because of the limitations of the FFO definition as published by NAREIT as set forth above, the Company has made certain interpretations in applying the definition. The Company believes all adjustments not specifically provided for are consistent with the definition.

Management believes that in order to facilitate a clear understanding of the combined historical operating results of the Company, FFO should be considered in conjunction with net income as presented in the consolidated financial statements included elsewhere herein. Management believes that by excluding gains or losses related to dispositions of property and excluding real estate depreciation (which can vary among owners of similar assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies. FFO does not represent cash generated from operating activities in accordance with GAAP 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 Company's 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 Improvements" section above in MD&A. 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 and six months ended June 30, 2006 and 2005 are presented below (in thousands):

	Three Months		Six Months	
	2006	2005	2006	2005
Net income (loss) available to common shareholders	$ 11,003	$ 8,038	$ 15,141	$ 6,168
Real property depreciation and amortization	25,041	23,925	49,539	47,528
Minority interest	3,678	3,494	4,600	4,373
Minority interest – income (loss) from discontinued operations	218	543	1,503	(1,259)
Loss (gain) on disposition of discontinued operations	(2,361)	77	(2,361)	77
FFO – Basic as defined above	37,579	36,077	68,422	56,887
Loss from early extinguishment of debt in connection with sale of real estate	2,970	-	2,970	-
FFO – Basic as adjusted by the Company	40,549	36,077	71,392	56,887
Convertible preferred dividends (2)	-	330	-	-
FFO – Diluted	$ 37,579	$36,407	$ 68,422	$ 56,887
Weighted average common shares/units outstanding (1):				
- Basic	47,788.1	47,684.2	47,853.3	47,598.2
- Diluted (2)	48,450.0	48,623.5	48,473.9	48,018.9

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

(2) The convertible preferred stock had an anti-dilutive effect; therefore, the convertible preferred dividends are not included in FFO diluted for the six months ended June 30, 2005.

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 at least 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 following calculation is defined as total revenues from discontinued operations less operating and maintenance expenses.

Calculation Presented for Series F Preferred Covenant

	Three-months ended			
	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005
EBITDA				
Total revenues	$121,947	$119,416	$114,835	$125,775
Net operating income (loss) from discontinued operations	4,950	5,017	5,677	1,045
Operating and maintenance	(49,397)	(58,135)	(51,801)	(54,161)
General and administrative	(6,057)	(5,039)	(5,209)	(4,894)
	$ 71,443	$ 61,259	$ 63,502	$ 67,765
Fixed Charges				
Interest expense	$ 27,717	$ 27,195	$ 25,793	$ 27,059
Interest expense on discontinued operations	4,246	1,286	1,578	382
Preferred dividends	1,350	1,350	1,350	1,350
Capitalized interest	346	313	312	254
	$ 33,659	$ 30,144	$ 29,033	$ 29,045
Times Coverage ratio:	2.12	2.03	2.19	2.33

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. 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 or stock repurchases 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. Starting in 2001 and continuing into 2004 many regions of the United States had experienced varying degrees of economic recession and certain recessionary trends, such as a temporary reduction in occupancy and reduced pricing power limiting the ability to aggressively raise rents. Starting in the second half on 2004 and continuing into 2006, we have seen a reversal of these recessionary trends. 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 on financial performance.

Declaration of Dividend

On August 1, 2006, the Board of Directors approved a dividend of $.64 per share on its common stock for the quarter ended June 30, 2006. This is the equivalent of an annual distribution of $2.56 per share. The dividend is payable August 25, 2006 to shareholders of record on August 15, 2006.

On August 1, 2006, the Company also declared a regular dividend of $.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending August 31, 2006. The dividend on the preferred shares is payable on August 31, 2006 to shareholders of record on August 15, 2006. 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 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 at least 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.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). FIN 48 addresses the recognition and measurement of assets and liabilities associated with tax positions taken or expected to be taken in a tax return. The Company is reviewing its current tax positions for any potential uncertain tax positions that would qualify under FIN 48. Based on its preliminary review, the Company does not anticipate that the adoption of FIN 48 in January 2007 will have a material impact on the Company’s financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is interest rate risk. At June 30, 2006 and December 31, 2005, approximately 96% and 91%, respectively, of the Company's debt bore interest at fixed rates with a weighted average maturity of approximately 6.5 and 7 years, respectively, and a weighted average interest rate of approximately 5.81% and 5.95%, respectively, including the $28 million and $29 million, respectively, of debt 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 18 and 12 years, respectively, and a weighted average interest rate of 5.16% and 4.54%, respectively, at June 30, 2006 and December 31, 2005. 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 or stock repurchase 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 June 30, 2006 and December 31, 2005, the interest rate risk on $28 million and $29 million, respectively, of such variable rate debt has been mitigated through the use of interest rate swap agreements (the "Swaps") with major financial institutions. The Company is exposed to credit risk in the event of non-performance by the counter-parties to the Swaps. The Company believes it mitigates its credit risk by entering into these Swaps with major financial institutions. The Swaps effectively convert the variable rate mortgages to fixed rates of 5.35%, 5.39%, 8.22% and 8.40%.

At June 30, 2006 and December 31, 2005, the fair value of the Company's fixed and variable rate debt, including the $28 million and $29 million, respectively, which was swapped to a fixed rate, amounted to a liability of $1.80 billion and $1.89 billion, respectively, compared to its carrying amount of $1.82 billion and $1.84 billion, respectively. The Company estimates that a 100 basis point increase in market interest rates at June 30, 2006 would have changed the fair value of the Company's fixed and variable rate debt to a liability of $1.72 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 and/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 June 30, 2006, 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 June 30, 2006, 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 second quarter of the year ended December 31, 2006 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

ITEM 1A. RISK FACTORS

Refer to the Risk Factors disclosure in the Company's Form 10-K for the year ended December 31, 2005. There have been no material changes in these risk factors during the six-months ended June 30, 2006 and through the date of this report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES; USE OF PROCEEDS FROM REGISTERED SECURITIES

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units. The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action does not establish a specific target stock price or a specific timetable for share repurchase. In addition, participants in the Company's Stock Benefit Plan can use common stock of the Company that they already own to pay all or a portion of the exercise price payable to the Company upon the exercise of an option. In such event, the common stock used to pay the exercise price is returned to authorized but unissued status, and for purposes of this table is deemed to have been repurchased by the Company. At December 31, 2005, the Company had authorization to repurchase 3,220,195 shares of common stock and UPREIT Units under the stock repurchase program. During 2006, the Company repurchased 1,680,521 shares at a cost of $84,532,601. The following table summarizes the total number of shares (units) repurchased by the Company during the three months ended June 30, 2006.

Period	Total shares (units) purchased[1]	Average price per share (unit)	Total shares (units) Purchased as part of publicly-announced Plan	Maximum shares (units) that may yet be purchased under the Plan
Balance March 31, 2006				3,112,395
April 1, 2006 to April 30, 2006	1,189	$ 49.54	-	3,112,395
May 1, 2006 to May 31, 2006	309,035	$ 47.71	308,000	2,804,395
June 1, 2006 to June 30, 2006	1,274,839	$ 51.67	1,264,721	1,539,674
	1,585,063	$ 50.90	1,572,721	1,539,674

(1) During the three months ended June 30, 2006, the Company repurchased 12,342 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"), which are included in this table.

Item 4.   Submission of Matter to a Vote of Security Holders

The annual meeting of the Company's stockholders was held on May 4, 2006. The following is a brief description of each matter voted upon at the meeting and the number of votes cast for, withheld or against, abstentions and the number of broker non-votes, as applicable, with respect to each matter.

The twelve directors proposed by the Company for re-election were elected to one year terms by the following vote:

DIRECTOR NAME	SHARES FOR	SHARES WITHHELD
William Balderston, III	27,286,772	842,322
Josh E. Fidler	27,188,509	940,585
Alan L. Gosule	27,541,618	587,476
Leonard F. Helbig, III	27,325,803	803,291
Roger W. Kober	27,291,601	837,493
Norman P. Leenhouts	27,298,606	830,488
Nelson B. Leenhouts	27,299,503	829,591
Edward J. Pettinella	27,318,532	810,562
Clifford W. Smith, Jr.	27,325,797	803,297
Paul L. Smith	27,294,857	834,237
Thomas S. Summer	27,571,205	557,889
Amy L. Tait	27,301,984	827,110

The stockholders ratified the appointment of PricewaterhouseCoopers, LLP as the Company's independent registered public accounting firm for 2006.

Shares Voted For:	27,793,126
Shares Voted Against:	307,845
Shares Abstaining:	28,122

ITEM 6. EXHIBITS

Exhibit 10.84	Amendment Nos. Eighty-One and Eighty-Two to the Second Amended and Restated Limited Partnership Agreement
Exhibit 31.1	Section 302 Certification of Chief Executive Officer
Exhibit 31.2	Section 302 Certification of Chief Financial Officer
Exhibit 32.1	Section 906 Certification of Chief Executive Officer
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: August 8, 2006

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

Date: August 8, 2006

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

EXHIBIT 10.84

Home Properties, L.P.
Amendment No. Eighty-One to
Second Amended and Restated
Agreement of Limited Partnership

The Second Amended and Restated Agreement of Limited Partnership of Home Properties, L.P. (the "Partnership Agreement") is hereby amended effective May 16, 2006 to substitute the "Schedule A" attached hereto for the "Schedule A" currently attached to the Partnership Agreement. "Schedule A" is hereby amended to reflect various changes.

GENERAL PARTNER
Home Properties, Inc.

/s/ Ann M. McCormick
Ann M. McCormick
Secretary

LIMITED PARTNERS LISTED ON ATTACHED SCHEDULE A
By: Home Properties, Inc.
as attorney-in-fact

/s/ Ann M. McCormick
Ann M. McCormick
Secretary

Home Properties, L.P.
Amendment No. Eighty-Two to
Second Amended and Restated
Agreement of Limited Partnership

The Second Amended and Restated Agreement of Limited Partnership of Home Properties, L.P. (the "Partnership Agreement") is hereby amended effective June 30, 2006 to substitute the "Schedule A" attached hereto for the "Schedule A" currently attached to the Partnership Agreement. "Schedule A" is hereby amended to reflect various changes.

GENERAL PARTNER
Home Properties, Inc.

/s/ Ann M. McCormick
Ann M. McCormick
Secretary

LIMITED PARTNERS LISTED ON ATTACHED SCHEDULE A
By: Home Properties, Inc.
as attorney-in-fact

/s/ Ann M. McCormick
Ann M. McCormick
Secretary

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. for the period ended June 30, 2006;

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
August 8, 2006

<u>Exhibit 31.2</u>

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. for the period ended June 30, 2006;

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
August 8, 2006

Exhibit 32.1

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

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

In connection with the Quarterly Report of Home Properties, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2006, as filed with the Securities and Exchange Commission on August 8, 2006 (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
August 8, 2006

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

Exhibit 32.2

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

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

In connection with the Quarterly Report of Home Properties, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2006, as filed with the Securities and Exchange Commission on August 8, 2006 (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
August 8, 2006

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.