HOME PROPERTIES INC
Form 10-Q
November 02, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

¨ **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 or other jurisdiction of incorporation or organization)	(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 such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common Stock	**Outstanding at October 22, 2012**

$.01 par value	51,250,729

Table of Contents

HOME PROPERTIES, INC.

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HOME PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2012 AND DECEMBER 31, 2011

(Dollars in thousands, except per share data)

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Real estate:		
Land	$ 799,272	$ 721,542
Construction in progress	64,655	64,201
Buildings, improvements and equipment	4,606,058	4,256,581
	5,469,985	5,042,324
Less: accumulated depreciation	(1,094,705)	(983,759)
Real estate, net	4,375,280	4,058,565
Cash and cash equivalents	8,195	8,297
Cash in escrows	74,207	32,604
Accounts receivable, net	10,288	12,142
Prepaid expenses	23,490	15,994
Deferred charges	14,230	16,322
Other assets	12,058	9,282
Total assets	$ 4,517,748	$ 4,153,206
LIABILITIES AND EQUITY		
Mortgage notes payable	$ 2,208,427	$ 2,260,836
Unsecured notes payable	550,000	400,000
Unsecured line of credit	128,000	2,500
Accounts payable	29,829	20,953
Accrued interest payable	12,239	10,286
Accrued expenses and other liabilities	32,273	29,474
Security deposits	19,789	19,513
Total liabilities	2,980,557	2,743,562
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding		
Common stock, $0.01 par value; 80,000,000 shares authorized; 51,234,399 and 48,321,305 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	512	483

Excess stock, $0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding				
Additional paid-in capital		1,699,492		1,545,563
Distributions in excess of accumulated earnings		(424,238)		(392,378)
Accumulated other comprehensive income (loss)		(1,212)		
Total common stockholders equity		1,274,554		1,153,668
Noncontrolling interest		262,637		255,976
Total equity		1,537,191		1,409,644
Total liabilities and equity	$	4,517,748	$	4,153,206

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

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Dollars in thousands, except per share data)

(Unaudited)

		2012		2011
Revenues:				
Rental income	$	155,335	$	132,902
Property other income		12,654		10,517
Other income		32		25
Total revenues		168,021		143,444
Expenses:				
Operating and maintenance		59,975		54,838
General and administrative		8,018		7,803
Interest		32,871		32,696
Depreciation and amortization		43,186		35,996
Other expenses		15		1,630
Total expenses		144,065		132,963
Income from continuing operations		23,956		10,481
Discontinued operations:				
Income from discontinued operations		466		277
Gain on disposition of property		19,667		
Discontinued operations		20,133		277
Net income		44,089		10,758
Net income attributable to noncontrolling interest		(7,676)		(2,250)
Net income attributable to common stockholders	$	36,413	$	8,508
Basic earnings per share:				
Income from continuing operations	$	0.39	$	0.20
Discontinued operations		0.33		
Net income attributable to common stockholders	$	0.72	$	0.20
Diluted earnings per share:				
Income from continuing operations	$	0.39	$	0.20
Discontinued operations		0.32		
Net income attributable to common stockholders	$	0.71	$	0.20
Weighted average number of shares outstanding:				
Basic		50,255,152		41,707,655
Diluted		50,934,153		42,530,993

Dividends declared per share	$	0.66	$	0.62

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

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Dollars in thousands)

(Unaudited)

	2012	2011
Net income	$ 44,089	$ 10,758
Other comprehensive income (loss):		
Unrealized gain (loss) on interest rate swap agreements	(1,468)	
Other comprehensive income (loss)	(1,468)	
Comprehensive income	42,621	10,758
Net income attributable to noncontrolling interest	(7,676)	(2,250)
Other comprehensive (income) loss attributable to noncontrolling interest	256	
Comprehensive income attributable to common stockholders	$ 35,201	$ 8,508

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

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Dollars in thousands, except per share data)

(Unaudited)

		2012		2011
Revenues:				
Rental income	$	448,331	$	387,952
Property other income		39,785		35,017
Other income		63		94
Total revenues		488,179		423,063
Expenses:				
Operating and maintenance		178,945		165,785
General and administrative		27,367		22,865
Interest		95,843		98,403
Depreciation and amortization		124,602		104,564
Other expenses		2,726		1,739
Total expenses		429,483		393,356
Income from continuing operations		58,696		29,707
Discontinued operations:				
Income from discontinued operations		1,216		920
Gain on disposition of property		19,667		
Discontinued operations		20,883		920
Net income		79,579		30,627
Net income attributable to noncontrolling interest		(14,051)		(6,700)
Net income attributable to common stockholders	$	65,528	$	23,927
Basic earnings per share:				
Income from continuing operations	$	0.98	$	0.58
Discontinued operations		0.35		0.02
Net income attributable to common stockholders	$	1.33	$	0.60
Diluted earnings per share:				
Income from continuing operations	$	0.97	$	0.57
Discontinued operations		0.34		0.02
Net income attributable to common stockholders	$	1.31	$	0.59
Weighted average number of shares outstanding:				
Basic		49,218,703		39,743,267
Diluted		49,848,429		40,462,545

Dividends declared per share	$	1.98	$	1.86

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

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Dollars in thousands)

(Unaudited)

	2012	2011
Net income	$ 79,579	$ 30,627
Other comprehensive income (loss):		
Unrealized gain (loss) on interest rate swap agreements	(1,468)	
Other comprehensive income (loss)	(1,468)	
Comprehensive income	78,111	30,627
Net income attributable to noncontrolling interest	(14,051)	(6,700)
Other comprehensive (income) loss attributable to noncontrolling interest	256	
Comprehensive income attributable to common stockholders	$ 64,316	$ 23,927

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

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND THE YEAR ENDED DECEMBER 31, 2011

(Dollars in thousands)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance, January 1, 2011	37,949,229	$ 379	$ 1,047,325	$ (326,811)	$ 0	$ 214,241	$ 935,134
Net income				37,856		9,808	47,664
Issuance of common stock, net	3,881,833	39	216,564				216,603
Issuance of common stock through public offering, net	6,000,000	60	336,700				336,760
Stock-based compensation	21,457		10,105				10,105
Repurchase of common stock	(96,723)	(1)	(5,769)				(5,770)
Conversion of UPREIT Units for common stock	565,509	6	11,393			(11,399)	0
Adjustment of noncontrolling interest			(70,755)			70,755	0
Dividends and distributions paid				(103,423)		(27,429)	(130,852)
Balance, December 31, 2011	48,321,305	$ 483	$ 1,545,563	$ (392,378)	$ 0	$ 255,976	$ 1,409,644
Net income				65,528		14,051	79,579
Unrealized gain (loss) on interest rate swap agreements					(1,212)	(256)	(1,468)
Issuance of common stock, net	2,830,184	28	159,863				159,891
Stock-based compensation	1,550		12,214				12,214
Repurchase of common stock	(67,307)		(4,186)				(4,186)
Conversion of UPREIT Units for common stock	148,667	1	3,537			(3,538)	0
Adjustment of noncontrolling interest			(17,499)			17,499	0
Dividends and distributions paid				(97,388)		(21,095)	(118,483)
Balance, September 30, 2012	51,234,399	$ 512	$ 1,699,492	$ (424,238)	$ (1,212)	$ 262,637	$ 1,537,191

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

Table of Contents

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Dollars in thousands)

(Unaudited)

	2012	2011
Cash flows from operating activities:		
Net income	$ 79,579	$ 30,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	128,030	108,473
Amortization of senior note debt discount		1,640
Gain on disposition of property	(19,667)	
Stock-based compensation	12,214	8,827
Changes in assets and liabilities:		
Cash in escrows, net	(1,194)	(658)
Other assets	(9,401)	(5,683)
Accounts payable and accrued liabilities	8,025	2,572
Total adjustments	118,007	115,171
Net cash provided by operating activities	197,586	145,798
Cash flows from investing activities:		
Deposits for pending purchase of properties		(12,500)
Purchase of properties, net of mortgage notes assumed	(289,759)	(161,868)
Additions to properties	(120,511)	(84,393)
Additions to construction in progress	(39,324)	(23,837)
Additions to predevelopment	(440)	(1,027)
Proceeds from sale of properties, net	40,080	5,426
Proceeds from notes receivable		1,015
Additions to cash in escrows, net	(40,050)	(350)
Net cash used in investing activities	(450,004)	(277,534)
Cash flows from financing activities:		
Proceeds from sale of common stock, net	159,891	215,817
Proceeds from issuance of common stock through public offering, net		336,811
Repurchase of common stock	(4,186)	(5,047)
Payments of mortgage notes payable	(59,692)	(71,431)
Proceeds from unsecured notes payable	150,000	
Proceeds from unsecured line of credit	407,500	291,000
Payments on unsecured line of credit	(282,000)	(347,500)
Payments of deferred loan costs, net	(356)	(383)
Additions to cash in escrows, net	(358)	(3)
Dividends and distributions paid	(118,483)	(94,234)
Net cash provided by financing activities	252,316	325,030
Net increase (decrease) in cash and cash equivalents	(102)	193,294
Cash and cash equivalents:		
Beginning of year	8,297	10,782
End of period	$ 8,195	$ 204,076

Supplemental disclosure:		
Interest capitalized	$ 3,267	$ 4,214
Supplemental disclosure of non-cash investing and financing activities:		
Mortgage loan assumed associated with property acquisition	7,284	
Exchange of UPREIT Units for common stock	3,538	10,036
Transfers of construction in progress to land and buildings, improvements and equipment	42,388	94,172
Additions to properties and construction in progress included in accounts payable	10,910	5,819

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

Table of Contents

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

1 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, rehabilitation and development of residential apartment communities primarily in selected Northeast and Mid-Atlantic regions of the United States. The Company completed an initial public offering of 5,408,000 shares of common stock on August 4, 1994 and is traded on the New York Stock Exchange (NYSE) under the symbol HME . The Company is included in Standard & Poor s MidCap 400 Index.

The Company conducts its business through Home Properties, L.P. (the Operating Partnership), a New York limited partnership. As of September 30, 2012, the Company owned and operated 125 apartment communities with 43,807 apartments.

The Company has elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended, commencing with the taxable year ended December 31, 1994. As a result, the Company generally is not subject to federal or state income taxation at the corporate level to the extent it distributes annually at least 90% of its REIT taxable income to its shareholders and satisfies certain other requirements. For all periods presented, the Company distributed in excess of 100% of its taxable income; accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its ownership of 82.9% of the limited partnership units in the Operating Partnership (UPREIT Units) at September 30, 2012 (81.8% at December 31, 2011). The remaining 17.1% is included as noncontrolling interest in these consolidated financial statements at September 30, 2012 (18.2% at December 31, 2011). The Company periodically adjusts the carrying value of noncontrolling interest to reflect its share of the book value of the Operating Partnership. Such adjustments are recorded to additional paid in capital as a reallocation of noncontrolling interest in the accompanying consolidated statements of equity. 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 Home Properties Trust, which is the limited partner. 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.

The accompanying consolidated financial statements include the accounts of Home Properties Resident Services, Inc. which is a wholly owned subsidiary of the Company. All significant inter-company balances and transactions have been eliminated in these consolidated financial statements.

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain disclosures that would accompany annual financial statements prepared in accordance with GAAP are omitted. The year-end December 31, 2011 balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. 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 results of operations for the interim periods are not necessarily indicative of results which ultimately may be achieved for the full year. These 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, 2011.

Table of Contents

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

1 ORGANIZATION AND BASIS OF PRESENTATION (continued)

Accounting Policy for Derivative Instruments and Hedging Activities

The Company follows authoritative guidance for disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

2 RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 clarifies some existing concepts, eliminates wording differences between GAAP and International Financial Reporting Standards (IFRS), and in some limited cases, changes some principles to achieve convergence between GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 became effective for the Company on January 1, 2012. The Company s adoption of this authoritative guidance did not have any impact on its operating results or financial position.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*, which deferred the new requirement to present components of reclassifications of other comprehensive income on the face of the income statement. Both ASU 2011-05 and ASU 2011-12 became effective for the Company on January 1, 2012. The Company s adoption of this authoritative guidance did not have a material impact on its operating results or financial position.

Table of Contents

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

3 NOTES RECEIVABLE

On September 22, 2010, the Company purchased two non-performing mortgage notes from a community bank for $1,433 in an arm s length transaction. Both notes were in default. They were purchased at face value plus accrued interest and late fees and were collateralized by real property. One of the notes, originally purchased by the Company for $1,015, was repaid in its entirety on January 28, 2011. The remaining note, purchased for $418 is collateralized by vacant land. In accordance with authoritative guidance, the Company will recognize impairment to the extent the fair value of the collateral is less than the carrying amount of the investment in the note receivable. Interest income, if any, will be recognized on the cost recovery method. As of September 30, 2012, there was no impairment recognized and no interest income recorded on the remaining note. The remaining note receivable of $435 is included in other assets on the consolidated balance sheet as of September 30, 2012.

4 ACQUISITIONS AND DEVELOPMENT

Property Acquisitions

On May 11, 2012, the Company acquired The Manor East, a 164 unit apartment community located in Leesburg, Virginia. The total purchase price of $16,200 included the assumption of an existing $6,702 fixed rate mortgage at an interest rate of 5.69% and an April 1, 2016 maturity date (fair market value of $7,284) with the balance paid in cash. In connection with this acquisition, closing costs of approximately $91 were incurred and are included in other expenses for the second quarter of 2012.

On May 17, 2012, the Company acquired Woodway at Trinity Centre, a 504 unit apartment community located in Centreville, Virginia for a total purchase price of $96,000. In connection with this acquisition, closing costs of approximately $422 were incurred and are included in other expenses for the second quarter of 2012.

On June 28, 2012, the Company acquired Howard Crossing, a 1,350 unit apartment community located in Ellicott City, Maryland for a total purchase price of $186,000. In connection with this acquisition, closing costs of approximately $2,171 were incurred and are included in other expenses for the second quarter of 2012.

Development

During the third quarter of 2012, the Company completed construction at The Apartments at Cobblestone Square located in Fredericksburg, Virginia, consisting of eight, four-story buildings and a refurbished rail depot, for a total of 314 apartment units. As of September 30, 2012, 301 units were rented and occupied, with another 6 units pre-leased. The total construction cost for this development was $48,339.

During the fourth quarter of 2011, the Company started construction on Eleven55 Ripley, located in Silver Spring, Maryland, consisting of two buildings, a 21 story high-rise and a 5 story mid-rise, for a total of 379 apartment units. Construction is expected to be completed in 2014 with initial occupancy in the third quarter of 2013. The construction in progress for this development was $48,181 as of September 30, 2012.

During the second quarter of 2012, the Company started construction on The Courts at Spring Mill Station, located in Conshohocken, Pennsylvania, a suburb of Philadelphia. The mid-rise project, consisting of two buildings, will have a total of 385 apartment units. Construction is expected to be completed in the second half of 2014 with initial occupancy in the first quarter of 2014. The construction in progress for this development was $16,474 as of September 30, 2012.

Table of Contents

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

4 ACQUISITIONS AND DEVELOPMENT (continued)

Redevelopment

The Company has one project under redevelopment. Arbor Park, located in Alexandria, Virginia, has 851 garden apartments in fifty-two buildings built in 1967. The Company plans to extensively renovate all of the units over several years on a building by building basis. As of September 30, 2012, there were five buildings with 118 units under renovation and twenty-one buildings with 273 units completed and 266 units occupied. As of September 30, 2012, the Company has incurred costs of $10,907 for the renovation which is included in buildings, improvements and equipment. The entire project is expected to be completed in 2014.

The Company has one project in the pre-redevelopment phase. Falkland Chase, located in Silver Spring, Maryland, currently has 450 garden apartments constructed between 1936 and 1939. The Company has obtained the necessary approvals to redevelop the North parcel consisting of 182 units, which will be renamed Falkland North and consist of approximately 1,100 units. The cost associated with this project was $4,756 as of September 30, 2012 and is included in other assets.

5 UNSECURED NOTES PAYABLE

Unsecured Term Loan

In December 2011, the Company entered into a five-year unsecured term loan for $250,000 with M&T Bank as lead bank, and ten other participating lenders. The loan bears monthly interest at a variable rate based on LIBOR, plus a spread from 1.00% to 2.00% based on the Company s leverage ratio. On July 19, 2012, the Company entered into interest rate swap agreements that effectively convert the variable LIBOR portion of this loan to a fixed rate of 0.685%, as more fully described in Note 8. As of September 30, 2012, based on the Company s leverage ratio, the spread was 1.30%, and the one-month LIBOR was swapped at 0.685%; resulting in an effective rate of 1.99% for the Company. The loan has covenants that align with the unsecured line of credit facility. The Company was in compliance with these financial covenants for the nine months ended September 30, 2012.

Unsecured Demand Note

On June 27, 2012, the Company entered into a loan agreement with M&T Bank. The note has a maximum principal amount of $100,000 with monthly interest at a variable rate based on LIBOR, plus a spread from 1.00% to 2.00% based on the Company s leverage ratio. As of September 30, 2012, based on the Company s leverage ratio, the spread was 1.30%, and the one-month LIBOR was 0.25%; resulting in an effective rate of 1.55% for the Company. Proceeds from this demand note were utilized to partially fund the purchase of a 1,350 unit apartment community on June 28, 2012. The Company had $100,000 outstanding on the note as of September 30, 2012.

Unsecured Senior Notes

In December 2011, the Company issued $150,000 of unsecured senior notes. The notes were offered in a private placement in two series: Series A: $90,000 with a seven-year term due December 19, 2018 at a fixed interest rate of 4.46% (Series A); and, Series B: $60,000 with a ten-year term due December 19, 2021 at a fixed interest rate of 5.00% (Series B).

On June 27, 2012, the Company issued another private placement note in the amount of $50,000 with a seven-year term, a fixed rate of 4.16% and a June 27, 2019 due date. The proceeds from this note were used to partially fund the purchase of a 1,350 unit apartment community on June 28, 2012.

Table of Contents

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

5 UNSECURED NOTES PAYABLE (continued)

Unsecured Senior Notes (continued)

The unsecured senior notes are subject to various covenants and maintenance of certain financial ratios. Although the covenants of the notes do not duplicate all the covenants of the unsecured line of credit facility, any covenants applicable to both the notes and the line are identical. The Company was in compliance with these financial covenants for the nine months ended September 30, 2012.

6 UNSECURED LINE OF CREDIT

On December 9, 2011, the Company entered into an Amended and Restated Credit Agreement (the Credit Agreement), which provides for a $275,000 revolving credit facility with an initial maturity date of December 8, 2015 and a one-year extension at the Company s option. The Credit Agreement amended the Company s prior $175,000 facility, which was scheduled to expire on August 31, 2012, not including a one-year extension at the Company s option. The Credit Agreement is with M&T Bank and U.S. Bank National Association as joint lead arrangers, M&T Bank as administrative agent and nine other commercial banks as participants. The Company had $128,000 outstanding under the credit facility as of September 30, 2012. Borrowings under the line of credit bear interest at a variable rate based on LIBOR, plus a spread from 1.00% to 2.00% based on the Company s leverage ratio. As of September 30, 2012, based on the Company s leverage ratio, the spread was 1.30%, and the one-month LIBOR was 0.25%; resulting in an effective rate of 1.55% for the Company.

The Credit Agreement requires the Company to maintain certain financial ratios and measurements including a limitation on outstanding indebtedness and a minimum interest coverage ratio. The Company was in compliance with these financial covenants for the nine months ended September 30, 2012.

The Credit Agreement also provides the ability to issue up to $20,000 in letters of credit. While the issuance of letters of credit does not increase borrowings outstanding under the line of credit, it does reduce the amount available. At September 30, 2012, the Company had outstanding letters of credit of $13,162 and the amount available on the credit facility was $133,838.

7 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Carried at Fair Value

The fair value of interest rate swaps, which are more fully described in Note 8, are determined using the market standard of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rate forward curves derived from observable market interest rate curves (level 2 inputs, as defined by the authoritative guidance). The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. The Company has determined that the significant inputs used in this model are observable in active markets, therefore considers the interest rate swap liability valuation of $1,468 at September 30, 2012 classified in level 2 of the fair value hierarchy.

Financial Instruments Not Carried at Fair Value

The Company follows the authoritative guidance for fair value measurements when valuing its financial instruments for disclosure purposes. The valuation of financial instruments requires the Company to make estimates and judgments that affect the fair value of the instruments.

Table of Contents

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

7 &#