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HOME PROPERTIES INC
Form 10-Q
May 08, 2006

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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 MARCH 31, 2006
- () TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 1-13136

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

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

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

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

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Yes X No

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

Large accelerated filer X Accelerated filer X Non-accelerated filer

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

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Yes No X
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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 April 28, 2006
\$.01 par value	31,533,194

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HOME PROPERTIES, INC.

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

	2006 (Unaudited)	(
	-----	-----
ASSETS		
Real estate:		
Land	\$401,756	\$4
Construction in progress	8,657	
Buildings, improvements and equipment	2,723,546	2,7
Real estate held for sale, net	225,756	2
	-----	-----
	3,359,715	3,3
Less: accumulated depreciation	(470,691)	(44
	-----	-----
Real estate, net	2,889,024	2,8
Cash and cash equivalents	7,426	
Cash in escrows	36,060	
Accounts receivable	6,522	
Prepaid expenses	16,183	
Deferred charges	11,845	
Other assets	10,341	
Other assets held for sale	3,574	
	-----	-----
Total assets	\$2,980,975	\$2,9
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage notes payable	\$1,801,230	\$1,7
Line of credit	65,000	
Accounts payable	19,520	
Accrued interest payable	8,540	
Accrued expenses and other liabilities	23,934	
Security deposits	21,583	
Liabilities held for sale	74,845	
	-----	-----
Total liabilities	2,014,652	1,9
	-----	-----
Commitments and contingencies		
Minority interest	314,695	3
	-----	-----
Stockholders' equity:		
Cumulative redeemable preferred stock, \$.01 par value; 2,400,000 shares issued and outstanding at March 31, 2006 and December 31,		

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2005.	60,000	
Common stock, \$.01 par value; 80,000,000 shares authorized; 31,525,090 and 31,184,256 shares issued and outstanding at March 31, 2006 and December 31, 2005.	316	
Excess stock, \$.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	
Additional paid-in capital	783,959	7
Accumulated other comprehensive income	289	
Distributions in excess of accumulated earnings	(192,936)	(17)
	-----	-----
Total stockholders' equity	651,628	6
	-----	-----
Total liabilities and stockholders' equity	\$2,980,975	\$2,9
	=====	=====

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATION
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND
(UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER

	2006	

Revenues:		
Rental income	\$111,638	
Property other income	7,170	
Interest income	91	
Other income	517	

Total revenues	119,416	

Expenses:		
Operating and maintenance	58,135	
General and administrative	5,039	
Interest	27,195	
Depreciation and amortization	25,046	
Impairment of assets held as General Partner	-	

Total expenses	115,415	
Income from operations	4,001	
Minority interest in operating partnerships	(922)	

Income from continuing operations	3,079	
Discontinued operations		
Income (loss) from operations, net of \$1,285 and (\$1,802) in 2006 and 2005 allocated to minority interest, respectively	2,409	

Net income	5,488	
Preferred dividends	(1,350)	

Net income (loss) available to common shareholders	\$4,138	
	=====	
Basic earnings per share data:		
Income from continuing operations	\$0.05	
Discontinued operations	0.08	

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Net income (loss) available to common shareholders	\$0.13
Diluted earnings per share data:	
Income from continuing operations	\$0.05
Discontinued operations	0.08

Net income (loss) available to common shareholders	\$0.13
	=====
Weighted average number of shares outstanding:	
Basic	31,250,002
	=====
Diluted	31,810,301
	=====
Dividends declared per share	\$0.64
	=====

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE
FOR THE THREE MONTHS ENDED MARCH 31, 2006 A
(UNAUDITED, IN THOUSANDS)

	20
	--
Net income	\$5,4
Other comprehensive income (loss):	
Change in fair value of hedged instruments	-----
Net comprehensive income	\$5,5
	=====

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

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED MARCH 31, 2006 A
(UNAUDITED, IN THOUSANDS)

Cash flows from operating activities:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Income (loss) allocated to minority interest
Depreciation and amortization
Impairment of assets held as General Partner
Issuance of restricted stock, compensation cost of stock options and deferred compensation
Changes in assets and liabilities:
Other assets
Accounts payable and accrued liabilities

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Total adjustments

Net cash provided by operating activities

Cash flows from investing activities:

Purchase of properties and other assets, net of mortgage notes assumed and UPREIT Units issued

Additions to properties

Net cash used in investing activities

Cash flows from financing activities:

Proceeds from sale of common stock, net

Repurchase of common stock

Proceeds from mortgage notes payable

Payments of mortgage notes payable

Proceeds from line of credit

Payments on line of credit

Payments of deferred loan costs

Withdrawals from (additions to) cash escrows, net

Dividends and distributions paid

Net cash provided by (used in) financing activities

Net increase in cash and cash equivalents

Cash and cash equivalents:

Beginning of year

End of period

Supplemental disclosure of non-cash operating, investing and financing activities:

Cash paid for interest

Mortgage loans assumed associated with property acquisitions

Issuance of UPREIT Units associated with property and other acquisitions

Increase in real estate associated with the purchase of UPREIT Units

Exchange of UPREIT Units for common shares

Fair value of hedge instruments

Net real estate disposed in connection with FIN 46R consolidation

Other assets disposed in connection with FIN 46R consolidation

Mortgage debt disposed in connection with FIN 46R consolidation

Other liabilities disposed in connection with FIN 46R consolidation

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

HOME PROPERTIES, INC.

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

1. Unaudited Interim Financial Statements

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The interim consolidated financial statements of Home Properties, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission. Accordingly, certain disclosures that would accompany annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair presentation of the consolidated financial statements for the interim periods have been included. The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2005.

2. Organization and Basis of Presentation

Organization

Home Properties, Inc. (the "Company ") was formed in November 1993, as a Maryland corporation and is engaged primarily in the ownership, management, acquisition, and rehabilitation of residential apartment communities in the Northeastern, Mid-Atlantic, Midwestern and Southeast Florida regions of the United States. The Company conducts its business through Home Properties, L.P. (the "Operating Partnership"), a New York limited partnership. As of March 31, 2006, the Company operated 158 apartment communities with 47,002 apartments. Of this total, the Company owned 153 communities, consisting of 43,433 apartments, managed as general partner one partnership that owned 868 apartments, and fee managed four communities, consisting of 2,701 apartments for third parties.

The Company elected to be taxed as a REIT under the Internal Revenue Code, as amended, for all periods presented. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, the Company generally will not be subject to corporate level tax on taxable income it distributes currently to its stockholders. Management believes that all such conditions for the avoidance of income taxes have been met for the periods presented. Accordingly, no provision 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 65.6% (66.5% at March 31, 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 34.4% (33.5% at March 31, 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

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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.

HOME PROPERTIES, INC.

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

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. 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.

3. Stock Benefit Plan

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

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

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

On May 6, 2003, the Company adopted the 2003 Stock Benefit Plan (the "2003 Plan"). Plan participants include directors, officers, regional managers and on-site property managers. The 2003 Plan limits the number of shares issuable under the plan to 2,859,475, of which 249,475 are to be available for issuance to the non-employee directors. At March 31, 2006, 1,121,250 and 90,000 common shares were available for future grant of options or awards under the 2003 plan for officers and employees and non-employee directors, respectively.

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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.

HOME PROPERTIES, INC.

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

3. Stock Benefit Plan (continued)

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 impact 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 will apply the non-substantive vesting period approach. As a result of the adoption of SFAS 123R, the Company began capitalizing stock-based compensation costs as a component of employee compensation that is capitalized as part of self-constructed fixed assets. The Company applied the modified prospective application in adopting SFAS 123R. The adoption of SFAS 123R did not have a material impact on the Company's results of operations, financial position or liquidity.

A summary of stock options activity for the three-months ended March 31, 2006 is as follows:

	Number of Options -----	Weighted Average Exercise Price Per Option -----	Weighted Average Remaining Contractu Term ----
Options outstanding at December 31, 2005	2,662,581	\$36.18	
Granted	-	-	
Exercised	(344,409)	32.88	
Cancelled	(47,574)	37.33	
	-----	-----	
Options outstanding at March 31, 2006	2,270,598 =====	\$ 36.66 =====	7.3 ===

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Options exercisable at March 31, 2006	833,586	\$ 33.19	6.0
	=====	=====	===

The total cash received from the exercise of options during the three-months ended March 31, 2006 was \$11,325. The total intrinsic value of options exercised during the three-months ended March 31, 2006 was \$5,762. As of March 31, 2006, there was \$2,076 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 1.65 years.

HOME PROPERTIES, INC.

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

3. Stock Benefit Plan (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended
Assumption	-----
	2006

Dividend yields	6.55%
Expected volatility	18.76%
Expected lives of the options with a lifetime of ten years	7.5 Years
Expected lives of the options with a lifetime of five years	5.0 Years
Risk free interest rate	4.10%

For the three-month periods ended March 31, 2006 and 2005, the Company recognized \$216 and \$171 in stock compensation costs related to its outstanding stock options.

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(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

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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 months ended March 31, 2006 and 2005 is as follows:

	2006	

Income from continuing operations	\$3,079	\$
Less: Preferred dividends	(1,350)	(
	-----	-----
Basic and Diluted - Income from continuing operations applicable to common shareholders	1,729	
Discontinued operations	2,409	(
	-----	-----
Net income (loss) available to common shareholders	\$4,138	\$ (
	=====	=====
Basic weighted average number of shares outstanding	31,250,002	31,78
Effect of dilutive stock options	536,474	35
Effect of phantom and restricted shares	23,825	8
	-----	-----
Diluted weighted average number of shares outstanding	31,810,301	32,22
	=====	=====
Basic earnings per share data:		
Income from continuing operations	\$0.05	
Discontinued operations	0.08	
	-----	-----
Net income (loss) available to common shareholders	\$0.13	\$
	=====	=====
Diluted earnings per share data:		
Income from continuing operations	\$0.05	
Discontinued operations	0.08	
	-----	-----
Net income (loss) available to common shareholders	\$0.13	\$
	=====	=====

For the three-month periods ended March 31, 2006 and 2005, no unexercised stock options to purchase shares of the Company's common stock were excluded in the computation of diluted EPS as the options' exercise prices were less than the average market price of the Company's stock during each period.

HOME PROPERTIES, INC.

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

4. Earnings Per Common Share (continued)

For the three-month period ended March 31, 2005 the 833,333 common stock equivalents on an as-converted basis of the Series D Convertible Cumulative

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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 were 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-month periods ended March 31, 2006 and 2005 primarily reflects management and other real estate service fees.

6. Variable Interest Entities

Effective March 31, 2004, the Company adopted FASB Interpretation No. 46R - Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 - Consolidated Financial Statements. The interpretation addresses consolidation by businesses of special purpose entities (variable interest entities, "VIE").

The Company is the general partner in one VIE syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company manages the day-to-day operations of the partnership for a management fee. In addition, the Company has an operating deficit guarantee and tax credit guarantee to its limited partners (as discussed in Note 11). The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards when cash flows reach certain levels. The effect on the consolidated balance sheet as of March 31, 2006 is an increase in "Total assets" of \$20,700, an increase in "Total liabilities" of \$18,200, and an increase in "Minority interest" of \$2,500. Of the \$18,200 increase in "Total liabilities," \$16,900 represents non-recourse mortgage debt.

Effective March 31, 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 three month period ended March 31, 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 is no longer held for sale as of December 31, 2005, and is included in the consolidated results of operations for both the three-month periods ended March 31, 2006 and 2005. The other two VIEs were disposed of through a transfer of deed in lieu of foreclosure in September 2005. The Company had repurchased the limited partner's interests in satisfaction of any tax credit guarantees or other obligations to that partner in January, 2005 for \$5,700. In connection with the Company's decision to dispose of the property, the Company performed a valuation analysis on the underlying real estate, and as a result, recorded a \$7,300 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 \$7,700.

HOME PROPERTIES, INC.

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

7. Segment Reporting

The Company is engaged in the ownership and management of primarily market rate apartment communities. Each apartment community is considered a separate operating segment. Each segment on a stand alone basis is less than 10% of the

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revenues, profit or loss, and assets of the combined reported operating segments and meets all of the aggregation criteria under SFAS No. 131. The operating segments are aggregated as Core and Non-core properties.

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

Core properties consist of all apartment communities which have been owned more than one full calendar year. Therefore, the Core Properties represent communities owned as of January 1, 2005. Non-core properties consist of apartment communities acquired during 2005 and 2006, such that full year comparable operating results are not available. In addition, core properties does not include assets held for sale as of March 31, 2006 and 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.

HOME PROPERTIES, INC.

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

7. Segment Reporting (continued)

The revenues, net operating income, and assets for each of the reportable segments are summarized for 2006, and 2005:

	2006	2005
	----	----
Revenues		
Apartments owned		
Core properties	\$109,838	\$103,613
Non-core properties	8,970	1,786
Reconciling items	608	656
	-----	-----
Total revenues	\$119,416	\$106,055
	=====	=====
Net operating income		
Apartments owned		
Core properties	\$56,473	\$53,804
Non-core properties	4,200	369
Reconciling items	608	656
	-----	-----
Combined segment net operating income	61,281	54,829
General & administrative expenses	(5,039)	(5,405)
Interest expense	(27,195)	(23,201)
Depreciation and amortization	(25,046)	(21,268)
Impairment of assets held as General Partner	-	(400)
Minority interest in operating partnership	(922)	(879)
	-----	-----
Income from continuing operations	\$3,079	\$3,676

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	=====	=====
Assets - As of March 31, 2006 and December 31, 2005		
Apartments owned		
Core properties	\$2,332,986	\$2,082,413
Held for sale properties	225,756	219,776
Non-core properties	330,282	582,362
Reconciling items	91,951	93,319
	-----	-----
Total assets	\$2,980,975	\$2,977,870
	=====	=====

HOME PROPERTIES, INC.

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

8. Pro Forma Condensed Financial Information

The Company acquired three apartment communities ("2005 Acquired Communities") with a combined 550 apartment units in three unrelated transactions during the three-month period ended March 31, 2005. The total combined purchase price (including closing costs) of \$40,143 equates to approximately \$73 per unit. Consideration for the communities was funded through the assumption or placement of new debt of \$7,916, \$19,616 from the Company's line of credit and \$12,611 of UPREIT Units.

The following unaudited proforma information was prepared as if the 2005 transactions related to the acquisition of the 2005 Acquired Communities had occurred on January 1, 2005. The proforma financial information is based upon the historical consolidated financial statements and is not necessarily indicative of the consolidated results which actually would have occurred if the transactions had been consummated on January 1, 2005, nor does it purport to represent the results of operations for future periods. Adjustments to the proforma condensed combined statement of operations for the three-month period ended March 31, 2005, consist principally of providing net operating activity and recording interest, depreciation and amortization from January 1, 2005 to the acquisition date as appropriate.

For the Three-months Ended
March 31, 2005

Total revenues	\$112,621
Net income available to common shareholders	\$1,714
Per common share data:	
Net income available to common shareholders	
Basic	\$0.05
Diluted	\$0.05
Weighted average numbers of shares outstanding:	
Basic	31,785,440
Diluted	32,227,972

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

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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 March 31, 2006, the aggregate fair value of the Company's interest rate swaps was \$313 prior to the allocation of minority interest and is included in the consolidated balance sheets. For the three-months ending March 31, 2006, 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.

HOME PROPERTIES, INC.

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

10. Disposition of Property and Discontinued Operations

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

Included in discontinued operations for the three-months ended March 31, 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).

In addition, included in discontinued operations for the three-months ended March 31, 2006 and 2005 are the operating results, net of minority interest, of twenty-one apartment communities held for sale as of March 31, 2006. For purposes of the discontinued operations presentation, the Company only includes interest expense associated with specific mortgage indebtedness of the properties that are sold or classified as held for sale.

The operating results of the components of discontinued operations are summarized as follows for the three-months ended March 31, 2006 and 2005:

Revenues:

Rental income

Property other income

Total revenues

Expenses:

Operating and maintenance

Interest expense

\$10

--

11

--

6

1

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Depreciation and amortization	---
Impairment of real property	7
 Total expenses	 ---
Income (loss) from discontinued operations before minority interest and gain (loss) on disposition of property	3
Minority interest in limited partnerships	(1)
Minority interest in operating partnerships	---
 Income from discontinued operations	 \$2
	==

HOME PROPERTIES, INC.

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

10. Disposition of Property and Discontinued Operations (continued)

The major classes of assets and liabilities held for sale as of March 31, 2006 and December 31, 2005

	2006

Real estate:	
Land	\$28,3
Buildings, improvements and equipment	251,8

	280,2
Less: accumulated depreciation	(54,4

Real estate held for sale, net	225,7

Other assets:	
Cash in escrows	4
Accounts receivable	7
Prepaid expenses	2,3

Other assets held for sale	3,5

Liabilities:	
Mortgage notes payable	73,1
Accrued expenses and other liabilities	4
Security deposits	1,2

Liabilities held for sale	74,8

Net assets held for sale	\$154,4
	=====

11. Commitments and Contingencies

Contingencies

The Company is not a party to any legal proceedings which are expected to have a material adverse effect on the Company's liquidity, financial position or results of operations. The Company is subject to a variety of legal actions for personal injury or property damage arising in the ordinary course of its

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business, most of which are covered by liability insurance. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such legal proceedings and claims will not have a material adverse effect on the Company's liquidity, financial position or results of operations.

In 2001, the Company underwent a state capital stock tax audit. The state had assessed taxes of \$469 for the 1998 and 1999 tax years under audit. At the time, the Company believed the assessment and the state's underlying position were neither supportable by the law nor consistent with previously provided interpretative guidance from the office of the State Secretary of Revenue. During December 2003, the state's governor signed legislation which included the REIT tax provisions. Based upon this, Company's tax counsel expected that the outstanding litigation would now be able to be resolved. Effective January 1, 2003, the Company reorganized the ownership of Home Properties Trust, which should subject the Company to a much lower level of tax going forward. In September 2004, the Company settled the 1998 year under audit for a total of \$39, including interest. During the first quarter of 2005, the Company filed a protest with the State Commonwealth Court concerning the 1999 tax year. Settlement discussions occurred during the third quarter of 2005 for the open years 1999-2001. In March, 2006, the Company settled the 1999 year under audit for \$56, including interest. In addition, the Company has made settlement offers for the 2000 and 2001 tax years which, if accepted, would result in a payment of \$147, including interest. The Company believes, and has been advised by counsel, that this settlement should be acceptable to the Department of Revenue and is awaiting final approval of the offer. The Company has accrued \$147 at March 31, 2006.

HOME PROPERTIES, INC.

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

11. Commitments and Contingencies (continued)

As a result of a New York State sales tax audit, the Company had filed Voluntary Disclosure Agreements ("VDAs") with the four other states where it estimated to have significant financial exposure. During 2005, the Company signed VDAs with these states which agreed to limit the VDA filing period back to January 1, 2001, and satisfied all financial obligations under the VDAs. During 2005, the Company recorded adjustments to the liability for both the effects of signing the VDAs as well as for the results of the Company's additional testing. The net impact of these adjustments resulted in a decrease in real estate assets of \$175, interest expense of \$115 and operating expenses of \$108 for a net decrease to the accrued liability of \$398. During the third quarter of 2005, the Company finalized negotiations with New York State settling a sales tax audit covering the period June 1, 2002 through November 30, 2004. The settlement was not materially different from what had been accrued and has been fully paid as of March 31, 2006.

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 (50% of the owned portfolio) for a period of 5 to 15 years except through a tax deferred Internal Revenue Code Section 1031 like-kind exchange.

Guarantees

As of March 31, 2006, the Company, through its general partnership interest in an affordable property limited partnership, has guaranteed the Low Income Housing Tax Credits to limited partners totaling approximately \$3,000. As of

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March 31, 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.

12. Related Party Transactions

On January 1, 2004, the Company sold certain assets of its commercial property management division to Home Leasing LLC ("Home Leasing"), which is owned by Nelson and Norman Leenhouts. This division managed approximately 2.2 million square feet of gross leasable area, as well as certain planned communities. The initial amount paid was \$82. In addition, the Company is entitled to receive a percentage of the management fee received by Home Leasing in connection with the management of one of the commercial properties for a period not to exceed 36 months. The expected monthly fee as outlined in the contract is approximately \$3.4 or \$40 per year. If Home Leasing continues to manage the property for three years, the Company is expected to receive total additional deferred purchase price of \$135. Additional deferred purchase price of \$10 was recognized during the three-months ended March 31, 2006. The cumulative gain recognized on the sale of these assets through March 31, 2006 amounted to \$74. If the management of this property is retained for the entire three years the Company expects to receive an additional \$30 for the period April 1, 2006 through January 1, 2007. The gain on sale would then be approximately \$104.

13. Subsequent Events

On April 5, 2006, the Company sold two apartment communities with a total of 92 units, located in the New Jersey region for \$9.2 million. A gain on sale of approximately \$4.5 million (before allocation of minority interest) will be recorded in the second quarter of 2006.

On May 4, 2006, the Board of Directors approved a dividend of \$.64 per share on its common stock for the quarter ended March 31, 2006. This is the equivalent of an annual distribution of \$2.56 per share. The dividend is payable May 26, 2006 to shareholders of record on May 16, 2006.

HOME PROPERTIES, INC.

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

13. Subsequent Events (continued)

On May 4, 2006, the Company also declared a regular dividend of \$.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending May 31, 2006. The dividend on the preferred shares is payable on May 31, 2006 to shareholders of record on May 16, 2006. This dividend is equivalent to an annualized rate of \$2.25 per share.

HOME PROPERTIES, INC.

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

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consolidated financial statements and notes thereto.

Forward-Looking Statements

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

Liquidity and Capital Resources

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

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

Cash provided by operating activities was \$38,252 and \$21,715 for the three-month period ended March 31, 2006 and 2005, respectively. Cash used in investing activities was \$25,620 and \$37,768 for the three-month period ended March 31, 2006 and 2005, respectively. Cash provided by (used in) financing activities was \$(10,597) and \$18,023 for the three-month period ended March 31, 2006 and 2005, respectively.

As of March 31, 2006, the Company has an unsecured line of credit agreement with M&T Bank of \$140 million which expires September 1, 2008. The Company's outstanding balance as of March 31, 2006, was \$65 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.

To the extent that the Company does not satisfy its long-term liquidity requirements through net cash flows provided by operating activities and its credit facility, it intends to satisfy such requirements through property debt financing, proceeds from the sale of properties, the issuance of UPREIT Units, proceeds from the Dividend Reinvestment Plan ("DRIP"), or the issuance of additional equity securities. As of March 31, 2006, the Company owned 26 properties with 5,405 apartment units, which were unencumbered by debt.

A significant source of liquidity in 2006 is expected to be from the sale of properties. Management has included in its operating plan that the Company will strategically dispose of assets totaling approximately \$250 million in 2006, although there can be no assurance that such dispositions will actually occur.

In May 1998, the Company's Form S-3 Registration Statement was declared effective relating to the issuance of up to \$400 million of common stock, preferred stock or other securities. The available balance on the shelf registration statement at March 31, 2006 was \$144.4 million.

In June 2000, the Company issued \$25 million of Series D Preferred Stock in a

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private transaction with The Equitable Life Assurance Society of the United States. The Series D Preferred Stock carried an annual dividend rate equal to the greater of 8.775% or the actual dividend paid on the Company's common shares into which the preferred shares can be converted. The stock had a conversion price of \$30 per share and a five-year, non-call provision. On May 26, 2005, all 250,000 shares of the Series D Preferred Stock were converted into 833,333 shares of common stock. The conversion of preferred shares to common shares did not have an effect on the reported results of operations.

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

The issuance of UPREIT Units for property acquisitions continues to be a source of capital for the Company. During 2005, the Company issued \$55,600 of UPREIT Units as consideration for three acquired properties.

The DRIP was amended, effective December 10, 2004, in order to reduce management's perceived dilution from issuing new shares at or below the underlying net asset value. The discount on reinvested dividends and optional cash purchases was reduced from 2% to 0%. The maximum monthly investment (without receiving approval from the Company) is currently \$1 thousand. As expected, these changes significantly reduced participation in the plan. Management will continue to monitor the relationship between the Company's stock price and estimated net asset value. In addition, in the fourth quarter of 2004, the Company began meeting share demand in the program through share repurchase by the transfer agent in the open market on the Company's behalf instead of new share issuance. This removes essentially 100% of the dilution caused by issuing new shares at a price less than the net asset value in an economic and efficient manner. During the first three 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 three months ended March 31, 2006, 107,800 shares were repurchased by the Company. At March 31, 2006, the Company had authorization to repurchase 3,112,395 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 March 31, 2006, the weighted average rate of interest on mortgage debt is 5.8% and the weighted average maturity is approximately seven years. Approximately 95% of the debt is fixed rate. This limits the exposure to changes in interest rates, minimizing the effect on results of operations and financial condition.

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 -

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Consolidated Financial Statements. The interpretation addresses consolidation by businesses of special purpose entities (variable interest entities, "VIE").

The Company is the general partner in one VIE syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company manages the day-to-day operations of the partnership for a management fee. In addition, the Company has an operating deficit guarantee and tax credit guarantee to its limited partner. The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards when cash flows reach certain levels. The effect on the consolidated balance sheet as of March 31, 2006 is an increase in "Total assets" of \$20,700, an increase in "Total liabilities" of \$18,200, and an increase in "Minority interest" of \$2,500. Of the \$18,200 increase in total liabilities, \$16,900 represent non-recourse mortgage debt.

Effective March 31, 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 three month period ended March 31, 2005 to adjust the net book value of the Company's investment in the property to the estimate of fair market value. This VIE is no longer considered held for sale as of December 31, 2005, and is included in the consolidated results of operations for both the three-month periods ending March 31, 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 \$7,300 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 \$7,700.

The Company, through its general partnership interest in an affordable property limited partnership, has guaranteed the low income housing tax credits to the limited partners for a period of ten 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 one 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

There were no transactions closed during the quarter ended March 31, 2006 for either acquisitions or dispositions.

During the first quarter the Company continued the previously announced marketing of its entire Detroit portfolio and received numerous offers for various combinations of properties and the entire portfolio. The Company is working with a specific buyer who is currently performing due diligence. The Company believes its previously stated financial expectations and timeline to complete the sale by the end of the second quarter of 2006 are achievable.

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

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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 \$65 million outstanding at March 31, 2006. The \$1.9 billion in mortgage notes payable have varying maturities ranging from 1 to 36 years. The weighted average interest rate of the Company's fixed rate notes was 5.87% and 5.95% at March 31, 2006 and December 31, 2005, respectively. The weighted average interest rate of the Company's variable rate notes and credit facility was 5.42% and 4.82% at March 31, 2006 and December 31, 2005, respectively.

The Company has a non-cancelable operating ground lease for one of its properties. The lease expires May 1, 2020, with options to extend the term of the lease for two successive terms of twenty-five years each. The lease provides for contingent rental payments based on certain variable factors. At March 31, 2006, future minimum rental payments required under the lease are \$70 per year until the lease expires.

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

On December 1, 2004, the Company entered into a lease agreement with a third party owner to manage the operations of one of its communities. The lease has a term of five years, but after two years, (from the 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 the 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.

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The Company estimates that on an annual basis \$525 per unit is spent on recurring capital expenditures. During the three-month periods ended March 31, 2006 and 2005, approximately \$131 per unit 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-month periods ended March 31, 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-month period ended March 31, 2006 as follows:

For the three-month period ended March 31,
(in thousands, except per unit data)
2006

	Recurring Cap Ex	Per Unit(a)	Non-Recurring Cap Ex	Per Unit(a)	Total Capital Improvements	Per Unit(a)	Total Cap Improvem
New Buildings	\$ -	\$ -	\$1,423	\$33	\$1,423	\$33	\$1,33
Major building improvements	988	23	3,508	81	4,496	104	2,10
Roof replacements	358	8	479	11	837	19	97
Site improvements	358	8	637	15	995	23	67
Apartment upgrades	717	17	4,253	98	4,970	115	4,54
Appliances	608	14	448	10	1,056	24	88
Carpeting/Flooring	1,857	42	566	13	2,423	55	2,13
HVAC/Mechanicals	554	13	2,749	63	3,303	76	2,18
Miscellaneous	261	6	622	14	883	20	91
Totals	\$5,701	\$131	\$14,685	\$338	\$20,386	\$469	\$15,75

(a) Calculated using the weighted average number of units outstanding, including 35,817 core units, 5,138 held for sale units, 2005 acquisition and construction units of 2,478 for the three-month period ended March 31, 2006 and 35,817 core units, 5,138 held for sale units and 2005 acquisition units of 550 for the three month period ended March 31, 2005.

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

For the three-month period ended March 31,
(in thousands, except per unit data)
2006

	Recurring Cap Ex	Per Unit(a)	Non-Recurring Cap Ex	Per Unit(a)	Total Capital Improvements	Per Unit(a)	Tota Imp
Core Communities	\$4,703	\$131	\$12,189	\$340	\$16,892	\$471	\$
Held For Sale	673	131	1,008	196	1,681	327	
Total Same Store 2006 Acquisition Communities	5,376	131	13,197	322	18,573	453	
2005 Acquisition	-	-	-	-	-	-	

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Communities	325	131	1,488	600	1,813	732
	-----	-----	-----	-----	-----	-----
Sub-total	5,701	131	14,685	338	20,386	469
2006 Disposed Communities	-	-	-	-	-	-
2005 Disposed Communities	-	-	-	-	-	-
Construction In Progress	-	-	4,195	-	4,195	-
Corporate office expenditures (1)	-	-	-	-	1,070	-
	-----	-----	-----	-----	-----	-----
	\$5,701	\$131	\$18,880	\$435	\$25,651	\$566
	-----	-----	-----	-----	-----	-----

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

Results of Operations

Comparison of three-months ended March 31, 2006 to the same period in 2005

The Company had 124 apartment communities with 35,817 units which were owned during the three-month periods being presented (the "Core Properties"). The Company has acquired/developed an additional eight apartment communities with 2,478 units during 2005 (the "2005 Acquired Communities"). The Company also disposed of four properties with a total of 816 units during 2005 (the "2005 Disposition Communities"). Also, the Company has placed twenty-one properties with a total of 5,138 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 Acquired Communities generally accounted for the significant changes in operating results for the three-months ended March 31, 2006. In addition, effective April 1, 2004, the reported income from operations include the consolidated report of one investment where the Company is the managing general partner that has been determined to be a VIE.

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

	Three Months		
	2006	2005	\$ Change
	----	----	-----
Rent	\$102,946	\$99,135	\$3,811
	-----	-----	-----
Utility Recovery Revenue	1,791	104	1,687
Other Income	5,101	4,374	727
	-----	-----	-----
Total Property Other Income	6,892	4,478	2,414
	-----	-----	-----
Total Revenue	109,838	103,613	6,225
Operating and Maintenance	(53,365)	(49,809)	(3,556)
	-----	-----	-----

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Net Operating Income	\$56,473 =====	\$53,804 =====	\$2,669 =====
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A summary of the net operating income from continuing operations is as follows (in thousands):

	Three Months -----		
	2006 ----	2005 ----	\$ Change -----
Rent	\$111,638 -----	\$100,885 -----	\$10,753 -----
Utility Recovery Revenue	1,900	104	1,796
Other Income	5,270 -----	4,410 -----	860 -----
Total Property Other Income	7,170 -----	4,514 -----	2,656 -----
Total Revenue	118,808	105,399	13,409
Operating and Maintenance	(58,135) -----	(51,226) -----	(6,909) -----
Net Operating Income	\$ 60,673 =====	\$ 54,173 =====	\$6,500 =====

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

Of the \$10,753 increase in rental income, \$6,820 is attributable to the Acquired Communities and \$122 is attributable to the VIE. The balance of this increase, or \$3,811 which is from the Core Properties, was the result of an increase of 2.5% in weighted average rental rates, plus an increase in occupancy from 92.8% to 94.1%. Occupancy is defined as total possible rental income, net of vacancy and bad debt expense as a percentage of total possible rental income. Total possible rental income is determined by valuing occupied units at contract rates and vacant units at market rents.

Property other income, which consists primarily of income from utility recovery charges, operation of laundry facilities, late charges, administrative fees, garage and carport charges, revenue from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents increased by \$2,656. Of this increase, \$242 is attributable to the Acquired Communities and \$2,414 represents a 53.9% increase from the Core Properties. Included in the Core increase is \$1,681 which represents increased utility recovery charges compared to 2005.

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Other income decreased \$48 due primarily to a decrease in the level of management fee activity as a result of the sale of the affordable limited partnerships.

Of the \$6,909 increase in operating and maintenance expenses, \$2,853 is attributable to the Acquired Communities and \$500 is attributable to the consolidation of the VIE. The balance, a \$3,556 increase, is attributable to the Core Properties and is primarily due to increases in natural gas heating costs, property insurance and site level incentive compensation. These increases were offset in part by a reduction in personnel costs and snow removal costs. Natural gas heating costs were up \$2,374 or 28.0% over 2005. We have seen significant increases in the cost of natural gas per decatherm. Last year we had a weighted average cost of \$6.23 per decatherm versus this year's average cost of \$9.65. Property insurance increased \$733, or 50.7%, 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. Site level incentive compensation increased \$271, or 81.1%. This represents an increased focus on creating a higher level of property management compensation coming from incentive based performance measures. Personnel expenses were down \$458, or 4.3%. Snow removal costs were down \$493 or 46.3%. The first quarter 2006 produced below normal snowfalls compared to normal snowfall in 2005.

General and administrative expense decreased in 2006 by \$366. General and administrative expenses as a percentage of total revenues were 3.9% for 2006 as compared to 4.5% for 2005. The decrease is the result of a \$1,000 reduction in external costs incurred for auditing, tax and consultation expense, including costs to comply with Section 404 of Sarbanes-Oxley. A significant portion of the costs in 2005 related to the non-recurring first year efforts for 404 compliance. This was partially offset by increases in recruiting, external costs associated with the implementation of a property management software system, and stock option compensation costs.

Interest expense increased in 2006 by \$3,994 as a result of the increased borrowings in connection with acquisition of the 2005 Acquisition Communities and additional mortgage debt and refinanced mortgage debt incurred during 2006.

Depreciation and amortization expense increased \$3,778 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 three-months ended March 31, 2005 are the operating results, net of minority interest, of four apartment community dispositions (all sold in 2005) and VIE dispositions (all sold in 2005).

In addition, included in discontinued operations for the three-months ended March 31, 2006 and 2005 are the operating results, net of minority interest, of twenty-one apartment communities held for sale as of March 31, 2006. For purposes of the discontinued operations presentation, the Company only includes interest expense associated with specific mortgage indebtedness of the properties that are sold or classified as held for sale.

Funds From Operations

Pursuant to the revised definition of Funds From Operations ("FFO") adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), FFO is defined as net income (computed in accordance with

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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 Improvement" 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-months ended March 31, 2006 and 2005 are presented below (in thousands):

	2006

Net income (loss) available to common shareholders	\$4,138
Real property depreciation and amortization	24,498
Minority interest	922
Minority interest - income (loss) from discontinued operations	1,285

FFO - Basic	\$30,843

Convertible preferred dividends ((2))	-
FFO - Diluted	\$30,843
	=====
Weighted average common shares/units	
outstanding(1):	
- Basic	47,912.2
	=====
- Diluted (2)	48,472.5
	=====

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

(2) The convertible preferred stock had an anti-dilutive effect; therefore, the convertible preferred dividends are not included in FFO diluted for the three-months ended March 31, 2005.

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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-month	
	Mar. 31, 2006 -----	Dec. 31, 2005 -----
EBITDA		
Total revenues	\$119,416	\$114,835
Net operating income (loss) from discontinued operations	5,017	5,677
Operating and maintenance	(58,135)	(51,801)
General and administrative	(5,039)	(5,209)
	\$61,259	\$63,502
Fixed Charges		
Interest expense	\$27,195	\$25,793
Interest expense on discontinued operations	1,286	1,578
Preferred dividends	1,350	1,350
Capitalized interest	313	312
	\$30,144	\$29,033
Times Coverage ratio:	2.03	2.19

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

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it is easier to temporarily finance an acquisition or stock repurchases in a short-term nature through the line of credit, with long-term secured financing or other sources of capital replenishing the line of credit availability.

Economic Conditions

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

Historically, real estate has been subject to a wide range of cyclical economic conditions, which affect various real estate sectors and geographic regions with differing intensities and at different times. Starting in 2001 and continuing into 2004 many regions of the United States had experienced varying degrees of economic recession and certain recessionary trends, such as a temporary reduction in occupancy and reduced pricing power limiting the ability to aggressively raise rents. Starting in the second half on 2004 and continuing into 2006, we have seen a reversal of these recessionary trends. In light of this, we will continue to review our business strategy; however, we believe that given our property type and the geographic regions in which we are located, we do not anticipate any changes in our strategy or material effects on financial performance.

Declaration of Dividend

On May 4, 2006, the Board of Directors approved a dividend of \$.64 per share on its common stock for the quarter ended March 31, 2006. This is the equivalent of an annual distribution of \$2.56 per share. The dividend is payable May 26, 2006 to shareholders of record on May 16, 2006.

On May 4, 2006, the Company also declared a regular dividend of \$.5625 per share on its Series F Cumulative Redeemable Preferred Stock, for the quarter ending May 31, 2006. The dividend on the preferred shares is payable on May 31, 2006 to shareholders of record on May 16, 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 2001, the Company underwent a state capital stock tax audit. The state had assessed taxes of \$469 for the 1998 and 1999 tax years under audit. At the time, the Company believed the assessment and the state's underlying position were not supportable by the law nor consistent with previously provided interpretative guidance from the office of the State Secretary of Revenue. During December 2003, the state's governor signed legislation which included the REIT tax provisions. Based upon this, Company's tax counsel expected that the outstanding litigation would now be able to be resolved. Effective January 1, 2003, the Company reorganized the ownership of Home Properties Trust, which should subject the Company to a much lower level of tax going forward. In September 2004, the Company settled the 1998 year under audit for a total of \$39, including

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interest. During the first quarter of 2005, the Company filed a protest with the State Commonwealth Court concerning the 1999 tax year. Settlement discussions have occurred during the third quarter of 2005 for the open years 1999-2001. In March 2006, the Company settled the 1999 year under audit for \$56, including interest. In addition, the Company has made settlement offers for the 2000 and 2001 years which, if accepted, would result in a payment of \$147, including interest. The Company believes that the likelihood of settling all of the open years has increased, and has accrued \$147 at March 31, 2006.

As a result of a State sales tax audit, the Company had filed Voluntary Disclosure Agreements ("VDAs") with the four other states where it estimated to have significant financial exposure. During the first six months of 2005, the Company signed VDAs with these states which agreed to limit the VDA filing period back to January 1, 2001, and has satisfied all financial obligations under the VDAs. For the six-month periods ended June 30, 2005, the Company has recorded adjustments to the liability for both the effects of signing the VDAs as well as for the results of the Company's additional testing for the first six months. The net impact of these adjustments resulted in a decrease in real estate assets of \$175, interest expense of \$115 and operating expenses of \$108 for a net decrease to the accrued liability of \$398. During the third quarter of 2005, the Company finalized negotiations with New York State settling a sales tax audit covering the period June 1, 2002 through November 30, 2004. The settlement was not materially different from what had been accrued and has been paid in full as of March 31, 2006.

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.

HOME PROPERTIES, INC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is interest rate risk. At March 31, 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 7 years for both periods, respectively, and a weighted average interest rate of approximately 5.87% and 5.95%, respectively, including the \$28 million and \$29 million, respectively, of debt which has been swapped to a fixed rate. The remainder of the Company's debt bears interest at variable rates with a weighted average maturity of approximately 18 and 12 years, respectively, and a weighted average interest rate of 4.75% and 4.54%, respectively, at March 31, 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

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expense as a result of inflation significantly impact the Company's distributable cash flow.

At March 31, 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 March 31, 2006 and December 31, 2005, the fair value of the Company's fixed rate debt, including the \$28 million and \$29 million, respectively, which was swapped to a fixed rate, amounted to a liability of \$1.84 billion and \$1.89 billion, respectively, compared to its carrying amount of \$1.82 billion and \$1.84 billion, respectively. The Company estimates that a 100 basis point increase in market interest rates at March 31, 2006 would have changed the fair value of the Company's fixed rate debt to a liability of \$1.76 billion.

The Company intends to continuously monitor and actively manage interest costs on its variable rate debt portfolio and may enter into swap positions based upon market fluctuations. In addition, the Company believes that it has the ability to obtain funds through additional equity offerings and/or the issuance of UPREIT Units. Accordingly, the cost of obtaining such interest rate protection agreements in relation to the Company's access to capital markets will continue to be evaluated. The Company has not, and does not plan to, enter into any derivative financial instruments for trading or speculative purposes. As of March 31, 2006, the Company had no other material exposure to market risk.

HOME PROPERTIES, INC.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

The principal executive officer and principal financial officer evaluated, as of March 31, 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 first 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.

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HOME PROPERTIES, INC.

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 three-months ended March 31, 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, 2004 the Company had authorization to repurchase 2,000,000 shares of common stock and UPREIT Units under the stock repurchase program. During 2005, the Company repurchased 2,779,805 shares at a cost of \$111,738,000, and in January, 2006, an additional 107,800 shares at a cost of \$4,468,000. On each of February 16, 2005 and November 4, 2005, the Board of Directors approved a 2,000,000-share increase in the stock repurchase program, resulting in a remaining authorization level of 3,112,395 shares as of March 31, 2006. The following table summarizes the total number of shares (units) repurchased by the Company during the three-month period ending March 31, 2006.

Period -----	Total shares (units) purchased(1) -----	Average price per share(unit) -----	Total shares (units) purchased as part of publicly- announced Plan -----
Balance December 31, 2005			
January 1, 2006 to January 31, 2006	109,359	\$41.54	107,800
February 1, 2006 to February 28, 2006	1,146	\$49.11	-
March 1, 2006 to March 31, 2006	9,643	\$49.92	-
	-----	-----	-----
	120,148	\$42.28	107,800
	-----	-----	-----

(1) During the three-months ended March 31, 2006, the Company repurchased 12,348 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

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Exhibit 10.82 Development Agreement, dated March 27, 2006 between Nelson B. Leenhouts and Home Properties, Inc. - Incorporated by reference to the Form filed by Home Properties, Inc. on March 27, 2006.

Exhibit 10.83 Amendment No. Eighty to the Second Amended and Restated Limited Partnership Agreement

Exhibit 31.1 Section 302 Certification of Chief Executive Officer

Exhibit 31.2 Section 302 Certification of Chief Financial Officer

Exhibit 32.1 Section 906 Certification of Chief Executive Officer

Exhibit 32.2 Section 906 Certification of Chief Financial Officer

SIGNATURES

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

HOME PROPERTIES, INC.
(Registrant)

Date: May 8, 2006

By: /s/ Edward J. Pettinella

Edward J. Pettinella
President and Chief Executive Officer

Date: May 8, 2006

By: /s/ David P. Gardner

David P. Gardner
Executive Vice President and
Chief Financial Officer