

ASSOCIATED ESTATES REALTY CORP
Form 8-K
November 26, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): March 19, 2008

ASSOCIATED ESTATES REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Commission File Number 1-12486

Ohio
(State or other jurisdiction of
incorporation or organization)

34-1747603
(I.R.S. Employer
Identification Number)

1 AEC PARKWAY, RICHMOND HEIGHTS, OHIO 44143-1467

(Address of principal executive offices)

(216) 261-5000

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 8.01 Other Events

During the quarter ended March 31, 2008, the Company disposed of ten Affordable Housing properties and four Same Community properties. Also, during the quarter ended June 30, 2008, the Company disposed of one Affordable Housing property. These properties had been consolidated in the results of operations of the Company since they were acquired.

This Form 8-K is being filed to reflect the impact of the reclassification as discontinued operations of the consolidated properties sold in March and April 2008, pursuant to the requirements of Statement of Financial Accounting Standards ("SFAS"), 144 "Accounting for the Impairment or Disposal of Long Lived Assets" for the three years ended December 31, 2007, 2006 and 2005, including Management's Discussion and Analysis of Financial Condition and Results of Operations and Selected Financial Data.

In compliance with SFAS 144, the Company has reported revenues, expenses and the gain on the disposition from these properties as income from discontinued operations for each period presented in its quarterly reports filed during 2008 (including the comparable periods of the prior year). Under generally accepted accounting principals in the United States of America ("GAAP"), the same reclassification to discontinued operations as required by SFAS 144 subsequent to the sale of the properties is required for previously issued annual financial statements for each of the years shown in the Company's last annual report on Form 10-K, if those financials are included or incorporated by reference in subsequent filings with the SEC made under the Securities Act of 1933, as amended, even though those financial statements relate to periods prior to the date of the sale. This reclassification has no effect on the Company's reported net income available to common shareholders.

This Report on Form 8-K updates Items 6, 7 and 8 of the Company's Form 10-K for the year ended December 31, 2007, to reflect the properties sold during 2008 as discontinued operations, as appropriate. All other items of the Form 10-K remain unchanged. No attempt has been made to update matters in the Form 10-K except to the extent expressly provided above. Readers should refer to the Company's quarterly reports on Form 10-Q for information related to periods subsequent to December 31, 2007.

Item 6. Selected Financial Data

The following tables set forth selected financial and other data for us on a consolidated basis. The historical financial information contained in the tables has been derived from and should be read in conjunction with (i) our Consolidated Financial Statements and Notes thereto and (ii) Management's Discussion and Analysis of Financial Condition and Results of Operations both included elsewhere herein.

	2007	2006	2005	2004	2003
Operating Data:					
<i>Revenue</i>					
Property revenue	\$ 118,579	\$ 107,418	\$ 99,526	\$ 92,600	\$ 91,038
Management and service operations:					
Fees, reimbursements and other	10,914	11,689	11,723	13,400	14,310
Painting services	2,218	1,078	1,094	6,147	2,827
Total revenue	131,711	120,185	112,343	112,147	108,175
Total expenses	(107,946)	(99,335)	(93,337)	(90,294)	(90,467)
Interest income	429	650	627	304	144
Interest expense	(40,385)	(47,065)	(35,535)	(32,332)	(32,373)
(Loss) income before gain on disposition of investment, equity in net loss of joint ventures, gain on sale of partnership interest, minority interest, and income from discontinued operations	(16,191)	(25,565)	(15,902)	(10,175)	(14,521)
Gain on disposition of investment	-	-	150	-	-
Equity in net loss of joint ventures	(258)	(462)	(644)	(923)	(1,157)
Gain on sale of partnership interest	-	-	-	-	1,314
Minority interest in operating partnership	(53)	(61)	(63)	(63)	(75)
(Loss) income from continuing operations	(16,502)	(26,088)	(16,459)	(11,161)	(14,439)
Income from discontinued operations:					
Operating income (loss)	5,803	(984)	4,129	4,803	3,526
Gain on disposition of properties	20,864	54,093	48,536	9,682	-
Income from discontinued operations	26,667	53,109	52,665	14,485	3,526
Net income (loss)	10,165	27,021	36,206	3,324	(10,913)
Preferred share dividends	(4,924)	(5,046)	(5,130)	(5,805)	(5,484)
Original issuance costs related to redemption of preferred shares	(172)	-	(2,163)	-	-
Net income (loss) applicable to common shares	\$ 5,069	\$ 21,975	\$ 28,913	\$ (2,481)	\$ (16,397)
Earnings per common share - Basic and Diluted:					
(Loss) income from continuing operations applicable to common shares	\$ (1.28)	\$ (1.83)	\$ (1.24)	\$ (0.87)	\$ (1.03)
Income from discontinued operations	1.58	3.12	2.75	0.74	0.18
Net income (loss) applicable to common shares	\$ 0.30	\$ 1.29	\$ 1.51	\$ (0.13)	\$ (0.85)
Weighted average number of common shares outstanding	16,871	17,023	19,162	19,519	19,401
Dividends declared per common share	\$ 0.68	\$ 0.68	\$ 0.68	\$ 0.68	\$ 0.68

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	2007	2006	2005	2004	2003
Cash flow data:					
Cash flow provided by operations	\$ 28,962	\$ 17,912	\$ 24,376	\$ 32,935	\$ 30,758
Cash flow (used for) provided by investing activity	(38,610)	73,935	4,421	(12,745)	(11,509)
Cash flow (used for) provided by financing activity	(18,813)	(101,570)	(50,798)	37,332	15,937
Balance Sheet Data at December 31:					
Real estate assets, net	\$ 659,586	\$ 591,520	\$ 645,937	\$ 665,268	\$ 661,585
Total assets	686,796	648,829	719,242	762,917	704,793
Total debt	556,695	498,634	573,570	557,279	543,496
Total shareholders' equity	89,786	112,051	108,980	163,590	121,428
Other Data:					
Net operating income (a) (c)	\$ 64,475	\$ 57,710	\$ 53,918	\$ 53,726	\$ 49,726
Total properties (at end of period) - includes joint ventures	64	66	74	76	78
Total multifamily units (at end of period) - includes joint ventures	14,450	15,355	17,395	17,854	18,313
Average monthly net collected rent per unit	\$ 815	\$ 750	\$ 689	\$ 671	\$ 657
Physical occupancy (b)	94.5 %	94.5 %	92.9 %	91.7 %	92.7 %

(a) We evaluate the performance of our reportable segments based on net operating income ("NOI"). NOI is determined by deducting property operating and maintenance expenses, direct property management and service company expenses and painting service expense from total revenue. We consider NOI to be an appropriate supplemental measure of our performance because it reflects the operating performance of our real estate portfolio and management and service companies at the property and management and service company level and is used to assess regional property and management and service company level performance. NOI should not be considered (i) as an alternative to net income determined in accordance with accounting principles generally accepted in the United States ("GAAP"), (ii) as an indicator of financial performance, (iii) as cash flow from operating activities (determined in accordance with GAAP) or (iv) as a measure of liquidity; nor is it necessarily indicative of sufficient cash flow to fund all of our needs. Other real estate companies may define NOI in a different manner.

(b) Physical occupancy represents the actual number of units leased divided by the total number of units available at the end of the period.

(c) Reconciliation of NOI to net income (loss):

<i>(In thousands)</i>	Year Ended December 31,				
	2007	2006	2005	2004	2003
Net operating income	\$ 64,475	\$ 57,710	\$ 53,918	\$ 53,726	\$ 49,276
Depreciation and amortization	(30,383)	(27,020)	(26,913)	(24,102)	(25,484)
General and administrative expense	(10,327)	(9,840)	(7,999)	(7,771)	(6,084)
Interest income	429	650	627	304	144
Interest expense	(40,385)	(47,065)	(35,535)	(32,332)	(32,373)
Gain on disposition of investment	-	-	150	-	-
Equity in net loss of joint ventures	(258)	(462)	(644)	(923)	(1,157)
Gain on sale of partnership interest	-	-	-	-	1,314
Minority interest in operating partnership	(53)	(61)	(63)	(63)	(75)
Income from discontinued operations:					
Operating income (loss)	5,803	(984)	4,129	4,803	3,526
Gain on disposition of properties	20,864	54,093	48,536	9,682	-
Income from discontinued operations	26,667	53,109	52,665	14,485	3,526
Net income (loss)	\$ 10,165	\$ 27,021	\$ 36,206	\$ 3,324	\$ (10,913)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Part II, Item 8 of the Form 10-K for the year ending December 31, 2007. This discussion may contain forward-looking statements based on current judgments and current knowledge of management, which are subject to certain risks, trends and uncertainties that could cause actual results to vary from those projected, including but not limited to, expectations regarding our 2008 performance, which is based on certain assumptions. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements which speak only as of the dates of the document. These forward-looking statements are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "expects", "projects", "believes", "plans", "anticipates", and similar expressions are intended to identify forward-looking statements. Investors are cautioned that our forward-looking statements involve risks and uncertainty, which could cause actual results to differ from estimates or projections contained in these forward-looking statements. For a discussion of these risks and uncertainties, see "Risk Factors" in Item 1A.

Overview. We are engaged primarily in the operation of multifamily residential units that we own. We also provide asset and property management services to third party owners of multifamily residential units for which we are paid fees. Our primary source of cash and revenue from operations is rents from the leasing of owned apartment units. Approximately 90.0% of our consolidated revenue was generated from the leasing of these owned units for the year ended December 31, 2007, and approximately 94.5% of the property revenue generated by these owned properties was related to the Market-Rate properties. During the third quarter of 2007, we announced our plan to exit the Affordable Housing business. As of December 31, 2007, we have reduced our management of properties to only three, one of which is an Affordable Housing property. The owned Affordable Housing properties were all sold during March and April of 2008 and the joint venture affordable housing property is under contract for sale.

We consider property NOI to be an important indicator of our overall performance. Property NOI (property operating revenue less property operating and maintenance expenses) is a measure of the profitability of our properties, which has the largest impact of all of our sources of income and expense on our financial condition and operating results. See Note 19 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K for additional information regarding property NOI and total NOI, in addition to a reconciliation of total NOI to consolidated net income in accordance with accounting principals generally accepted in the United States of America ("GAAP").

Our three reportable segments are based upon types of property and services and consist of our Market-Rate properties (94.5% of total property revenue), properties we acquired or developed within the prior year and properties that have been sold or are classified as held for sale, which segment is referred to as Acquisition/Disposition, and our Management and Service Operations.

Our Same Community Market-Rate portfolio consists of 46 properties containing 11,025 units and accounted for 94.5% of total property revenue in 2007 and 93.8% of our property NOI. During 2007 our net collected rents for the Market-Rate portfolio increased 4.0%. This growth was due to an increase of 4.5% for our Midwest portfolio and 3.0% for our Mid-Atlantic/Southeast portfolio. The growth rate in our Midwest portfolio is similar to the growth we recognized in 2006, while the growth rate for our Mid-Atlantic/Southeast portfolio was much less than the 11.6% growth rate we recognized in 2006. We anticipate that for 2008 the net collected rents for the Same Community Market-Rate portfolio will grow at approximately 3.0% to 3.3%.

In 2008, we will continue to evaluate potential property acquisitions in higher growth markets that we have identified. However, recent limited transactional activity in these markets may hinder our ability to find suitable replacement properties that satisfy our investment criteria. We may also consider selling assets in any market, including the Mid-Atlantic and Southeast markets, where market conditions are such that the reinvestment of cash proceeds derived from a sale are expected to provide a significantly greater return on equity and an increase in cash flow.

We are also focused on reducing overall interest rate charges on our borrowings which, at December 31, 2007, had a weighted average rate of 6.7%. We plan to accomplish this goal by using a portion of any sale proceeds to pay off debt or refinance existing debt with new debt at lower interest rates.

In order to increase property NOI, we plan to continue to focus our efforts on improving revenue, controlling costs and realizing operational efficiencies at the property level, both regionally and portfolio-wide. In 2007, we updated all of our property websites to offer prospective tenants virtual property tours, and the ability to check availability and reserve an apartment unit online. In 2008, we plan to offer online leasing and a resident portal feature that gives residents the ability to pay rent, sign up for utilities, request maintenance services and create their own personal web home page. Also in 2007, we introduced a product standardization initiative designed to reduce costs in certain areas and in 2008, we plan to expand this program into other areas to provide additional savings.

2008 Expectations:

Portfolio performance - We expect to increase our Market-Rate property NOI by approximately 3.3% to 3.7% in 2008, driven by property revenue increases of 3.0% to 3.3%. However, these expectations may be adversely impacted if the economy suffers a broad and prolonged recessionary period.

Property acquisitions and sales - We plan to acquire approximately \$100.0 million of properties, while disposing of approximately \$100.0 million of properties. Included in these dispositions are the 11 Affordable Housing properties, which contributed income of approximately \$0.20 per common share from property operations and \$0.09 per common share relating to the settlement of a lawsuit in 2007 pertaining to the collection of past due rents. These properties are expected to be disposed of during the first half of 2008.

Defeasance and other prepayment costs - We expect to incur approximately \$2.0 million in costs to defease/prepay or refinance debt during 2008.

Federal Income Taxes. We have elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, commencing with our taxable year ending December 31, 1993. REITs are subject to a number of organizational and operational requirements including a requirement that 90.0% of the income that would otherwise be considered as taxable income be distributed to shareholders. Providing we continue to qualify as a REIT, we will generally not be subject to federal income tax on net income. However, our Service Companies are subject to federal income tax.

A REIT is precluded from owning more than 10.0% of the outstanding voting securities of any one issuer, other than a wholly owned subsidiary or another REIT, and more than 10.0% of the value of all securities of any one issuer. As an exception to this prohibition, a REIT is allowed to own up to 100% of the securities of a Taxable REIT Subsidiary ("TRS") that can provide non-customary services to REIT tenants and others without disqualifying the rents that a REIT receives from its tenants. However, no more than 20.0% of the value of a REIT's total assets can be represented by securities of one or more TRS's. The amount of intercompany interest and other expenses between a TRS and a REIT are subject to arms length allocations. We have elected TRS status for all of our Service Companies.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Liquidity. Significant sources and uses of cash in the past three years are summarized as follows:

Significant Cash Sources (Uses):

(In thousands)	Year Ended December 31,		
	2007	2006	2005
Net cash provided by operating activities	\$ 28,962	\$ 17,912	\$ 24,376
Fixed assets:			
Property acquisitions, net	(70,547)	(256)	(65,320)
Property disposition proceeds, net	46,478	87,038	78,739
Recurring and non-recurring capital expenditures	(12,300)	(12,526)	(8,998)
Debt:			
(Decrease) increase in mortgage notes	(3,939)	(74,937)	27,007
Increase (decrease) in revolver or line of credit borrowings	20,000	-	(10,000)
Issuance of unsecured trust preferred securities	-	-	25,780
Cash dividends and operating partnership distributions paid	(16,554)	(16,872)	(18,742)
Purchase of preferred and/or treasury shares	(16,861)	(10,258)	(73,677)

Our primary sources of liquidity are cash flow provided by operations, short-term borrowings on the revolver and proceeds from property sales. The increase in cash provided by operations in 2007 compared to 2006 was primarily due to an increase in property revenues provided mainly by the two properties acquired in June 2007 and a reduction in defeasance and other prepayment costs incurred in 2007 compared to 2006. This increase in cash flow was partially offset by changes in accounts payable and accounts receivable resulting from the timing of cash payments.

The decrease in cash provided by operations in 2006 compared to 2005 was primarily due to the payment of \$14.4 million of defeasance and other prepayment costs, which were funded by property sales and secured borrowings. Excluding these costs, cash flow from operations would have increased \$7.9 million primarily due to changes in accounts payable and accounts receivable resulting from the timing of cash payments.

During 2007, cash on hand, funds received from the sale of properties and funds borrowed on the revolver were primarily used to acquire two operating properties and repurchase our common and preferred shares pursuant to our stock repurchase plan.

Revolving Credit Facility. In April 2007, we obtained a \$100.0 million unsecured revolving credit facility which is being used for the refinancing of existing debt, the acquisition of properties and general corporate purposes. The revolver provides for, without limitation, a maximum debt limitation and other financial covenants related to net worth, leverage, fixed charge coverage, unencumbered interest coverage, and dividend payments. We terminated our \$17.0 million and \$14.0 million secured lines of credit simultaneously with obtaining the revolver. At December 31, 2007, there were borrowings of \$20.0 million outstanding on the revolver. We are currently in negotiation with our lenders to increase this credit facility.

Shelf Availability. We have a shelf registration statement on file with the Securities and Exchange Commission relating to a possible offering, from time to time, of debt securities, preferred shares, depositary shares, common shares and common share warrants. The remaining availability under the shelf registration at December 31, 2007, is \$214.7 million. However, it is unlikely that we could issue debt securities under this shelf registration without first making major modifications to the shelf registration debt covenants.

Liquidity: Normal Business Operations. We anticipate that we will meet our business operations and liquidity requirements for the upcoming year generally through net cash provided by operations. We believe that if net cash provided by operations is below projections, other sources, such as the revolver, secured and unsecured borrowings, and property sales proceeds are or can be made available and should be sufficient to meet our business operations and liquidity requirements.

Liquidity: Non-Operational Activities. Sources of cash available for paying down debt, acquiring properties or buying back our shares are expected to be provided primarily by property sale proceeds, refinancings and from the revolver.

Long-Term Contractual Obligations. The following table summarizes our long-term contractual obligations at December 31, 2007, as defined by Item 303(a) 5 of Regulation S-K of the Securities and Exchange Act of 1934.

(In thousands)	Total	Payments Due In				2013 and Later Years
		2008	2009-2010	2011-2012		
Contractual Obligations						
Debt payable - principal	\$ 556,695	\$ 34,635	\$ 174,891	\$ 144,642	\$ 202,527	
Debt payable - interest	199,828	37,079	63,600	41,176	57,973	
Operating leases	877	144	146	75	512	
Purchase obligations	83,485	83,112	373	-	-	
Total	\$ 840,885	\$ 154,970	\$ 239,010	\$ 185,893	\$ 261,012	

Debt Payable-Principal. Debt payable-principal includes principal payments on all property specific mortgages, the revolving credit facility and unsecured debt. For detailed information about our debt, see Note 6 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Debt Payable-Interest. Debt payable-interest includes accrued interest at December 31, 2007 and interest payments as required based upon the terms of the debt in existence at December 31, 2007. Interest related to floating rate debt is calculated based on applicable rates as of December 31, 2007.

Operating Leases. We lease certain equipment and facilities under operating leases. For detailed information about our lease obligations, see Note 10 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Purchase Obligations. Purchase obligations represent agreements to purchase goods or services and contracts for the acquisition of properties that are legally binding and enforceable and that specify all significant terms of the agreement. Our purchase obligations include, but are not limited to, vendor contracts for property operations entered into in the normal course of operations, such as for landscaping, snow removal, elevator maintenance, security, trash removal and electronically generated services. Obligations included in the above table represent agreements dated December 31, 2007, or earlier.

Dividends. On December 10, 2007, we declared a dividend of \$0.17 per common share, which was paid on February 1, 2008, to shareholders of record on January 15, 2008. We anticipate that we will continue paying quarterly dividends and that we will sustain our current dividend rate of \$0.17 per quarter. Additionally, on January 29, 2008, we declared a quarterly dividend of \$0.54375 per Depositary Share on our Class B Cumulative Redeemable Preferred Shares, which will be paid on March 14, 2008, to shareholders of record on February 29, 2008.

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Capital Expenditures. We anticipate incurring approximately \$14.0 million in capital expenditures for 2008. This includes replacement of worn carpet and appliances, parking lots, roofs and similar items in accordance with our current property expenditure plan, as well as commitments for investment/revenue enhancing and non-recurring expenditures. These commitments are expected to be funded largely with cash provided by operating activities and proceeds from property sales.

Financing and Other Commitments. The following table identifies our total debt outstanding and weighted average interest rates as of December 31, 2007 and 2006:

<i>(Dollar amounts in thousands)</i>	Balance Outstanding December 31, 2007	Weighted Average Interest Rate	Balance Outstanding December 31, 2006	Weighted Average Interest Rate
FIXED RATE DEBT				
Mortgages payable - CMBS	\$ 200,168	7.7%	\$ 303,945	7.7%
Mortgages payable - other	275,747	5.8%	132,209	6.1%
Unsecured borrowings	25,780	7.9%	25,780	7.9%
Total fixed rate debt	501,695	6.7%	461,934	7.3%
VARIABLE RATE DEBT				
Mortgages payable	35,000	6.2%	36,700	6.6%
Revolver / lines of credit borrowings	20,000	6.7%	-	0.0%
Total variable rate debt	55,000	6.4%	36,700	6.6%
TOTAL DEBT	\$ 556,695	6.7%	\$ 498,634	7.2%

The following table provides information on loans defeased/prepaid and loans obtained during 2007:

<i>(Dollar amounts in thousands)</i>	Loans prepaid/defeased		Loans obtained	
Property	Amount	Rate	Amount	Rate
Chestnut Ridge	\$ 14,632	7.5%	\$ 19,000	6.2% (a)
Residence at White River	8,284	7.5%	9,221	5.4%
Spring Valley Apartments	11,008	7.5%	10,817	5.4%
Georgetown Park Apartments	19,379	7.9%	16,000	6.2% (a)
Muirwood Village at Bennell	3,773	7.9%	-	N/A
Waterstone Apartments	15,729	7.5%	16,500	5.8%
Lake Forest	5,764	7.9%	-	N/A
The Landings at the Preserve	6,740	7.9%	-	N/A
Residence at Barrington	15,152	7.9%	19,500	5.8%
The Alexander at Ghent	-	N/A	24,500	5.8%
Cambridge at Buckhead	11,800	7.1% (a)	-	N/A
Aspen Lakes	3,900	7.1% (a)	-	N/A
	\$ 116,161	7.6% (b)	\$ 115,538	5.8% (b)

(a) Denotes variable rate loan. Variable rates on loans obtained are as of December 31, 2007.

(b) Represents weighted average interest rate for the loans listed.

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At December 31, 2007, we had 25 unencumbered properties, 11 of which are Affordable Housing properties. These 25 properties had net income of \$8.8 million for the year ended December 31, 2007, and a net book value of \$156.1 million at December 31, 2007. Twelve of these unencumbered properties are scheduled for disposition during the first half of 2008. On March 19, 2008, we completed the sale of ten Affordable Housing properties and on April 25, 2008, we completed the sale of the eleventh Affordable Housing property.

We own six of the Affordable Housing unencumbered properties pursuant to ground lease agreements which, upon expiration of the applicable lease, require reversion of the land and building to the ground lessor. These ground leases expire at various dates from 2021 to 2036. Total revenue derived from these properties was \$6.8 million, \$5.2 million and \$4.9 million for the years ended December 31, 2007, 2006 and 2005, respectively. Furthermore, at the end of the term of each ground lease, any remaining replacement reserves applicable to four of those properties revert to the ground lessor. Such replacement reserves included in restricted cash were \$558,000 and \$565,000 at December 31, 2007 and 2006, respectively. With respect to such leases, we paid ground rent of \$33,000 for each the years ended December 31, 2007, 2006 and 2005. In connection with the above referenced March 19, 2008 sale, we acquired the ground lessor's interest in the six Affordable Housing properties.

One of the unencumbered properties is subject to a right of reverter. This provision requires that the land and real estate assets revert at expiration back to the original grantor from whom we acquired this property or its successors and assignees, which is in September 2037. The net book value of this property was \$678,000 at December 31, 2007. This property generated revenue of \$1.0 million, \$997,000, and \$934,000 for the years ended December 31, 2007, 2006 and 2005, respectively, and net income of \$299,000, \$318,000, and \$344,000 for 2007, 2006, and 2005 respectively.

We lease certain equipment and facilities under operating leases. Future minimum lease payments under all noncancellable-operating leases in which we are the lessee, principally for ground leases, are included in the previous table of contractual obligations.

Off-Balance Sheet Investments and Financing Commitments. We have an investment in a joint venture that owns an Affordable Housing property. The operation of this property is similar to the operations of our wholly owned portfolio. Joint venture investments enable us to exercise influence over the operations of such properties and share in their profits, while earning additional fee income. We account for our investment in the unconsolidated joint venture under the equity method of accounting as we exercise significant influence, but do not control this entity and are not required to consolidate it in accordance with FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" or under EITF 04-05, "Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights". This investment was initially recorded at cost as investment in joint ventures and subsequently adjusted for equity in earnings and cash contributions and distributions. This joint venture property had negative cash flow during 2007 and is expected to have negative cash flow during 2008 as a result of operating expenses exceeding tenant rents and the housing assistance payments from HUD. The joint venture partnership that owns this property has entered into a contract to sell it. Our proportionate share of the debt on this property at December 31, 2007, was \$2.1 million.

For summarized financial information for this joint venture, see Note 7 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Operating Partnership. As provided in the AERC HP Investors Limited Partnership Agreement ("DownREIT Partnership"), we, as general partner, have guaranteed the obligation of the DownREIT Partnership to redeem OP units held by the limited partners. The DownREIT Partnership was formed in 1998. Under the terms of the DownREIT Partnership Agreement, the DownREIT Partnership is obligated to redeem OP units for our common shares or cash, at our discretion, at a price per OP unit equal to the 20 day trailing price of our common shares for the immediate 20 day period preceding a limited partner's redemption notice. During 2007, we redeemed 942 OP units. As of December 31, 2007, there were 78,335 OP units remaining having a carrying value of \$1.8 million, and 443,697 of the original 522,032 OP units had been redeemed. These transactions had the effect of increasing our interest in the DownREIT Partnership from 85.0% to 97.4%. For additional information regarding the OP units, see Note 1 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Acquisitions and Development. On June 29, 2007, we acquired our joint venture partner's 51.0% interest in Idlewylde Apartments, an 843-unit Market-Rate property located in Atlanta, Georgia. We previously owned a 49.0% interest in this partnership and had accounted for this investment under the equity method of accounting. We paid our partner \$21.6 million in cash and assumed responsibility for the entire mortgage debt encumbering the property. Commencing June 29, 2007, the results of operations, financial condition (including the existing \$42.0 million non-recourse mortgage loan), and cash flows of this property are included in our consolidated financial statements.

On June 8, 2007, we acquired a 268-unit Market-Rate property located in Norfolk, Virginia for a purchase price of \$48.3 million. The purchase was funded primarily by 1031 proceeds from the disposition of a Market-Rate property, which we sold on May 30, 2007, and with borrowings from our revolving credit facility.

On May 25, 2007, we acquired the land on which one of our Affordable Housing properties is located for a purchase price of \$897,000. We had been leasing this land pursuant to a ground lease which was scheduled to mature in 2021.

We intend to continue to evaluate potential property acquisitions in higher growth markets that we previously identified. Any future property acquisitions or developments would be financed with the most appropriate sources of capital, which may include the assumption of mortgage indebtedness, bank and other institutional borrowings, the exchange of properties, undistributed earnings, secured or unsecured debt financings, or the issuance of shares or units exchangeable into common shares.

Dispositions. On March 19, 2008, we completed the sale of ten of our eleven formerly wholly owned Affordable Housing properties located in Northeast Ohio. In connection with this sale, we acquired the ground lessor's interest in six of those properties. Also on March 19, 2008, we completed the sale of four Same Community properties located in Toledo, Ohio. On April 25, 2008, we completed the sale of our last remaining wholly owned Affordable Housing property. The following is a summary of the disposition transactions completed for the years ended December 31, 2007 and 2006, respectively.

During 2007, we sold three Market-Rate properties for net cash proceeds of \$46.9 million. These proceeds were used to partially fund the acquisition of one property, fund capital expenditures and for general corporate purposes. The operating results of these properties, along with the gains of \$20.9 million that we recognized, are included in "Income from discontinued operations".

During 2006, we sold eight properties (seven Market-Rate properties and one Affordable Housing property) for net cash proceeds of \$87.0 million. These proceeds were used primarily to defease/prepay debt, repurchase \$10.2 million of our common shares and partially fund capital expenditures. The operating results of these properties, along with the gains of \$54.1 million that we recognized, are included in "Income from discontinued operations".

Management and Service Operations. Revenues from our management and service operations will be significantly reduced in 2008 as a result of our exit from the affordable housing business. At the end of 2007, the management contracts related to 29 affordable housing properties were terminated. As of December 31, 2007, we managed one affordable housing property for an affiliated third party, two market rate properties for third party owners, and the joint venture affordable housing property. Additionally, we asset managed one residential property and one commercial property. We expect revenues generated by third party management operations to decrease by \$2.1 million due to our decision to exit this business. Net income received from this business in 2007 was approximately \$500,000, and during 2008 we expect to offset this loss of net income with cost savings that we have identified.

RESULTS OF OPERATIONS FOR 2007 COMPARED WITH 2006 AND 2006 COMPARED WITH 2005

In the following discussion of the comparison of the year ended December 31, 2007 to the year ended December 31, 2006 and the year ended December 31, 2006 to the year ended December 31, 2005, Market-Rate properties refers to the Same Community Market-Rate property portfolio. Market-Rate properties represent 50 wholly owned properties.

During the 2007 to 2006 comparison period, operating income increased \$2.9 million primarily as a result of increased property revenue. Interest expense decreased \$6.7 million when comparing 2007 to 2006, primarily due to decreased debt defeasement/prepayment costs. Losses from continuing operations decreased by \$9.6 million during the 2007 to 2006 comparison period. During the 2006 to 2005 comparison period, operating income increased \$1.8 million primarily as a result of increased property revenue. Interest expense during the 2006 to 2005 comparison period increased, primarily due to debt defeasement/prepayment costs, resulting in an increase in the loss from continuing operations.

The following chart is intended to reflect the amount and percentage change in line items that are relevant to the changes in overall operating performance when comparing the years ended December 31, 2007 to 2006 and 2006 to 2005:

<i>(Dollar amounts in thousands)</i>	Increase (decrease) when comparing the years ended December 31,					
	2007 to 2006		2006 to 2005			
Property revenue	\$	11,161	10.4%	\$	7,892	7.9%
Property operating and maintenance expense items:						
Personnel		1,622	13.2%		885	7.7%
Real estate taxes and insurance		846	5.2%		1,198	8.0%
Other operating expenses		846	23.1%		234	6.8%
Depreciation and amortization		3,363	12.4%		107	0.4%
General and administrative		487	4.9%		1,841	23.0%
Interest expense		(6,680)	(14.2)%		11,530	32.4%

Property Revenue. Property revenue is impacted by a combination of rental rates, rent concessions and occupancy levels. We measure these factors using indicators such as physical occupancy (number of units occupied divided by total number of units at the end of the period) and average monthly net collected rent per unit (gross potential rents less vacancies and concessions divided by total number of units). This information is presented in the following table for the years ended December 31, 2007, 2006 and 2005:

	Physical Occupancy		
	For the year ended December 31,		
	2007	2006	2005
Market-Rate Properties:			
Midwest	94.7%	95.1%	92.8%
Mid-Atlantic/Southeast	93.8%	93.4%	96.4%
Total Market-Rate	94.5%	94.7%	93.6%
Acquisition Properties	90.5%	N/A	N/A

	Average Monthly Net Collected Rent Per Unit		
	For the year ended December 31,		
	2007	2006	2005
Market-Rate Properties:			
Midwest	\$ 740	\$ 708	\$ 681
Mid-Atlantic/Southeast	\$ 1,058	\$ 1,027	\$ 920
Total Market-Rate	\$ 821	\$ 790	\$ 734
Acquisition Properties	\$ 944	N/A	N/A

Property revenue increased in 2007 compared to 2006 primarily as a result of \$6.5 million contributed by two properties acquired in 2007 and an increase of \$5.0 million in our Market-Rate properties. Revenue increases in our Market-Rate properties were primarily due to stable occupancy combined with rental rate increases and an overall reduction in concessions. Property revenues increased in 2006 compared to 2005, primarily due to an increase of \$7.9 million in the Market-Rate properties driven by increased occupancy, increased rental rates, fewer concessions, and from increases in revenue related to utility and refuse reimbursement programs that were initiated in late 2004 and 2005. Additionally, two properties acquired in 2005 contributed an additional \$2.5 million in rental revenue during 2006 compared to 2005.

Fees, Reimbursements and Other. Fee revenue and expense reimbursements for the management and service operations will be significantly reduced during 2008 as a result of our exit from the Affordable Housing business. During the fourth quarter of 2007, management contracts for 29 properties that we managed during 2007 were transferred to either the third party owner or to other management companies. As of January 1, 2008, we manage three properties for third party owners and the joint venture property, and we asset manage one residential and one commercial property. One of the three managed properties is an Affordable Housing property and is expected to be sold during 2008 or 2009. The joint venture property is also expected to be sold during 2008 or 2009. Upon the sale of these properties, we will no longer receive the management fee or reimbursement revenue associated with these properties. Management and advisory fees attributed to properties owned by non-affiliated third party owners and advisory clients are earned pursuant to contracts that are generally terminable upon 30 days notice.

Property Operating and Maintenance Expenses. Property operating and maintenance expenses increased when comparing 2007 to 2006 primarily as a result of increases in personnel expense, real estate tax expense and other operating expenses. Personnel expense increased due to increased salary and benefit costs. Real estate taxes increased due to taxes related to the two properties acquired during 2007 and assessed property value and millage rate increases. Other operating expenses increased as a result of increases in the write off of uncollectible tenant rent receivables and associated collection costs. These increases were partially offset by a credit recorded during 2007 resulting from favorable property insurance loss experiences and a renegotiation of the self-insured retention amounts. Property operating and maintenance expenses increased when comparing 2006 to 2005 primarily as a result of increases in real estate tax expense, personnel expense, and repairs and maintenance expenses. The increase in real estate taxes was due to assessed property value and millage rate increases and a decrease in refunds related to prior year taxes received in 2006. The increase in repairs and maintenance expense was due to increases in maintenance project costs, unit preparation costs, landscaping costs, and trash removal costs.

Interest Expense. Interest expense decreased in 2007 compared to 2006 primarily due to a reduction of \$6.6 million in defeasance/prepayment costs that were included in income from continuing operations in 2007. Interest expense increased in 2006 compared to 2005 primarily due to \$10.8 million in defeasance/prepayment costs that were included in income from continuing operations in 2006. Interest expense associated with mortgage and revolving debt in income from continuing operations decreased \$200,000 in 2007 compared to 2006 primarily as a result of reduced weighted average interest rates and increased \$700,000 in 2006 compared to 2005 primarily as a result of prepayments of mortgage loans. "Income from discontinued operations", as discussed below, includes no defeasance/prepayments costs or interest expense in 2007, and \$8.8 million in interest expense, of which \$4.7 million is defeasance/prepayment costs, in 2006.

Depreciation and Amortization. Depreciation and amortization expenses increased in 2007 compared to 2006 primarily as a result of the acquisition of two properties in 2007.

General and Administrative Expenses. General and administrative expenses increased in 2007 compared to 2006 primarily due to increases in corporate payroll, bonus, and share-based payment costs in 2007. These increases were partially offset by a reduction of \$876,000 in Directors' compensation in 2007 compared to 2006, as a result of valuation adjustments in deferred compensation based on common share units which are valued using the closing price of our common shares at the end of each period. General and administrative expenses increased when comparing 2006 to 2005 primarily due to salary, benefit and share-based payment costs and an increase of \$585,000 in Directors' compensation, resulting from a valuation adjustment in deferred compensation in 2006. Additionally, during 2006, we recorded an estimated loss contingency in connection with the out of court settlement reached with Montgomery County, Maryland. See Note 10 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K for further information concerning this settlement.

Income From Discontinued Operations. Included in discontinued operations for the years ended December 31, 2007, 2006 and 2005, are the operating results and the gains related to three wholly owned properties that were sold in 2007, eight wholly owned properties that were sold in 2006, and three wholly owned properties that were sold in 2005. Also included are the operating results for 14 properties sold in March 2008 and one property sold in April 2008. The operating loss from discontinued operations in 2006 was primarily due to costs incurred to defease four loans that were secured by the properties that were sold. For further details on "Income from discontinued operations," see Note 2 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Inflation. It is our belief that the effects of inflation would be minimal on the operational performance of our portfolio as a result of the short-term nature of our leases that are typically for terms of one year or less.

Critical Accounting Estimates

Our consolidated financial statements include accounts of all subsidiaries, the Service Companies and the Operating Partnership structured as a DownREIT. The preparation of the consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the consolidated financial statements and related notes. In preparing these consolidated financial statements, we have utilized information available including industry practice and our own past history in forming estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome that we anticipated in formulating the estimates inherent in these consolidated financial statements may not materialize. However, application of the accounting policies below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," requires us to assess the recoverability of the carrying value of long-lived assets when an event of impairment has occurred. In performing this analysis, we estimate holding periods of the assets, changes in fair market value of the assets and cash flows related to the operations of the assets to determine the range of potential alternatives and assign a probability to the various alternatives under consideration by management. Should the estimates used to determine alternatives or the probabilities of the occurrence thereof change, an impairment may result which could materially impact our results of operations.

SFAS No. 142, "Goodwill and Other Intangible Assets," requires us to review goodwill annually and whenever there is an impairment indicator. In performing this analysis, we use a multiple of revenues to the range of potential alternatives and assign a probability to the various alternatives we consider. Should estimates used to determine the alternatives considered or the probabilities of the occurrence thereof change, an impairment may result which could materially impact our results of operations.

SFAS No. 123(R), "Share-Based Payment," requires us to estimate the fair value of stock options awarded. We use the Black-Scholes option-pricing model to estimate the fair value of the stock options, and the Monte Carlo method to estimate the fair value of awards in which the number of shares that will ultimately vest are subject to market conditions. The use of judgment and/or estimates is required in determining certain of the assumptions used by these valuation models. If we had used different judgment and/or estimates, different valuations would have been produced that may have resulted in a material change to our results of operations. SFAS No. 123(R) also requires us to estimate future performance results related to certain share-based awards. If the results vary from our estimate, it may require us to make a material adjustment to our results of operations.

We estimate the amount of real estate taxes for which we will be liable based upon assumptions relating to possible changes in millage rates and property value reassessments. In certain circumstances, it is possible that the actual millage rates or reassessment values are not available until the following reporting period and that these rates or values could differ from assumptions and require material adjustments to the liabilities recorded.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. At December 31, 2007, we had \$55.0 million of variable rate debt. Based on this amount of variable rate debt, an interest rate change of 100 basis points would impact interest expense approximately \$550,000 on an annual basis. Additionally, we have interest rate risk associated with fixed rate debt at maturity. We have, and will continue to manage, interest rate risk as follows: (i) maintain what we believe to be a conservative ratio of fixed rate, long-term debt to total debt such that variable rate exposure is kept at an acceptable level; (ii) consider hedges for certain long term variable and/or fixed rate debt through the use of interest rate swaps or interest rate caps; and (iii) consider the use of treasury locks where appropriate to hedge rates on anticipated debt transactions. We use various financial models and advisors to assist us in analyzing opportunities to achieve those objectives. For additional information related to interest rate hedge agreements, see "Derivative Instruments and Hedging Activities" in Note 1 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K. The table below provides information about our financial instruments that are sensitive to change in interest rates. For debt obligations, the table below presents principal cash flows and related weighted average interest rates based on expected amortization and maturity dates.

	December 31, 2007							Fair Market Value	December 31, 2007
	2008	2009	2010	2011	2012	Thereafter	Total		
(in thousands)									
Variable rate debt	\$ 34,635	\$ 39,422	\$ 80,469	\$ 64,799	\$ 79,843	\$ 202,527	\$ 501,695	\$ 526,817	\$ 461,000
Weighted average interest rate	7.8 %	7.5 %	6.0 %	7.6 %	6.9 %	6.2 %	6.7 %		
Mortgage debt	-	35,000	-	-	-	-	35,000	35,000	36,000
Weighted average interest rate	-	6.2 %	-	-	-	-	6.2 %		
Revolving credit facility (a)	-	-	20,000	-	-	-	20,000	20,000	
Fixed rate debt	-	35,000	20,000	-	-	-	55,000	55,000	36,000
Total debt	\$ 34,635	\$ 74,422	\$ 100,469	\$ 64,799	\$ 79,843	\$ 202,527	\$ 556,695	\$ 581,817	\$ 498,000

(a) Our revolving credit facility matures in April 2010 and had a weighted average interest rate of 6.7% at December 31, 2007.

CONTINGENCIES

Environmental. We have reviewed tangible long-lived assets and other agreements for associated asset retirement obligations ("AROs"), in accordance with FASB Statement No. 143, "Accounting for Asset Retirement Obligations" and FIN 47 "Accounting for Conditional Asset Retirement Obligations". Based on that analysis, we do not have any material AROs that would require recognition as a liability or disclosure in our financial statements at December 31, 2007. Phase I environmental audits were obtained at the time of the IPO, property acquisition or property refinancing, as the case may be, on all of our wholly owned and joint venture properties.

Future claims for environmental liabilities are not measurable given the uncertainties surrounding whether there exists a basis for any such claims to be asserted and, if so, whether any claims will, in fact, be asserted.

Pending Litigation. For a discussion of pending litigation, see Note 10 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

ASSOCIATED ESTATES REALTY CORPORATION

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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Associated Estates Realty Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Associated Estates Realty Corporation and its subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included under item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 17 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006 in accordance with guidance provided in Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment".

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Cleveland, Ohio

February 27, 2008, except with respect to our opinion on the consolidated financial statements insofar as they relate to the effects of the discontinued operations as discussed in Note 2, as to which the date is November 25, 2008.

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**ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except share amounts)</i>	ASSETS		December 31, 2007	December 31, 2006
Real estate assets				
Land		\$	107,912	\$ 92,341
Buildings and improvements			826,226	751,393
Furniture and fixtures			30,154	28,126
			964,292	871,860
Less: accumulated depreciation			(305,427)	(281,994)
			658,865	589,866
Construction in progress			721	1,323
Real estate associated with property held for sale, net			-	331
Real estate, net			659,586	591,520
Cash and cash equivalents			1,549	30,010
Restricted cash			6,730	7,279
Accounts and notes receivable, net				
Rents			1,128	1,582
Affiliates			1,875	322
Other			820	1,955
Investments in joint ventures, net			-	5,247
Goodwill			1,725	1,725
Other assets, net			13,383	9,155
Other assets associated with property held for sale, net			-	34
Total assets		\$	686,796	\$ 648,829
	LIABILITIES AND SHAREHOLDERS' EQUITY			
Mortgage notes payable		\$	510,915	\$ 472,854
Unsecured revolving credit facility			20,000	-
Unsecured debt			25,780	25,780
Total debt			556,695	498,634
Accounts payable, accrued expenses and other liabilities			25,909	24,568
Dividends payable			2,848	2,934
Resident security deposits			3,826	3,601
Funds held on behalf of managed properties - affiliates			344	200
Funds held on behalf of managed properties - other			1,476	1,978
Accrued interest			2,737	2,992
Accumulated losses in excess of investments in joint ventures			1,346	-
Other liabilities associated with property held for sale			-	20
Total liabilities			595,181	534,927
Operating partnership minority interest			1,829	1,851
Shareholders' equity				
Preferred shares, without par value; 9,000,000 shares authorized; 8.70% Class B Series II cumulative redeemable, \$250 per share liquidation preference, 232,000 issued and 220,850 and 232,000 outstanding at December 31, 2007 and December 31, 2006, respectively			55,213	58,000
Common shares, without par value, \$.10 stated value; 41,000,000 authorized; 22,995,763 issued and 16,353,700 and 17,261,224 outstanding at December 31, 2007 and December 31, 2006, respectively			2,300	2,300
Paid-in capital			281,152	280,369
Accumulated distributions in excess of accumulated net income			(180,436)	(173,962)
Accumulated other comprehensive loss			(1,050)	(71)
Less: Treasury shares, at cost, 6,642,063 and 5,734,539 shares at December 31, 2007 and December 31, 2006, respectively			(67,393)	(54,585)
Total shareholders' equity			89,786	112,051
Total liabilities and shareholders' equity		\$	686,796	\$ 648,829

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

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(In thousands, except per share amounts)</i>	Year Ended December 31,		
	2007	2006	2005
Revenue			
Property revenue	\$ 118,579	\$ 107,418	\$ 99,526
Management and service company revenue:			
Fees, reimbursements and other	10,914	11,689	11,723
Painting services	2,218	1,078	1,094
Total revenue	131,711	120,185	112,343
Expenses			
Property operating and maintenance	52,209	48,413	44,772
Depreciation and amortization	30,383	27,020	26,913
Direct property management and service company expenses	12,863	12,695	12,503
Painting services	2,164	1,367	1,150
General and administrative	10,327	9,840	7,999
Total expenses	107,946	99,335	93,337
Operating income	23,765	20,850	19,006
Interest income	429	650	627
Interest expense	(40,385)	(47,065)	(35,535)
(Loss) income before gain on disposition of investment, equity in net loss of joint ventures, minority interest and income from discontinued operations	(16,191)	(25,565)	(15,902)
Gain on disposition of investment	-	-	150
Equity in net loss of joint ventures	(258)	(462)	(644)
Minority interest in operating partnership	(53)	(61)	(63)
(Loss) income from continuing operations	(16,502)	(26,088)	(16,459)
Income from discontinued operations:			
Operating income (loss)	5,803	(984)	4,129
Gain on disposition of properties	20,864	54,093	48,536
Income from discontinued operations	26,667	53,109	52,665
Net income	10,165	27,021	36,206
Preferred share dividends	(4,924)	(5,046)	(5,130)
Preferred share repurchase costs	(172)	-	(2,163)
Net income applicable to common shares	\$ 5,069	\$ 21,975	\$ 28,913
Earnings per common share - basic and diluted:			
(Loss) income from continuing operations applicable to common shares	\$ (1.28)	\$ (1.83)	\$ (1.24)
Income from discontinued operations	1.58	3.12	2.75
Net income applicable to common shares	\$ 0.30	\$ 1.29	\$ 1.51
Dividends declared per common share	\$ 0.68	\$ 0.68	\$ 0.68
Weighted average number of common shares outstanding - basic and diluted	16,871	17,023	19,162

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(In thousands, except share data)</i>	Year Ended December 31,		
	2007	2006	2005
Common shares outstanding			
Balance outstanding at beginning of period	17,261,224	17,950,326	19,653,187
Shares purchased	(1,045,346)	(992,423)	(1,823,265)
Shares issued from treasury for stock option exercises	22,479	236,599	61,300
Restricted share activity, net	115,343	66,722	59,104
Balance outstanding at end of period	16,353,700	17,261,224	17,950,326
Preferred shares outstanding			
Balance outstanding at beginning of period	232,000	232,000	457,000
Redemption of Class A Cumulative Redeemable Preferred Shares	-	-	(225,000)
Purchase and retirement of Class B Cumulative Redeemable Preferred Shares	(11,150)	-	-
Balance outstanding at end of period	220,850	232,000	232,000
Preferred shares			
Balance outstanding at beginning of period	\$ 58,000	\$ 58,000	\$ 114,250
Redemption of Class A Cumulative Redeemable Preferred Shares	-	-	(56,250)
Purchase and retirement of Class B Cumulative Redeemable Preferred Shares	(2,787)	-	-
Balance outstanding at end of period	55,213	58,000	58,000
Common shares (at \$.10 stated value)			
Balance outstanding at beginning and end of period	2,300	2,300	2,300
Treasury shares (at cost)			
Balance outstanding at beginning of period	(54,585)	(45,877)	(29,800)
Purchase of common shares	(13,959)	(10,269)	(17,427)
Share based compensation	890	(1,091)	668
Shares issued from treasury for stock option exercises	261	2,652	682
Balance outstanding at end of period	(67,393)	(54,585)	(45,877)
Paid-in capital			
Balance outstanding at beginning of period	280,369	278,885	277,117
Share based compensation	786	2,099	(220)
Shares issued from treasury for stock option exercises	(60)	(615)	(189)
Adjustment to 2004 issuance of Class B Series II Cumulative Redeemable Preferred Shares	-	-	14
Redemption of Class A Cumulative Redeemable Preferred Shares	-	-	2,163
Purchase and retirement of Class B Cumulative Redeemable Preferred Shares	57	-	-
Balance outstanding at end of period	281,152	280,369	278,885
Accumulated distributions in excess of accumulated net income			
Balance outstanding at beginning of period	(173,962)	(184,303)	(200,277)
Net income	10,165	27,021	36,206
Share based compensation	10	14	-
Redemption of Class A Cumulative Redeemable Preferred Shares	-	-	(2,163)
Purchase and retirement of Class B Cumulative Redeemable Preferred Shares	(172)	-	-
Common share dividends declared	(11,553)	(11,648)	(12,939)
Preferred share dividends declared	(4,924)	(5,046)	(5,130)
Balance outstanding at end of period	(180,436)	(173,962)	(184,303)
Accumulated other comprehensive income			
Balance outstanding at beginning of period	(71)	(25)	-
Change in fair value of hedge instruments	(979)	(46)	(25)
Balance outstanding at end of period	(1,050)	(71)	(25)
Total shareholders' equity	\$ 89,786	\$ 112,051	\$ 108,980

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

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	Year Ended December 31,		
	2007	2006	2005
Cash flow from operating activities:			
Net income	\$ 10,165	\$ 27,021	\$ 36,206
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization (including discontinued operations)	34,164	33,389	35,465
Loss on fixed asset replacements write-off	108	163	80
Gain on disposition of properties	(20,864)	(54,093)	(48,686)
Minority interest in operating partnership	53	61	63
Amortization of deferred financing costs and other	1,567	2,163	826
Amortization of swap termination payments received	(294)	(497)	(727)
Share-based compensation	1,590	965	303
Equity in net loss of joint ventures	258	462	644
Distribution from joint ventures	780	318	-
Net change in assets and liabilities:			
Accounts and notes receivable	787	2,495	547
Accounts payable and accrued expenses	102	4,333	(2,098)
Other operating assets and liabilities	(3)	(86)	1,510
Restricted cash	549	1,218	243
Total adjustments	18,797	(9,109)	(11,830)
Net cash flow provided by operations	28,962	17,912	24,376
Cash flow from investing activities:			
Recurring fixed asset additions	(10,420)	(11,049)	(8,127)
Revenue enhancing/non-recurring fixed asset additions	(1,880)	(1,477)	(871)
Net proceeds from disposition of operating properties	46,478	87,038	78,739
Acquisition fixed asset additions	(70,547)	(256)	(65,320)
Other investing activity	(2,241)	(321)	-
Net cash flow (used for) provided by investing activities	(38,610)	73,935	4,421
Cash flow from financing activities:			
Principal payments on mortgage notes payable	(119,477)	(207,146)	(60,933)
Payment of debt procurement costs	(1,660)	(1,540)	(1,659)
Proceeds from mortgage notes obtained	115,538	132,209	87,940
Revolver and/or line of credit borrowings	155,260	96,300	60,250
Revolver and/or line of credit repayments	(135,260)	(96,300)	(70,250)
Common share dividends paid	(11,577)	(11,765)	(13,229)
Preferred share dividends paid	(4,924)	(5,046)	(5,450)
Operating partnership distributions paid	(53)	(61)	(63)
Exercise of stock options	201	2,037	493
Purchase of preferred and/or treasury shares	(16,861)	(10,258)	(73,677)
Proceeds from issuance of unsecured trust preferred securities	-	-	25,780
Net cash flow used for financing activities	(18,813)	(101,570)	(50,798)
Decrease in cash and cash equivalents	(28,461)	(9,723)	(22,001)
Cash and cash equivalents, beginning of period	30,010	39,733	61,734
Cash and cash equivalents, end of period	\$ 1,549	\$ 30,010	\$ 39,733

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

**ASSOCIATED ESTATES REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Business

We are a self-administered and self-managed equity real estate investment trust ("REIT") specializing in multifamily property management, advisory, development, acquisition, disposition, operation and ownership activities. In addition to rental revenue, we receive certain property and asset management fees, acquisition, disposition and incentive fees, consultation fees, and mortgage servicing fees. Our MIG subsidiary is a registered investment advisor and serves as a real estate advisor to pension funds. We own two taxable REIT subsidiaries (the "Service Companies") that provide management and other services to us and to third parties.

As of December 31, 2007, our property portfolio consisted of: (i) 64 owned apartment communities containing 14,450 units in eight states, 12 of which are Affordable Housing communities including one joint venture property containing 108 units; (ii) three apartment communities that we manage for third party owners consisting of 616 units; and (iii) a 186-unit apartment community and a commercial property containing approximately 145,000 square feet that we asset manage.

During the third quarter of 2007, we announced our plan to exit the Affordable Housing business. At that time, we managed 30 Affordable Housing apartment communities for third party owners. As of January 1, 2008, we no longer manage 29 of the third party owned Affordable Housing properties. The 12 Affordable Housing communities that we own, directly or through a joint venture, are under contracts to be sold and most are expected to be sold during the first half of 2008.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all subsidiaries and qualified REIT subsidiaries, which include but are not limited to:

separate legal entities that were formed in connection with project specific, nonrecourse mortgage refinancing for which records, books of accounts and depository accounts must be maintained that are separate and apart from any other person or entity;
the Service Companies (which are taxed as Taxable REIT Subsidiaries ("TRS") under the REIT Modernization Act ("RMA") implemented in 1999);
certain variable interest entities in which we have a controlling interest, including where we have been determined to be a primary beneficiary of a variable interest entity in accordance with the provisions of Interpretation No. 46(R), "Consolidation of Variable Interest Entities", or meet certain criteria of a sole general partner or managing member in accordance with EITF 04-05, "Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights"; and
an Operating Partnership structured as a DownREIT in which we own an aggregate 97.4% as of December 31, 2007.

Limited partnership interests held by others in real estate partnerships controlled by us are reflected as "Operating partnership minority interest" in the Consolidated Balance Sheets. Capital contributions, distributions and profits and losses are allocated to minority interests in accordance with the terms of the Operating Partnership agreement. The DownREIT structure enabled us to acquire multifamily real estate assets in an operating partnership entity that is separate from other properties that we own. In the DownREIT structure, the limited partners originally contributed two real estate assets to the operating partnership and, in return, received partnership units entitling them to a share of the profits, based on the number of operating partnership units. One of the properties was sold in October 2005. The operating partnership units entitle the holder to exchange their partnership units at some future time for common shares or to redeem partnership units for cash (at our option). We are the DownREIT general partner. All significant intercompany balances and transactions have been eliminated in consolidation.

We own 100% of the common stock of all qualified REIT subsidiaries included in our consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Cash Equivalents

Highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

Real Estate and Depreciation

Real estate assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	5 - 30 years
Furniture, fixtures and equipment	5 - 10 years

We capitalize replacements and improvements, such as HVAC equipment, structural replacements, windows, appliances, flooring, carpeting and kitchen/bath replacements and renovations. Ordinary repairs and maintenance, such as unit cleaning, painting and appliance repairs are expensed when incurred.

We capitalize interest costs on funds used in construction, real estate taxes and insurance from the commencement of development activity through the time the property is ready for leasing.

In accordance with SFAS 144, we discontinue the depreciation of assets that we have specifically identified as held for sale. There were no properties classified as held for sale at December 31, 2007, and one property classified as held for sale at December 31, 2006.

Classification of Fixed Asset Additions

We define recurring fixed asset additions to a property to be capital expenditures made to replace worn out assets to maintain the property's value. We define revenue enhancing/non-recurring fixed assets to be capital expenditures if such improvements increase the value of the property and/or enable us to increase rents. We define acquisition fixed asset additions to be for the purchase or construction of new properties to be added to our portfolio, or fixed asset additions identified at the time of purchase that are not made until subsequent periods.

Impairment of Long-Lived Assets

We evaluate the recoverability of the carrying value of our real estate assets when a triggering event occurs using the methodology prescribed in Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Factors we consider in evaluating impairment of existing real estate assets held for investment include significant declines in property operating profits, recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under SFAS No. 144, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of the asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset's net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is recorded to reduce the carrying value of the asset to its fair value. We periodically classify real estate assets as held for sale. See Note 2 for a discussion of our policy regarding classification of a property as held for sale. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its fair value, less costs to sell. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. No impairment was recorded in connection with our owned real estate assets for the years ended December 31, 2007, 2006 and 2005.

Investments in joint ventures that we own 50.0% or less are presented using the equity method of accounting as we have the ability to exercise significant influence over, but do not have financial or operating control over such entities. Since we intend to fulfill our obligations as a partner in the joint ventures, we have recognized our share of losses and distributions in excess of our investment. Our investment in unconsolidated entities is periodically reviewed for other than temporary declines in market value. Any decline that is not expected to recover in the next 12 months is considered other than temporary and an impairment is recorded as a reduction in the carrying value of the investment. Estimated fair values are based on our projections of cash flows and market capitalization rates. As of December 31, 2007, no impairment has been recorded in connection with any of our joint venture investments. For additional information concerning our activity in connection with our joint venture investments, see Note 7.

Deferred Financing Costs

Costs incurred in obtaining long-term financing are deferred and amortized over the life of the associated instrument on a straight-line basis, which approximates the effective interest method.

Intangible Assets and Goodwill

SFAS 142, "Goodwill and Other Intangible Assets", requires that intangible assets not subject to amortization and goodwill are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. See Note 4 for additional information related to intangible assets and goodwill.

Revenue Recognition

Our residential property leases are for terms of generally one year or less. Rental income is recognized on the straight-line basis. Retroactive revenue increases related to budget based Affordable Housing properties are generally recognized based on rental increase applications that are approved by HUD.

Acquisition, management and disposition fees and other fees are recognized when the related services are performed and the earnings process is complete.

Rent concessions, including free rent, incurred in connection with residential property leases, are capitalized and amortized on a straight-line basis over the terms of the related leases (generally one year) and are charged as a reduction of rental revenue.

Property Management

We are reimbursed for expenses incurred in connection with the management of properties for third parties, joint ventures and other affiliates. We are the primary obligor for these expenses, which are primarily salaries and benefits relating to employees at these properties, and therefore we record these reimbursements as management and service company revenue (included in "Fees, reimbursements and other") and as expenses (included in "Direct property management and service company expenses"). For the years ended December 31, 2007, 2006 and 2005, the reimbursements shown as revenue were equivalent to the expenses, which were \$8.3 million, \$8.3 million and \$8.6 million, respectively.

Advertising Costs

We recognize advertising costs as expense when incurred. The total amount charged to advertising expense for the years ended December 31, 2007, 2006, and 2005, were \$1.8 million, \$2.0 million and \$2.0 million, respectively. There were no advertising costs reported as assets for the years ended December 31, 2007 and 2006.

Share-Based Compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised), "Share-Based Payment" ("SFAS 123(R)") using the modified prospective application method. Prior to the adoption of SFAS 123(R), we accounted for share-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25 ("APB No. 25"), and accordingly, we recognized no compensation expense for stock option awards. For information about our equity based award plans, see Note 17.

Under the modified prospective method of SFAS 123(R), share-based compensation cost is recognized on (i) all awards granted on or after January 1, 2006, using the fair-value method, (ii) nonvested stock option awards granted prior to January 1, 2006, based on their grant date fair value as previously calculated under the pro-forma disclosure provisions of SFAS 123 over the remaining requisite service periods, and (iii) nonvested restricted share awards based on their grant date fair value over the remaining service periods. Prior periods were not restated to reflect the impact of adopting this Statement. Additionally, SFAS 123(R) requires us to estimate the amount of expected forfeitures when calculating compensation costs, instead of accounting for forfeitures as they occur, which was our previous method. Forfeiture rates were calculated based on our historical forfeiture activity, which was adjusted for activity that we believe is not representative of expected future activity. The following table reflects the effect on operating results and per share information if we had accounted for share-based compensation in accordance with SFAS 123(R) for the year ended December 31, 2005:

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<i>(In thousands, except per share amounts)</i>	Year Ended December 31, 2005	
Net income	\$	36,206
Total stock compensation recognized		358
Total stock compensation cost had SFAS 123(R) been adopted		(663)
Proforma net income had SFAS 123(R) been adopted	\$	35,901
Net income applicable to common shares:		
Net income applicable to common shares as reported	\$	28,913
Total stock compensation recognized		358
Total stock compensation cost had SFAS 123(R) been adopted		(663)
Proforma net income applicable to common shares had SFAS 123(R) been adopted	\$	28,608
Income per common share - basic and diluted:		
Income per common share as reported	\$	1.51
Total stock compensation recognized		0.02
Total stock compensation cost had SFAS 123(R) been adopted		(0.04)
Proforma income per common share had SFAS 123(R) been adopted	\$	1.49

Operating Partnership Minority Interest

In 1998, in conjunction with the acquisition of an operating partnership that owned two apartment communities, one of which was sold in October 2005, we issued a total of 522,032 operating partnership units ("OP units"). Holders of OP units are entitled to receive cumulative distributions per OP unit equal to the per share distributions on our common shares. If and when the OP units are presented for redemption, we have the option to redeem, in certain circumstances, the OP units for common shares exchangeable on a one-for-one basis, or the cash equivalent amount. As of December 31, 2007, all units presented for redemption were redeemed for cash. The difference between the cash paid and the recorded value of the units reduced the recorded amount of the underlying real estate. There were 78,335 OP units remaining as of December 31, 2007.

The following table identifies the effect of OP unit redemptions (in thousands, except units redeemed):

Year	Units Redeemed	Cash Paid	Recorded Value at Issuance	Reduction in Underlying Real Estate
2000 - 2004	429,009	\$ 3,848	\$ 9,765	\$ 5,917
2005	-	-	-	-
2006	13,746	184	321	137
2007	942	14	22	8
	443,697	\$ 4,046	\$ 10,108	\$ 6,062

Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986 (the "Code"), as amended. As a REIT, we are entitled to a tax deduction for dividends paid to shareholders, thereby effectively subjecting the distributed net income to taxation at the shareholder level only, provided we distribute at least 90.0% of our taxable income and meet certain other qualifications.

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The Service Companies have elected to be treated as Taxable REIT Subsidiaries and operate as C-corporations under the Code and have accounted for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes". Taxes are provided for those Service Companies having net profits for both financial statement and income tax purposes. The 2007, 2006 and 2005 net operating loss carry forwards for the Service Companies, in the aggregate, are approximately \$8.3 million, \$8.0 million and \$7.0 million, respectively, and expire during the years 2018 to 2027.

The gross deferred tax assets were \$4.8 million, \$4.5 million and \$4.3 million at December 31, 2007, 2006 and 2005, respectively, and relate principally to net operating losses of the Service Companies. Gross deferred tax liabilities of \$155,000, \$166,000 and \$150,000 at December 31, 2007, 2006 and 2005, respectively, relate primarily to tax basis differences in fixed assets and intangibles. The deferred tax valuation allowance was \$4.7 million, \$4.3 million and \$4.2 million at December 31, 2007, 2006 and 2005, respectively. We reserve for net deferred tax assets when we believe it is more likely than not that they will not be realized. The deferred tax assets and the deferred tax valuation allowance are recorded in "Other assets, net" and the deferred tax liabilities are recorded in "Accounts payable, accrued expenses and other liabilities" in the Consolidated Balance Sheets.

At December 31, 2007 and 2006, our net tax basis of properties exceeds the amount set forth in the Consolidated Balance Sheets by \$55.1 million and \$66.5 million, respectively.

Reconciliation Between GAAP Net Income and Taxable (Loss) Income

<i>(In thousands)</i>	Year Ended December 31,		
	2007	2006	2005
GAAP net income	\$ 10,165	\$ 27,021	\$ 36,206
Add: GAAP net loss (income) of taxable REIT subsidiaries and minority interest in joint venture, net	525	748	(340)
GAAP net income from REIT operations ⁽¹⁾	10,690	27,769	35,866
Add: Book depreciation and amortization	35,808	35,388	37,639
Less: Tax depreciation and amortization	(26,267)	(27,058)	(28,522)
Book/tax differences on (losses) gains from capital transactions	(21,076)	(27,106)	(22,105)
Other book/tax differences, net	(1,203)	1,496	(796)
Taxable (loss) income before adjustments	(2,048)	10,489	22,082
Less: Capital loss (gain)	216	(26,986)	(25,769)
Taxable (loss) income subject to dividend requirement	\$ (1,832)	\$ (16,497)	\$ (3,687)

(1) All adjustments to GAAP net income from REIT operations are net of amounts attributable to taxable REIT subsidiaries and minority interests.

Reconciliation Between Cash Dividends Paid and Dividends Paid Deduction

<i>(In thousands)</i>	Year Ended December 31,		
	2007	2006	2005
Cash dividends paid	\$ 16,473	\$ 16,691	\$ 18,279
Plus: Dividends designated to prior year from following year	-	(1,252)	1,252
Less: Portion designated as capital gain distribution	-	(11,169)	(19,531)
Less: Return of capital	(16,473)	(4,270)	-
Dividends paid deduction	\$ -	\$ -	\$ -

Dividends Per Share

Total dividends per common share and the related components for the years ended December 31, 2007, 2006 and 2005, as reported for income tax purposes, were as follows:

Date Paid	Year Ended December 31, 2007					Dividends
	Ordinary Income	Non-Taxable Return of Capital	20% Rate Capital Gain	Unrecaptured Section 1250 Gain		
2/2/2007	\$ -	\$ 0.170000	\$ -			