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 SEPTEMBER 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.)

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

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(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 October 31, 2006
$.01 par value	32,943,009

HOME PROPERTIES, INC.

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HOME PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2006 AND DECEMBER 31, 2005
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2006	2005
	(Unaudited)	(Note 1)
ASSETS		
Real estate:		
Land	$ 422,437	$ 401,747
Construction in progress	2,455	4,471
Buildings, improvements and equipment	2,743,397	2,700,554
Real estate held for sale, net	144,559	223,938
	3,312,848	3,330,710
Less: accumulated depreciation	(425,090)	(446,159)
Real estate, net	2,887,758	2,884,551
Cash and cash equivalents	7,700	5,391
Cash in escrows	30,867	36,674
Accounts receivable	7,805	7,372
Prepaid expenses	16,832	16,141
Deferred charges	10,767	11,156
Other assets	13,137	12,536
Other assets held for sale	5,791	4,049
Total assets	$ 2,980,657	$ 2,977,870
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage notes payable	$ 1,798,611	$ 1,768,483
Line of credit	59,500	82,000
Accounts payable	16,444	19,458
Accrued interest payable	8,846	8,274
Accrued expenses and other liabilities	23,507	22,565
Security deposits	21,655	21,657
Liabilities held for sale	79,633	75,352
Total liabilities	2,008,196	1,997,789
Commitments and contingencies		
Minority interest	262,415	323,269
Stockholders' equity:		
Cumulative redeemable preferred stock, $.01 par value; 2,400,000 shares issued and outstanding at September 30, 2006 and December 31, 2005.	60,000	60,000
Common stock, $.01 par value; 80,000,000 shares authorized; 33,523,040 and 31,184,256 shares issued and outstanding at September 30, 2006 and December 31, 2005.	335	312
Excess stock, $.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	864,561	773,396
Accumulated other comprehensive income	215	206
Distributions in excess of accumulated earnings	(215,065)	(177,102)
Total stockholders' equity	710,046	656,812
Total liabilities and stockholders' equity	$ 2,980,657	$ 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 SEPTEMBER 30, 2006 AND 2005
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2006	2005
Revenues:		
Rental income	$ 105,740	$ 96,316
Property other income	7,270	5,636
Interest income	553	92
Other income	1,692	476
Total revenues	115,255	102,520
Expenses:		
Operating and maintenance	45,650	42,105
General and administrative	5,607	4,894
Interest	26,637	23,971
Depreciation and amortization	24,236	20,333
Total expenses	102,130	91,303
Income from operations	13,125	11,217
Minority interest in operating partnerships	(3,381)	(3,219)
Income from continuing operations	9,744	7,998
Discontinued operations:		
Income from operations, net of $873 and $1,130 in 2006 and 2005 allocated to minority interest, respectively	2,167	2,338
Gain (loss) on disposition of property, net of ($80) and $3,080 in 2006 and 2005 allocated to minority interest, respectively	(200)	6,367
Discontinued operations	1,967	8,705
Net income	11,711	16,703
Preferred dividends	(1,350)	(1,350)
Net income available to common shareholders	$ 10,361	$ 15,353
Basic earnings per share data:		
Income from continuing operations	$ 0.25	$ 0.20
Discontinued operations	0.06	0.27
Net income available to common shareholders	$ 0.31	$ 0.47
Diluted earnings per share data:		
Income from continuing operations	$ 0.24	$ 0.20
Discontinued operations	0.06	0.27
Net income available to common shareholders	$ 0.30	$ 0.47
Weighted average number of shares outstanding:		
Basic	33,336,346	32,518,949
Diluted	34,103,614	32,950,121
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 NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2006	2005
Revenues:		
Rental income	$ 311,721	$ 281,149
Property other income	20,047	13,618
Interest income	763	233
Other income	2,713	1,503
Total revenues	335,244	296,503
Expenses:		
Operating and maintenance	141,064	129,297
General and administrative	16,703	14,443
Interest	78,973	67,742
Depreciation and amortization	70,166	58,619
Impairment of assets held as general partner	-	400
Total expenses	306,906	270,501
Income from operations	28,338	26,002
Minority interest in operating partnerships	(7,344)	(6,939)
Income from continuing operations	20,994	19,063
Discontinued operations:		
Income from operations, net of $3,013 and $524 in 2006 and 2005 allocated to minority interest, respectively	6,397	1,097
Gain on disposition of property, net of $984 and $3,041 in 2006 and 2005 allocated to minority interest, respectively	2,161	6,290
Discontinued operations	8,558	7,387
Net income	29,552	26,450
Preferred dividends	(4,050)	(4,929)
Net income available to common shareholders	$ 25,502	$ 21,521
Basic earnings per share data:		
Income from continuing operations	$ 0.52	$ 0.44
Discontinued operations	0.26	0.23
Net income available to common shareholders	$ 0.78	$ 0.67
Diluted earnings per share data:		
Income from continuing operations	$ 0.51	$ 0.43
Discontinued operations	0.26	0.23
Net income available to common shareholders	$ 0.77	$ 0.66
Weighted average number of shares outstanding:		
Basic	32,526,831	32,072,307
Diluted	33,145,665	32,481,218
Dividends declared per share	$ 1.92	$ 1.89

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

HOME PROPERTIES, INC.

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

	2006	2005
Net income	$ 11,711	$ 16,703
Other comprehensive income (loss):		
Change in fair value of hedged instruments	(104)	216
Net comprehensive income	$ 11,607	$ 16,919

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

HOME PROPERTIES, INC.

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

	2006	2005
Net income	$ 29,552	$ 26,450
Other comprehensive income:		
Change in fair value of hedged instruments	9	488
Net comprehensive income	$ 29,561	$ 26,938

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

HOME PROPERTIES, INC.

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

	2006	2005
Cash flows from operating activities:		
Net income	$ 29,552	$ 26,450
Adjustments to reconcile net income to net cash provided by operating activities:		
Income allocated to minority interest	11,341	10,504
Depreciation and amortization	76,817	75,781
Impairment of assets held as general partner	-	400
Impairment of real property	-	7,325
Gain on disposition of property and business	(3,145)	(10,302)
Issuance of restricted stock, compensation cost of stock options and deferred compensation	3,336	1,982
Changes in assets and liabilities:		
Cash held in escrows	2,372	2,601
Other assets	(1,873)	(3,003)
Accounts payable and accrued liabilities	(2,008)	(8,518)
Total adjustments	86,840	76,770
Net cash provided by operating activities	116,392	103,220
Cash flows from investing activities:		
Purchase of properties and other assets, net of mortgage notes assumed and UPREIT Units issued	(66,828)	(99,139)
Additions to properties	(76,515)	(72,980)
Proceeds from sale of properties and business, net	234,865	5,574
Withdrawals from (additions to) funds held in escrow, net	634	(19)
Net cash provided by (used in) investing activities	92,156	(166,564)
Cash flows from financing activities:		
Proceeds from sale of common stock, net	22,575	6,117
Repurchase of common stock	(86,964)	(61,330)
Proceeds from mortgage notes payable	147,219	237,952
Payments of mortgage notes payable	(170,336)	(61,209)
Proceeds from line of credit	321,300	258,200
Payments on line of credit	(343,800)	(222,200)
Payments of deferred loan costs	(1,565)	(2,530)
Withdrawals from cash escrows, net	169	52
Dividends and distributions paid	(94,837)	(94,369)
Net cash provided by (used in) financing activities	(206,239)	60,683
Net increase (decrease) in cash and cash equivalents	2,309	(2,661)
Cash and cash equivalents:		
Beginning of year	5,391	7,925
End of period	$ 7,700	$ 5,264
Supplemental disclosure of non-cash operating, investing and financing activities:		
Cash paid for interest	$ 87,057	$ 77,450
Mortgage loans assumed associated with property acquisitions	58,536	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	107,039	2,856
Exchange of UPREIT Units for common shares	63,116	3,442
Fair value of hedge instruments	211	(67)
Net real estate disposed in connection with FIN 46R consolidation	-	(50,467)
Other assets disposed in connection with FIN 46R consolidation	-	(6,940)
Mortgage debt disposed in connection with FIN 46R consolidation	-	(59,339)
Other liabilities disposed in connection with FIN 46R consolidation	-	(1,187)

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 statement 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 in the ownership, management, acquisition, and rehabilitation of residential apartment communities primarily in selected Northeast, Mid-Atlantic, 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 September 30, 2006, the Company operated 142 apartment communities with 42,878 apartments. Of this total, the Company owned 137 communities, consisting of 39,309 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 Real Estate Investment Trust (“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 71.6% (65.2% at December 31, 2005 and 67.4% at September 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 28.4% (34.8% at December 31, 2005 and 32.6% at September 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.

2. Organization and Basis of Presentation (continued)

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, an interpretation of ARB No. 51 – Consolidated Financial Statements* ("FIN 46R"). 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 FASB issued 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 reviewed its current tax positions for any potential uncertain tax positions that would qualify under FIN 48. Based on its review, the Company does not anticipate that the adoption of FIN 48 in January 2007 will have a material impact on the Company's cash flows, results of operations, financial position or liquidity.

In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as the "dual approach" because it requires quantification of errors under both the iron curtain and the roll-over methods. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. The Company will initially apply the provisions of SAB 108 in connection with the preparation of our annual financial statements for the year ending December 31, 2006. The Company does not expect that the provisions of SAB 108 will have any impact on its financial statements.

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

3. Stock Benefit Plan (continued)

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 September 30, 2006, 2,261,126 awards for shares have been issued to employees and 204,475 awards for shares have been issued to non-employee directors and 653,534 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 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.

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

3. Stock Benefit Plan (continued)

A summary of stock options activity for the nine months ended September 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	551,430	51.07		
Exercised	(629,635)	34.19		
Cancelled	(132,756)	39.67		
Options outstanding at September 30, 2006	2,451,620	$ 39.85	7.5	$ 42,426
Options exercisable at September 30, 2006	987,676	$ 34.28	6.0	$ 22,602
Options unvested at September 30, 2006	1,463,944	$ 43.62	8.5	$ 19,824

The total cash received from the exercise of options was $21,525 and $5,995 during the nine months ended September 30, 2006 and 2005. The total intrinsic value of options exercised was $11,601 and $2,086 during the nine months ended September 30, 2006 and 2005. As of September 30, 2006, there was $3,941 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 2.26 years.

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 nine months ended September 30, 2006 and 2005 as follows:

	Three Months		Nine Months	
Assumption	2006	2005	2006	2005
Expected dividend yields	5.29%	6.55%	5.29%	6.55%
Expected volatility	18.73%	18.76%	18.73%	18.76%
Expected lives of the options with a lifetime of ten years	6.5 Years	7.5 Years	6.5 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. The expected lives of the options with a lifetime of ten years was determined by applying the "simplified method" approach for plain vanilla option grants made prior to January 1, 2008 as prescribed by Staff Accounting Bulletin No. 107, *Share-Based Payment* ("SAB 107"). The risk-free interest rates are based on the U.S. Treasury yield curve in effect at the time of grant.

3. Stock Benefit Plan (continued)

The Company recognized stock compensation costs related to its outstanding stock options of $399 and $191 for the three months ended September 30, 2006 and 2005 and $1,288 and $646 for the nine months ended September 30, 2006 and 2005.

During the nine months ended September 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 nine months ended September 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 nine months ended September 30, 2006 and 2005 for the restricted shares was $1,958 and $1,257, respectively. The restricted stock outstanding at September 30, 2006 and 2005 was 295,079 and 306,496, 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 nine months ended September 30, 2006 and 2005 follows:

	Three Months		Nine Months	
	2006	2005	2006	2005
Income from continuing operations	$ 9,744	$ 7,998	$ 20,994	$ 19,063
Less: Preferred dividends	(1,350)	(1,350)	(4,050)	(4,929)
Basic and Diluted – Income from continuing operations applicable to common shareholders	8,394	6,648	16,944	14,134
Discontinued operations	1,967	8,705	8,558	7,387
Net income available to common shareholders	$ 10,361	$ 15,353	$ 25,502	$ 21,521
Basic weighted average number of shares outstanding	33,336,346	32,518,949	32,526,831	32,072,307
Effect of dilutive stock options	717,061	381,652	563,861	351,765
Effect of phantom and restricted shares	50,207	49,520	54,973	57,146
Diluted weighted average number of shares outstanding	34,103,614	32,950,121	33,145,665	32,481,218
Basic earnings per share data:				
Income from continuing operations	$ 0.25	$ 0.20	$ 0.52	$ 0.44
Discontinued operations	0.06	0.27	0.26	0.23
Net income available to common shareholders	$ 0.31	$ 0.47	$ 0.78	$ 0.67
Diluted earnings per share data:				
Income from continuing operations	$ 0.24	$ 0.20	$ 0.51	$ 0.43
Discontinued operations	0.06	0.27	0.26	0.23
Net income available to common shareholders	$ 0.30	$ 0.47	$ 0.77	$ 0.66

For the three and nine months ended September 30, 2006 and the nine months ended September 30, 2005, unexercised stock options to purchase 900 and 542,800 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 months ended September 30, 2005, no unexercised stock options to purchase shares of the Company's common stock were excluded in the computations of diluted EPS as the options' exercise prices were less than the average market price of the Company's stock during each period.

For the nine months ended September 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 nine months ended September 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* ("FIN 46R"). 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 12). 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 September 30, 2006 is an increase in "Total assets" of $20,391, an increase in "Total liabilities" of $17,662, and an increase in "Minority interest" of $2,729. Of the $17,662 increase in "Total liabilities," $16,821 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 nine months ended September 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 nine months ended September 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 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 September 30, 2006, the Company had an unsecured line of credit agreement with M&T Bank for $140 million which expires September 1, 2008. The Company's outstanding balance as of September 30, 2006, was $59.5 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.

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

8. Segment Reporting

The Company is engaged in the ownership and management of market rate apartment communities. Each apartment community is considered a separate operating segment. Each segment on a stand alone basis is less than 10% of the revenues, net operating income, and assets of the combined reported operating segments and meets all of the aggregation criteria under Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 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. Core properties do not include assets held for sale as of September 30, 2006 and 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 for the three and nine months ended September 30, 2006 and 2005 as follows:

	Three Months		Nine Months	
	2006	2005	2006	2005
Revenues				
Apartments owned				
Core properties	$ 101,873	$ 97,919	$ 302,074	$ 286,497
Non-core properties	11,137	4,033	29,694	8,270
Reconciling items	2,245	568	3,476	1,736
Total revenues	$ 115,255	$ 102,520	$ 335,244	$ 296,503
Net operating income				
Apartments owned				
Core properties	$ 60,518	$ 58,203	$ 174,190	$ 162,596
Non-core properties	6,842	1,644	16,514	2,874
Reconciling items	2,245	568	3,476	1,736
Net operating income	69,605	60,415	194,180	167,206
General & administrative expenses	(5,607)	(4,894)	(16,703)	(14,443)
Interest expense	(26,637)	(23,971)	(78,973)	(67,742)
Depreciation and amortization	(24,236)	(20,333)	(70,166)	(58,619)
Impairment of assets held as general partner	-	-	-	(400)
Minority interest in operating partnership	(3,381)	(3,219)	(7,344)	(6,939)
Income from continuing operations	$ 9,744	$ 7,998	$ 20,994	$ 19,063
Assets - As of September 30, 2006 and December 31, 2005				
Apartments owned				
Core properties	$ 2,272,273	$ 2,082,413		
Held for sale properties	144,559	223,938		
Non-core properties	470,926	578,200		
Reconciling items	92,899	93,319		
Total assets	$ 2,980,657	$ 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 September 30, 2006, the aggregate fair value of the Company's interest rate swaps was $211 prior to the allocation of minority interest and is included in the consolidated balance sheets. For the three and nine months ending September 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 September 7, 2006, the Company purchased two apartment communities from a single seller consisting of 348 and 264 units, respectively, for a total purchase price of $83.1 million ($48.9 million and $34.2 million, respectively). The transaction consisted of the assumption of two mortgages: a $22.0 million fixed rate mortgage at an interest rate of 7.63% maturing on October 1, 2010 (fair market value of $23.7 million), and; a $20.4 million fixed rate mortgage at an interest rate of 7.05% maturing on August 1, 2011 (fair market value of $21.7 million). The balance was funded through the Company's line of credit.

11. Disposition of Property and Discontinued Operations

The Company reports its property dispositions as discontinued operations as prescribed by the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144").* Pursuant to the definition of a component of an entity in SFAS 144, assuming no significant continuing involvement by the former owner after the sale, the sale of an apartment community is considered a discontinued operation. In addition, apartment communities classified as held for sale are also considered a discontinued operation. The Company generally considers assets to be held for sale when all significant contingencies surrounding the closing have been resolved, which often corresponds with the actual closing date. The Company has classified the entire Upstate portfolio as held for sale at September 30, 2006. The Upstate 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 has announced the signing of a definitive contract to sell the portfolio and has met all of the requirements under SFAS 144. Properties classified in this manner through September 30, 2006, as discussed below, were reclassified as such in the accompanying consolidated statements of operations for each of the periods presented.

Included in discontinued operations for the three and nine months ended September 30, 2006 and 2005 are the operating results, net of minority interest, of twenty-one apartment communities sold during the nine months ended September 30, 2006 and the eighteen apartment communities held for sale as of September 30, 2006 . In addition to the aforementioned, included in discontinued operations for the three and nine months ended September 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 or held for sale.

(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 nine months ended September 30, 2006 and 2005 as follows:

	Three Months		Nine Months	
	2006	2005	2006	2005
Revenues:				
Rental Income	$ 9,780	$ 23,247	$ 49,163	$ 70,618
Property other income	1,304	2,014	4,967	5,355
Total revenues	11,084	25,261	54,130	75,973
Operating and maintenance	5,959	13,017	29,782	41,153
Interest expense	1,279	3,470	9,387	10,115
Depreciation and amortization	806	5,306	5,551	15,736
Impairment of real property	-	-	-	7,325
Total expenses	8,044	21,793	44,720	74,329
Income from discontinued operations before minority interest and gain (loss) on disposition of property	3,040	3,468	9,410	1,644
Minority interest in limited partnerships	-	-	-	(23)
Minority interest in operating partnerships	(873)	(1,130)	(3,013)	(524)
Income from discontinued operations	$ 2,167	$ 2,338	$ 6,397	$ 1,097

The major classes of assets and liabilities held for sale as of September 30, 2006 and December 31, 2005 are as follows:

	2006	2005
Real estate:		
Land	$ 8,809	$ 28,372
Buildings, improvements and equipment	231,079	249,999
	239,888	278,371
Less: accumulated depreciation	(95,329)	(54,433)
Real estate held for sale, net	144,559	223,938
Other assets:		
Cash in escrows	3,067	434
Accounts receivable	352	664
Prepaid expenses	2,372	2,951
Other assets held for sale	5,791	4,049
Liabilities:		
Mortgage notes payable	78,498	73,603
Accrued expenses and other liabilities	464	431
Security deposits	671	1,318
Liabilities held for sale	79,633	75,352
Net assets held for sale	$ 70,717	$ 152,635

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 (47% by number of apartment communities of the owned portfolio) for a period of 7 to 15 years except through a tax deferred like-kind exchange. The remaining terms on the sale restrictions range from 1 to 9 years.

Guarantees

As of September 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 September 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 was owned by Nelson and Norman Leenhouts and is now owned by Nelson 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. Subsequently, some of those assets were transferred from Home Leasing to Broadstone Real Estate LLC (“Broadstone”), which is owned by Norman Leenhouts. In addition to the initial amount, the Company is entitled to receive a percentage of the management fee received by Broadstone 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 Broadstone 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 $34 was recognized during the nine months ended September 30, 2006. The cumulative gain recognized on the sale of these assets through September 30, 2006 amounted to $98. If the management of this property is retained for the entire three years the Company expects to receive an additional $6 for the period October 1, 2006 through January 1, 2007. The gain on sale would then be approximately $104.

14. Subsequent Events

October 4, 2006, the Company acquired two communities located in Bel Air and Cockeysville, Maryland, with a total of 320 units from a single seller for a total of $32.4 million. The transaction consisted of the assumption of two mortgages: a $5.0 million fixed rate mortgage at an interest rate of 5.69% maturing on September 1, 2013 (fair market value of $5.2 million), and; a $6.4 million fixed rate mortgage at an interest rate of 5.30% maturing on April 1, 2013, and $20.4 million of UPREIT Units. The balance was funded through the Company’s line of credit.

On October 24, 2006, the Company issued $200 million (including a $25 million over-allotment purchase option exercised after the original $175 million issuance) of exchangeable senior notes with a coupon of 4.125%. The notes are convertible into cash equal to the principal amount of the notes and, at the Company’s option, cash or common stock at the rate of 13.6357 shares per $1,000 principal amount (equivalent to an initial exchange price of $73.34 per share) subject to adjustment. The notes are not redeemable at the option of the Company for five years, except to preserve the status of the Company as a REIT. Holders of the notes may require the Company to repurchase the notes upon the occurrence of certain designated events. In addition, prior to November 1, 2011, the holders may require the Company to repurchase the notes on November 1, 2011, 2016 and 2021.

On October 24, 2006, simultaneously with the closing of the exchangeable senior notes, the Company repurchased 933,000 shares of common stock at a price of $62.15 per share and paid off the amount outstanding on the line of credit.

14. Subsequent Events (continued)

On October 27, 2006, the Board of Directors approved a dividend of $0.65 per share on its common stock for the quarter ended September 30, 2006. This is the equivalent of an annual distribution of $2.60 per share. The dividend is payable November 28, 2006 to shareholders of record on November 17, 2006.

On October 27, 2006, the Company also declared a regular dividend of $0.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending November 30, 2006. The dividend on the preferred shares is payable on November 30, 2006 to shareholders of record on November 17, 2006. This dividend is equivalent to an annualized rate of $2.25 per share.

On October 27, 2006, the Board of Directors increased authorization under the stock repurchase program by 2,000,000 shares, after which, the total remaining authorization was 2,606,448 shares.

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, its unsecured line of credit, and sale of exchangeable senior notes. 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 $116,392 for the nine months ended September 30, 2006 compared to $103,220 for the same period in 2005. The change is primarily due to higher income from both continuing and discontinued operations driven by higher average rents and higher occupancies during the 2006 period, plus a reduction in prepaid property taxes resulting from the 2006 Disposition Communities. Cash provided by (used in) investing activities was $92,156 for the nine months ended September 30, 2006 compared to ($166,564) for the same period in 2005. The change is primarily due to the proceeds resulting from the 2006 Disposition Communities. Cash provided by (used in) financing activities was ($206,239) for the nine months ended September 30, 2006 compared to $60,683 for the same period in 2005. The change is primarily due to the payment of $73 million of mortgages related to the 2006 Disposition Communities, $58 million net pay down of the line of credit, $44 million less proceeds from mortgage debt in connection with new acquisitions, and $26 million additional cash used in the stock buy back program in the 2006 period; partially offset by $16 million increased proceeds from stock options exercised in the 2006 period. The 2006 period also included $86 million less cash provided from mortgage refinancing than the 2005 period.

As of September 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 September 30, 2006, was $59.5 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. The Company repaid all of the amounts outstanding on the line of credit on October 24, 2006 with the proceeds of its 4.125% exchangeable senior notes due 2026, described below.

To the extent that the Company does not satisfy its long-term liquidity requirements through net cash flows provided by operating activities and its unsecured 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 debt and equity securities. As of September 30, 2006, the Company owned 22 properties with 4,532 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 specified 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. These assets are classified as held for sale at September 30, 2006. The Company has the portfolio under contract for sale and expects the closing to occur no later than December 31, 2006.

On October 24, 2006, the Company issued $200 million (including a $25 million over-allotment purchase option exercised after the original $175 million issuance) of exchangeable senior notes with a coupon of 4.125%. The notes are convertible into cash equal to the principal amount of the notes and, at the Company's option, cash or common stock at the rate of 13.6357 shares per $1,000 principal amount (equivalent to an initial exchange price of $73.34 per share) subject to adjustment. The notes are not redeemable at the option of the Company for five years, except to preserve the status of the Company as a REIT. Holders of the notes may require the Company to repurchase the notes upon the occurrence of certain designated events. In addition, prior to November 1, 2011, the holders may require the Company to repurchase the notes on November 1, 2011, 2016 and 2021.

In May 1998, the Company's Form S-3 Registration Statement was declared effective relating to the issuance of up to $400 million of common stock, preferred stock or other securities. The available balance on the shelf registration statement at September 30, 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 could 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 $55.6 million of UPREIT Units as consideration for three acquired properties. During October 2006, the Company issued $20.4 million of UPREIT Units as consideration for two acquired properties.

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. During the first nine 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 nine months ended September 30, 2006, 1,680,521 shares were repurchased by the Company. At September 30, 2006, the Company had authorization to repurchase an additional 1,539,674 shares. On October 24, 2006, the Company repurchased 933,000 shares of its common stock at

$62.15 per share pursuant to a special authorization by the Board of Directors in connection with the issuance f its 4.125% exchangeable senior notes due 2026. On October 27, 2006 the Board of Directors of the Company authorized repurchase of up to 2,000,000 additional 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 September 30, 2006, the weighted average rate of interest on mortgage debt was 5.8% and the weighted average maturity is approximately seven years. Approximately 95% 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* ("FIN 46R"). 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 September 30, 2006 is an increase in "Total assets" of $20,391, an increase in "Total liabilities" of $17,662, and an increase in "Minority interest" of $2,729. Of the $17,662 increase in "Total liabilities," $16,821 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 nine months ended September 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 nine months ending September 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 the VIE, 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 September 7, 2006, the Company purchased two apartment communities from a single seller consisting of 348 and 264 units, respectively, for a total purchase price of $83.1 million ($48.9 million and $34.2 million, respectively). The transaction consisted of the assumption of two mortgages: a $22.0 million fixed rate mortgage at an interest rate of 7.63% maturing on October 1, 2010 (fair market value of $23.7 million), and; a $20.4 million fixed rate mortgage at an interest rate of 7.05% maturing on August 1, 2011 (fair market value of $21.7 million). The balance was funded through the Company's line of credit.

There were no dispositions during the third quarter of 2006; however, the Company has classified as held for sale the entire Upstate portfolio. The Upstate 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 has announced the signing of a definitive contract to sell the portfolio and expects closing to occur in the fourth quarter of 2006.

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 $59.5 million outstanding at September 30, 2006. The $1.9 billion in mortgage notes payable have varying maturities ranging from 1 to 35 years. The weighted average interest rate of the Company's fixed rate notes was 5.80% and 5.95% at September 30, 2006 and December 31, 2005, respectively. The weighted average interest rate of the Company's variable rate notes and credit facility was 5.77% and 4.82% at September 30, 2006 and December 31, 2005, respectively.

On October 24, 2006, the Company issued $200 million (including a $25 million over-allotment purchase option exercised after the original $175 million issuance) of exchangeable senior notes with a coupon of 4.125%. The notes are convertible into cash equal to the principal amount of the notes and, at the Company's option, cash or common stock at the rate of 13.6357 shares per $1,000 principal amount (equivalent to an initial exchange price of $73.34 per share) subject to adjustment. The notes are not redeemable at the option of the Company for five years, except to preserve the status of the Company as a REIT. Holders of the notes may require the Company to repurchase the notes upon the occurrence of certain designated events. In addition, prior to November 1, 2011, the holders may require the Company to repurchase the notes on November 1, 2011, 2016 and 2021.

The Company has a non-cancelable operating ground lease for one of its properties that is held for sale. The lease expires May 1, 2020, with options to extend the term of the lease for two successive terms of twenty-five years each. The lease provides for contingent rental payments based on certain variable factors. At September 30, 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 non-affiliated 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 24th month to the 36th month), the owner may require the Company to buy the property. From the 36th month to the end of the lease term, the Company has the right to require the owner to sell the property to the Company. It is the Company's expectation that closing on the acquisition of the property will occur no later than 36 months after the commencement of the lease. The estimated future acquisition 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 nine months ended September 30, 2006 and 2005, approximately $131 per unit and $393 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 nine months ended September 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 nine months ended September 30, 2006 as follows:

For the three months ended September 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	$ -	$ -	$ 322	$ 8	$ 322	$ 8	$ 1,374	$ 37
Major building improvements	881	23	2,585	67	3,466	90	5,926	161
Roof replacements	320	8	973	25	1,293	33	2,192	60
Site improvements	320	8	1,941	50	2,261	58	2,488	68
Apartment upgrades	639	16	4,062	105	4,701	121	5,374	146
Appliances	542	14	540	14	1,082	28	1,173	32
Carpeting/Flooring	1,656	43	1,454	38	3,110	81	2,925	80
HVAC/Mechanicals	494	13	3,350	86	3,844	99	3,606	98
Miscellaneous	232	6	551	14	783	20	753	20
Totals	$5,084	$ 131	$15,778	$407	$ 20,862	$538	$ 25,811	$702

[(a)] Calculated using the weighted average number of units outstanding, including 31,253 core units, 4,567 held for sale units, 2005 acquisition units of 2,430 and 2006 acquisition units of 479 for the three months ended September 30, 2006 and 31,253 core units, 4,567 held for sale units, and 2005 acquisition units of 948 for the three months ended September 30, 2005.

For the nine months ended September 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	$ -	$ -	$ 1,858	$ 48	$ 1,858	$ 48	$ 3,678	$ 101
Major building improvements	2,624	68	10,145	264	12,769	332	12,324	338
Roof replacements	951	25	1,869	49	2,820	74	4,114	113
Site improvements	951	25	4,980	130	5,931	155	5,081	140
Apartment upgrades	1,903	49	10,453	272	12,356	321	14,267	392
Appliances	1,614	42	1,437	37	3,051	79	2,960	81
Carpeting/Flooring	4,930	128	2,770	72	7,700	200	7,172	197
HVAC/Mechanicals	1,470	38	7,730	201	9,200	239	8,061	221
Miscellaneous	692	18	1,858	48	2,550	66	2,538	70
Totals	$ 15,135	$ 393	$ 43,100	$1,121	$ 58,235	$ 1,514	$ 60,195	$1,653

[(a)] Calculated using the weighted average number of units outstanding, including 31,253 core units, 4,567 held for sale units, 2005 acquisition units of 2,430 and 2006 acquisition units of 190 for the nine months ended September

30, 2006 and 31,253 core units, 4,567 held for sale units, 2005 acquisition units of 597 for the nine months ended September 30, 2005.

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

For the three months ended September 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	$ 4,105	$ 131	$ 13,578	$ 434	$ 17,683	$ 565	$ 22,498	$ 720
Held For Sale	598	131	538	118	1,136	249	2,493	546
Total Same Store	4,703	131	14,116	394	18,819	525	24,991	698
2006 Acquisition Communities	60	131	-	-	60	121	-	-
2005 Acquisition Communities	321	131	1,662	684	1,983	815	820	865
Sub-total	5,084	131	15,778	407	20,862	538	25,811	702
2006 Disposed Communities	-	-	-	-	-	-	1,475	287
2005 Disposed Communities	-	-	-	-	-	-	1,050	1,467
Corporate office expenditures[1]	-	-	-	-	970	-	293	-
Totals	$ 5,084	$ 131	$ 15,778	$ 407	$ 21,832	$ 538	$ 28,629	$ 665

For the nine months ended September 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	$ 12,310	$ 393	$ 36,536	$1,169	$ 48,846	$1,562	$ 53,262	$1,704
Held For Sale	1,795	393	1,584	347	3,379	740	5,778	1,265
Total Same Store	14,105	393	38,120	1,064	52,225	1,457	59,040	1,648
2006 Acquisition Communities	75	393	70	368	145	761	-	-
2005 Acquisition Communities	955	393	4,910	2,021	5,865	2,414	1,155	1,935
Sub-total	15,135	393	43,100	1,121	58,235	1,514	60,195	1,653
2006 Disposed Communities	1,320	393	1,881	560	3,201	953	3,886	756
2005 Disposed Communities	-	-	-	-	-	-	3,152	4,030
Corporate office expenditures[1]	-	-	-	-	2,934	-	720	-
Totals	$ 16,455	$ 393	$ 44,981	$1,076	$ 64,370	$1,469	$ 67,953	$1,588

[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 106 apartment communities with 31,253 units which were owned during the three and nine months being presented (the "Core Properties"). The Company has acquired/developed an additional thirteen apartment communities with 3,489 units during 2006 and 2005 (the "Acquisition Communities"). The Company disposed of four apartment communities with a total of 816 units and four VIE's 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"). During the third quarter of 2006, the Company placed eighteen properties with a total of 4,567 units into held for sale status, which had full quarter results for the periods being presented ("Held for Sale Communities"). The results of these disposed and held for sale 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 nine months ended September 30, 2006. In addition, the reported income from operations include the results 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				Nine Months			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
Rent	$ 95,042	$ 92,413	$2,629	2.8%	$283,207	$273,161	$10,046	3.7%
Utility recovery revenue	2,035	1,277	758	59.4%	5,496	1,556	3,940	253.2%
Other income	4,796	4,229	567	13.4%	13,371	11,780	1,591	13.5%
Total property other income	6,831	5,506	1,325	24.1%	18,867	13,336	5,531	41.5%
Total revenue	101,873	97,919	3,954	4.0%	302,074	286,497	15,577	5.4%
Operating and maintenance	(41,355)	(39,716)	(1,639)	(4.1%)	(127,884)	(123,901)	(3,983)	(3.2%)
Net operating income	$ 60,518	$ 58,203	$2,315	4.0%	$174,190	$162,596	$11,594	7.1%

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

	Three Months				Nine Months			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
Rent	$105,740	$96,316	$9,424	9.8%	$311,721	$281,149	$30,572	10.9%
Utility recovery revenue	2,250	1,301	949	72.9%	6,041	1,591	4,450	279.7%
Other income	5,020	4,335	685	15.8%	14,006	12,027	1,979	16.5%
Total property other income	7,270	5,636	1,634	29.0%	20,047	13,618	6,429	47.2%
Total revenue	113,010	101,952	11,058	10.8%	331,768	294,767	37,001	12.6%
Operating and maintenance	(45,650)	(42,105)	(3,545)	(8.4%)	(141,064)	(129,297)	(11,767)	(9.1%)
Net operating income	$ 67,360	$59,847	$7,513	12.6%	$190,704	$165,470	$25,234	15.2%

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 September 30, 2006 to the same period in 2005

Of the $9,424 increase in rental income, $6,770 is attributable to the Acquired Communities; and, $2,629 is from the Core Properties, as the result of an increase of 3.4% in weighted average rental rates, partially offset by a decrease in occupancy from 94.3% to 93.8%. Occupancy is defined as total possible rental income, net of vacancy and bad debt expense, as a percentage of total possible rental income. Total possible rental income is determined by valuing occupied units at contract rates and vacant units at market rents.

Property other income, which consists primarily of income from 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 $1,634. Of this increase, $341 is attributable to the Acquired Communities and $1,325 represents a 24.1% increase from the Core Properties. Included in the Core increase is $758 which represents increased utility recovery charges compared to 2005 attributable to the Company's water & sewer and heat & electric recovery programs, which were initiated in the second quarter of 2005 and are being phased in through the second quarter of 2007; and, a $567 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.

Interest income increased $461 due to a portion of second quarter property disposition proceeds being held by a 1031 exchange intermediary awaiting reinvestment into replacement property.

Other income increased $1,216 due primarily to post closing consultation fees earned in connection with second quarter property dispositions.

Of the $3,545 increase in operating and maintenance expenses, $2,409 is attributable to the Acquired Communities, partially offset by a $503 decrease attributable to the consolidation of the VIE. The balance, a $1,639 increase, is attributable to the Core Properties and is primarily due to increases in repairs & maintenance, personnel costs, electricity, property insurance and natural gas heating costs partially offset by reductions advertising expenses. Repairs & maintenance is up $545 or 7.6% over the prior year period due to favorable weather conditions during the third quarter of 2006, enabling outside projects, which is typical seasonality experienced between years. Personnel costs are up $492 or 6.0%. The increase was due in part to favorable insurance reserve adjustments in the 2005 quarter which did not occur in the 2006 quarter. Before reserve adjustments, personnel costs were up only 4.4%. Electricity costs were up $242 or 12.7%; however, with the phase in of the recovery program, any reimbursements from residents are being reflected in utility recovery income. Property insurance increased $195, or 15.0%, due to the inclusion of our Florida properties (which are relatively more expensive to insure) in Core Properties, and also due to an 11.4% general increase in our property and general liability premiums. Natural gas heating costs were up $105 or 6.6% from a year ago, due to higher costs per decatherm, partially offset by the savings realized from the conservation measures implemented during 2006. Our actual cost for the third quarter of 2006 was $9.26 per decatherm compared to $7.37 in the quarter of 2005. Advertising expense continues to provide positive comparisons as we target our dollar spend in ways that produce results, netting a $98 or 8.4% savings versus 2005.

For the upcoming 2006/2007 heating season we now have fixed contracts for 97.3% of our expected natural gas usage at a weighted average cost of $9.64 per decatherm. The cost for the 2005/2006 heating season was approximately $10.16 per decatherm, or 5.1% higher than what is expected this year.

General and administrative expense increased in 2006 by $713. General and administrative expenses as a percentage of total revenues were 4.5% for 2006 as compared to 3.9% for 2005. The recently enacted accounting rules affecting stock options and restricted stock, SFAS 123R, required the Company to recognize compensation costs for near-retirement-eligible employees and directors over a shorter vesting period than 2005, which coupled with a significantly higher stock price, resulting in $198 higher 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 $2,666 as a result of the increased borrowings in connection with the Acquisition Communities and additional mortgage debt and refinanced mortgage debt incurred during 2006.

Depreciation and amortization expense increased $3,903 due to the depreciation on the Acquisition Communities and the capital additions to the Core Properties, offset by $1,600 in depreciation expense taken in the second quarter of 2006 but not in the third quarter of 2006 related to the discontinued operations of the Upstate portfolio..

Included in discontinued operations for the three months ended September 30, 2006 are the operating results, net of minority interest, of the Held for Sale Communities. Included in discontinued operations for the three months ended September 30, 2005 are the operating results, net of minority interest, of the Held for Sale Communities, the 2006 Disposition Communities and the 2005 Disposition Communities. 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 or held for sale.

Comparison of nine months ended September 30, 2006 to the same period in 2005

Of the $30,572 increase in rental income, $20,247 is attributable to the Acquired Communities and $279 is attributable to the VIE. The balance of this increase, or $10,046 which is from the Core Properties, was the result of an increase of 3.1% 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 $6,429. Of this increase, $953 is attributable to the Acquired Communities and $5,531 represents a 41.5% increase from the Core Properties, partially offset by a $55 decrease attributable to the VIE. Included in the Core increase is $3,940 which represents increased utility recovery charges compared to 2005 and $1,591 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.

Interest income increased $530 due to a portion of the 2006 Disposition Communities proceeds being held by a 1031 exchange intermediary awaiting reinvestment into replacement property.

Other income increased $1,210 due primarily to the post closing consultation fees earned in connection with the 2006 Disposition Communities.

Of the $11,767 increase in operating and maintenance expenses, $7,763 is attributable to the Acquired Communities; and $3,983 is attributable to the Core Properties and is primarily due to increases in natural gas heating costs, repairs & maintenance and property insurance expense partially offset by reductions in personnel costs, advertising and snow removal costs. Natural gas heating costs were up $1,788 or 14.5% 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. In the third quarter of 2006, natural gas heating costs were up $105 or 6.6% from a year ago, due to higher costs per decatherm, partially offset by the continued savings realized from the conservation measures implemented during 2006. Repairs & maintenance spending was up $813 or 4.4% partially due to the seasonality influenced by favorable weather conditions during the third quarter of 2006 enabling more outside projects to be completed. Property insurance increased $1,119 or 29.2%, 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 $576 or 2.2%, due to favorable experience with workers compensation and health insurance, which resulted in a cost savings year over year. Advertising expense continues to provide positive comparisons as we target our dollar spend in ways that produce results, netting a $483 or 13.5% savings versus 2005. Snow removal costs were down $491 or 51.8%. The first half of 2006 produced below normal snowfalls compared to normal snowfall in 2005.

General and administrative expense increased in 2006 by $2,260. General and administrative expenses as a percentage of total revenues were 4.3% for 2006 as compared to 3.9% for 2005. The recently enacted accounting rules effecting stock options and restricted stock, SFAS 123R, required the Company to recognize compensation costs for retirement-eligible and near-retirement-eligible employees and directors over a shorter vesting period than 2005, coupled with a significantly higher stock price, resulting in $868 higher expense for 2006. The balance of the increase is the direct result of the increase in corporate incentive compensation bonus accrued in 2006, partially offset by a $1,043 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 Section 404 compliance.

Interest expense increased in 2006 by $11,231 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 $11,547 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.

Included in discontinued operations for the nine months ended September 30, 2006 are the operating results, net of minority interest, of the 2006 Disposition Communities and the Held for Sale Communities. Included in discontinued operations for the nine months ended September 30, 2005 are the operating results, net of minority interest, of the 2006 Disposition Communities, the 2005 Disposition Communities and the Held for Sale Communities. 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 or held for sale.

Included in the $2,161 net gain on disposition of property for the nine months ended September 30, 2006 is the sale of two apartment communities in New Jersey, where the Company recorded a gain on sale 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, also in the second quarter, where the Company recorded a loss, net of minority interest, of $951.

Included in the $6,290 net gain on disposition of property for the nine months ended September 30, 2005 is the sale of an apartment community in Philadelphia, PA, where the Company recorded a gain on sale, net of minority interest, of $1,187; and a gain of sale of $5,180, net of minority interest, from the disposal of two VIE's through a transfer of deed in lieu of foreclosure, which is further discussed in the section entitled "Variable Interest Entities,".

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 nine months ended September 30, 2006 and 2005 are presented below (in thousands):

	Three Months		Nine Months	
	2006	2005	2006	2005
Net income available to common shareholders	$ 10,361	$ 15,353	$ 25,502	$ 21,521
Real property depreciation and amortization	24,477	24,997	74,016	72,524
Minority interest	3,381	3,219	7,344	6,939
Minority interest – income from discontinued operations	873	1,130	3,013	524
Loss (gain) on disposition of discontinued operations	200	958	(2,161)	1,036
FFO – Basic as defined above	39,292	45,657	107,714	102,544
Loss from early extinguishment of debt in connection with sale of real estate	-	-	2,970	-
FFO – Basic as adjusted by the Company	39,292	45,657	110,684	102,544
Convertible preferred dividends (2)	-	-	-	879
FFO – Diluted	$ 39,292	$ 45,657	$ 107,714	$ 103,423
Weighted average common shares/units outstanding (1):				
- Basic	46,765.2	48,255.2	47,495.8	47,828.7
- Diluted (2)	47,532.5	48,686.3	48,114.6	48,680.2

(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 a dilutive effect; therefore, the convertible preferred dividends are included in FFO diluted for the nine months ended September 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			
	Sept. 30, 2006	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005
EBITDA				
Total revenues	$115,255	$121,947	$119,416	$114,835
Net operating income (loss) from discontinued operations	5,125	4,950	5,017	5,677
Operating and maintenance	(45,650)	(49,397)	(58,135)	(51,801)
General and administrative	(5,607)	(6,057)	(5,039)	(5,209)
	$ 69,123	$ 71,443	$ 61,259	$ 63,502
Fixed Charges				
Interest expense	$ 26,637	$ 27,717	$ 27,195	$ 25,793
Interest expense on discontinued operations	1,279	4,246	1,286	1,578
Preferred dividends	1,350	1,350	1,350	1,350
Capitalized interest	349	346	313	312
	$ 29,615	$ 33,659	$ 30,144	$ 29,033
Coverage ratio:	2.33x	2.12x	2.03x	2.19x

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 by short-term use of 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 October 27, 2006, the Board of Directors approved a dividend of $0.65 per share on its common stock for the quarter ended September 30, 2006. This is the equivalent of an annual distribution of $2.60 per share. The dividend is payable November 28, 2006 to shareholders of record on November 17, 2006.

On October 27, 2006, the Company also declared a regular dividend of $0.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending November 30, 2006. The dividend on the preferred shares is payable on November 30, 2006 to shareholders of record on November 17, 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 FASB issued 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 reviewed its current tax positions for any potential uncertain tax positions that would qualify under FIN 48. Based on its review, the Company does not anticipate that the adoption of FIN 48 in January 2007 will have a material impact on the Company's cash flows, results of operations, financial position or liquidity.

In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as the "dual approach" because it requires quantification of errors under both the iron curtain and the roll-over methods. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects on the prior year errors on the income statement. The Company will initially apply the provisions of SAB 108 in connection with the preparation of our annual financial statements for the year ending December 31, 2006. The Company does not expect that the provisions of SAB 108 will have any impact on its financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is interest rate risk. At September 30, 2006 and December 31, 2005, approximately 95% and 91%, respectively, of the Company's debt bore interest at fixed rates with a weighted average maturity of approximately 6.4 and 6.9 years, respectively, and a weighted average interest rate of approximately 5.80% 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 17 and 12 years, respectively, and a weighted average interest rate of 5.25% and 4.54%, respectively, at September 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 September 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 September 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 $1.90 billion and $1.89 billion, respectively, compared to its carrying amount of $1.88 billion and $1.84 billion, respectively. The Company estimates that a 100 basis point increase in market interest rates at September 30, 2006 would have changed the fair value of the Company's fixed and variable rate debt to a liability of $1.81 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 debt and/or 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 September 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 September 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 third 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 nine months ended September 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 September 30, 2006.

Period	Total shares (units) purchased[1]	Average price per share (unit)	Total shares (units) Purchased as part of publicly-announced program	Maximum shares (units) that may yet be purchased under the program
Balance June 30, 2006				1,539,674
July 1, 2006 to July 31, 2006	2,651	$ 55.94	-	1,539,674
August 1, 2006 to August 31, 2006	1,582	$ 57.00	-	1,539,674
September 1, 2006 to September 30, 2006	8,802	$ 56.04	-	1,539,674
	13,035	$ 56.13	-	1,539,674

(1) During the three months ended September 30, 2006, the Company repurchased 7,701 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 6. EXHIBITS

Exhibit 1.0	Underwriting Agreement, dated May 9, 2006, between Home Properties, Inc., UBS Securities LLC and the selling shareholders named therein – incorporated by reference to the Form 8-K filed by Home Properties, Inc. on May 10, 2006
Exhibit 4.1	Seventh Amended and Restated Dividend Reinvestment and Direct Stock Purchase Plan – incorporated by reference to the Form 8-K filed by Home Properties, Inc. on September 28, 2006
Exhibit 10.1	Development Agreement, dated March 27, 2006 between Nelson Leenhouts and Home Properties, Inc. – incorporated by reference to the Form 8-K filed by Home Properties, Inc. on March 27, 2006
Exhibit 10.2	Agreement for Purchase and Sale of Interests Southeast Michigan Portfolio, dated April 26, 2006, together with Second Amendment thereto – incorporated by reference to the Form 8-K filed by Home Properties, Inc. on June 30, 2006
Exhibit 10.3	Amendment Nos. Eighty-Three and Eighty-Four 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**

*Filed herewith
** Furnished herewith

SIGNATURES

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

HOME PROPERTIES, INC.
(Registrant)

Date: November 9, 2006

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

Date: November 9, 2006

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

EXHIBIT 10.3

Home Properties, L.P.
Amendment No. Eighty-Three 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 August 15, 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

(Schedule A setting forth the names, addresses, number of units held and percentage interest of the partners has been omitted and will be furnished upon request).

Home Properties, L.P.
Amendment No. Eighty-Four 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 October 4, 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, including the issuance of limited partnership interests to the former partners of Heritage Woods Limited Partnership, Clearfield Estates Limited Partnership and Topfield Limited Partnership.

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

(Schedule A setting forth the names, addresses, number of units held and percentage interest of the partners has been omitted and will be furnished upon request).

Exhibit 31.1

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

I, Edward J Pettinella, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Edward J. Pettinella
Edward J. Pettinella
President and Chief Executive Officer
November 9, 2006

Exhibit 31.2

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

I, David P. Gardner, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ David P. Gardner
David P. Gardner
Executive Vice President and Chief Financial Officer
November 9, 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 quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on November 9, 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
November 9, 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 quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on November 9, 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
November 9, 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.