

Edgar Filing: HOME PROPERTIES INC - Form DEF 14A

HOME PROPERTIES INC  
Form DEF 14A  
March 29, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by  
Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to 17 CFR 240.14a-12

HOME PROPERTIES, INC.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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- (4) Date Filed:

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March 30, 2006

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Home Properties, Inc. The Annual Meeting will be held on Thursday, May 4, 2006, at 2:30 p.m. at the Dryden Theatre of the International Museum of Photography at George Eastman House, 900 East Avenue, Rochester, New York 14607.

A Notice of Annual Meeting and a Proxy Statement are attached. They describe the matters to be acted upon at the Annual Meeting.

I hope that you will join us at the meeting. Whether you attend or not, your vote on all of the matters described in the Proxy Statement is very important. Please sign, date and return the enclosed proxy card in the envelope provided. Alternatively, you may choose to vote by telephone or internet. Voting by any of these methods before the meeting will insure that your shares are represented at the meeting.

I look forward to seeing you at the meeting.

Sincerely,

HOME PROPERTIES, INC.

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

HOME PROPERTIES, INC.  
Suite 850  
Clinton Square  
Rochester, New York 14604

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 4, 2006

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NOTICE IS HEREBY GIVEN that the 2006 Annual Meeting of Stockholders of Home Properties, Inc. (the "Company") will be held on Thursday, May 4, 2006 at 2:30 p.m. at the Dryden Theatre of the International Museum of Photography at George Eastman House, 900 East Avenue, Rochester, New York 14607 for the following purposes:

1. To elect twelve directors of the Company to serve until the 2007 Annual Meeting of Stockholders and until their respective successors are elected;
2. To ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2006; and
3. To consider and act upon any other matters that are properly brought before the Annual Meeting and at any adjournments or postponements thereof.

The Board of Directors set the close of business on March 8, 2006 as the record date for the Annual Meeting. Only stockholders whose names appear on the stock register of the Company at the close of business on the record date will be entitled to notice of and to vote at the Annual Meeting and at any adjournments or postponements. (If you hold your stock in the name of a brokerage firm, bank or other nominee, only that entity can vote your shares. Please give instructions for your shares to be voted to the person responsible for your account.)

There are four ways to vote:

- by completing the enclosed proxy card and returning it in the enclosed postage prepaid envelope;
- by internet at <http://www.proxyvoting.com/hme>;
- by toll-free telephone at 1-866-540-5760; or \ - by written ballot at the meeting.

If you vote by internet or telephone, your vote must be received before 11:00 p.m. Eastern Standard Time on May 3, 2006, the day before the Annual Meeting. You may change your vote or revoke your proxy at any time before the Annual Meeting:

- by returning a later dated proxy card;
- by sending written notice to Ann M. McCormick, Secretary of the Company at 850 Clinton Square, Rochester, New York 14604;
- by entering a new vote by internet or telephone; or
- by completing a written ballot at the Annual Meeting.

Rochester, New York  
March 30, 2006

By Order of the Board of Directors

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

EVEN IF YOU PLAN TO ATTEND THE MEETING, PLEASE VOTE BY ONE OF THE ABOVE METHODS. IF YOU ATTEND THE ANNUAL MEETING, YOU MAY VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY VOTED.

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HOME PROPERTIES, INC.  
Suite 850  
Clinton Square  
Rochester, New York 14604

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PROXY STATEMENT

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FOR 2006 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 4, 2006

March 30, 2006

GENERAL INFORMATION

This Proxy Statement is delivered to you in connection with the solicitation of proxies by the Board of Directors of Home Properties, Inc. (the "Company") for use at the 2006 Annual Meeting of Stockholders of the Company (the "Annual Meeting"). The Annual Meeting will be held on Thursday, May 4, 2006 at 2:30 p.m. at the Dryden Theatre of the International Museum of Photography at George Eastman House, 900 East Avenue, Rochester, New York 14607. The approximate date on which the enclosed form of proxy and this Proxy Statement are first being sent to stockholders is March 30, 2006.

Who May Vote

Stockholders of the Company as of the Company's record date, March 8, 2006, may vote.

Outstanding Shares

On March 8, 2006, 31,334,423 shares of the Company's Common Stock were outstanding. Each share of Common Stock has one vote.

How to Vote

There are four ways to vote:

1. by completing the enclosed proxy card and returning it in the enclosed postage prepaid envelope;
2. by internet at <http://www.proxyvoting.com/hme>;
3. by toll-free telephone at (866) 540-5760; or
4. by written ballot at the Annual Meeting.

How Proxies Work

The Company's Board of Directors is asking for your proxy. By giving us your proxy, you authorize the proxy holder (Edward J. Pettinella, the Company's Chief Executive Officer) to vote your shares at the Annual Meeting in the manner you direct.

If you vote by any of the above methods but do not specify how you wish to vote your shares, your shares will be voted "for" all the enumerated matters

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specified in the Notice of Meeting. The proxy holder will also vote shares according to his discretion on any other matter properly brought before the meeting.

You may receive more than one proxy card depending on how you hold your shares. For example, if you hold shares through someone else, such as a stockbroker, you may get proxy material from them. In order for you to vote those shares, you must provide instructions to the record holder as provided in their instructions to you. Even though you have not provided instructions to your record holder, they may vote your shares "for" the election of the nominees for director and "for" the ratification of the independent registered public accounting firm.

### Quorum

In order to carry out the business of the Annual Meeting, we must have a quorum. This means that at least a majority of the outstanding shares eligible to vote must be represented at the meeting, either by proxy or in person.

### Votes Needed

The affirmative vote of a plurality of the votes cast at the Annual Meeting is required for the election of directors. The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2006 and any other matter properly brought before the meeting requires the favorable vote of a majority of the votes cast. Under Maryland law, if a stockholder abstains on a vote, the abstention does not constitute a vote "for" or "against" a matter. Thus, abstentions are disregarded in determining the "votes cast."

### Changing Your Vote

You may revoke your proxy before it is voted at the meeting by entering a new vote by internet or telephone, by submitting a new proxy with a later date, by voting in person at the Annual Meeting or by notifying the Company's Secretary in writing prior to the Annual Meeting as follows: Ann M. McCormick, 850 Clinton Square, Rochester, New York 14604.

## PROPOSAL 1 ELECTION OF DIRECTORS

At the Annual Meeting, twelve individuals will be elected to serve as directors until the 2007 Annual Meeting and until their successors are elected.

The Board of Directors has nominated William Balderston, III, Josh E. Fidler, Alan L. Gosule, Leonard F. Helbig, III, Roger W. Kober, Nelson B. Leenhouts, Norman P. Leenhouts, Edward J. Pettinella, Clifford W. Smith, Jr., Paul L. Smith, Thomas S. Summer, and Amy L. Tait to serve as directors (the "Nominees"). Each of the Nominees is currently serving as a director of the Company. The Board of Directors anticipates that each of the Nominees will serve as a director if elected.

The affirmative vote of a plurality of the votes cast at the Annual Meeting is required for the election of the Nominees as directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES.

Brief biographical descriptions of the Nominees follow. The information was furnished to the Company by the Nominees. The information is up to date through March 8, 2006.

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William Balderston, III, age 78, has been a director of the Company since 1994. From 1991 to the end of 1992, he was an Executive Vice President of The Chase Manhattan Bank, N.A. From 1986 to 1991, he was President and Chief Executive Officer of Chase Lincoln First Bank, N.A., which was merged into The Chase Manhattan Bank, N.A. He is a Senior Trustee of the University of Rochester and a member of the Board of Governors of the University of Rochester Medical Center. Mr. Balderston is a graduate of Dartmouth College.

Josh E. Fidler, age 50, has been a director of the Company since August, 2004. Mr. Fidler is a founding partner of Boulder Ventures, Ltd., a manager of venture capital funds, which has been in operation since 1995. Since 1985, he has also been a principal in a diversified real estate development business known as The Macks Group. In 1999, the Company acquired 3,297 apartment units from affiliates of The Macks Group. Mr. Fidler was also a principal of the entity which owned a 240-unit apartment community which the Company purchased in 2004. He is a graduate of Brown University and received a law degree from New York University. Mr. Fidler is a member of the Maryland Region Advisory Board of SunTrust Bank and the Board of Trustees of The Park School.

Alan L. Gosule, age 65, has been a director of the Company since 1996. Mr. Gosule has been a partner in the New York Office of the law firm of Clifford Chance US LLP since August 1991 and prior to that time was a partner in the law firm of Gaston & Snow. Mr. Gosule is a graduate of Boston University and its Law School and received an LLM in Taxation from Georgetown University. Mr. Gosule also serves on the Board of Directors of MFA Mortgage Investments, Inc. He is a member of the Board of Advisors of Paloma, LLC, which is the general partner of Simpson Housing Limited Partnership, and is a voting trustee of F.L. Putnam Investment Management Company.

Leonard F. Helbig, III, age 60, has been a director of the Company since 1994. Since September 2002 he has served as a Director of Integra Realty Advisors in Philadelphia. Between 1980 and 2002 he was employed with Cushman & Wakefield, Inc. From 1990 until 2002, Mr. Helbig served as President, Financial Services for Cushman & Wakefield, Inc.. Prior to that and since 1984, Mr. Helbig was the Executive Managing Director of the Asset Services and Financial Services Groups. He was a member of that firm's Board of Directors and Executive Committee. Mr. Helbig is a member of the Urban Land Institute, the Pension Real Estate Association and the International Council of Shopping Centers. Mr. Helbig is a graduate of LaSalle University and holds the MAI designation of the American Institute of Real Estate Appraisers.

Roger W. Kober, age 72, has been a director of the Company since 1994. He was employed by Rochester Gas and Electric Corporation from 1965 until his retirement on January 1, 1998. From March 1996 until January 1, 1998, Mr. Kober served as Chairman and Chief Executive Officer of Rochester Gas & Electric Corporation. He is a Trustee Emeritus of Rochester Institute of Technology. Mr. Kober is a graduate of Clarkson College and holds a Masters Degree in Engineering from Rochester Institute of Technology.

Nelson B. Leenhouts, age 70, has served as Board Co-Chair since his retirement as Co-Chief Executive Officer effective January 1, 2004. He had served as Co-Chief Executive Officer, President and a director of the Company since its inception in 1993. Since their formation, he has also served as a director of Home Properties Management, Inc. ("HP Management") and Home Properties Resident Services ("HPRS"), for which he had also served in various officer capacities prior to his retirement. Mr. Leenhouts also currently serves as a Senior Advisor to the Company pursuant to an Employment Agreement and as an employee relating to the development operations of the Company pursuant to a Development Agreement. The term of both agreements expires on December 31, 2006. Nelson Leenhouts was the founder, and a co-owner, together with Norman Leenhouts, of Home Leasing Corporation ("Home Leasing"), and has served as President of Home Leasing since 1967. He is a member of the Board of Directors

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of the Genesee Valley Trust Company. Nelson Leenhouts is a graduate of the University of Rochester. He is the twin brother of Norman Leenhouts.

Norman P. Leenhouts, age 70, has served as Board Co-Chair since his retirement as Co-Chief Executive Officer effective January 1, 2004. He had served as Board Chair, Co-Chief Executive Officer and a director of the Company since its inception in 1993. Since their formation, he has also served as a director of HP Management and HPRS. Mr. Leenhouts also currently serves as a Senior Advisor to the Company pursuant to an Employment Agreement with a term that expires on December 31, 2006. Prior to January 1, 2006, Norman Leenhouts was a co-owner, together with Nelson Leenhouts, of Home Leasing, where he had served as Board Chair since 1971. He is currently the Chairman of Broadstone Ventures, LLC and Broadstone Real Estate, LLC, formed to continue the property management business of Home Leasing. He is a member of the Board of Trustees of the University of Rochester, Roberts Wesleyan College, The Charles E. Finney School and the Free Methodist Foundation, where he also serves as Board Chair. He is a graduate of the University of Rochester and is a certified public accountant. He is the twin brother of Nelson Leenhouts.

Edward J. Pettinella, age 54, has served as President and Chief Executive Officer of the Company since January 1, 2004. He is also a director. He joined the Company in 2001 as an Executive Vice President and director. He is also the President and Chief Executive Officer of HP Management and HPRS. From 1997 until February 2001, Mr. Pettinella served as President, Charter One Bank (NY Division) and Executive Vice President of Charter One Financial, Inc. From 1980 through 1997, Mr. Pettinella served in several managerial capacities for Rochester Community Savings Bank, Rochester, NY, including the positions of Chief Operating Officer and Chief Financial Officer. Mr. Pettinella serves on the Board of Directors of United Way of Greater Rochester, Rochester Business Alliance, The Lifetime Healthcare Companies, National Multi Housing Counsel, Syracuse University School of Business and YMCA of Greater Rochester. He is also on the Board of Governors of National Association of Real Estate Investment Trusts and is a member of Urban Land Institute. Mr. Pettinella is a graduate of the State University at Geneseo and holds an MBA Degree in finance from Syracuse University.

Clifford W. Smith, Jr. age 59, has been a director of the Company since 1994. Mr. Smith is the Epstein Professor of Finance of the William E. Simon Graduate School of Business Administration of the University of Rochester, where he has been on the faculty since 1974. He has written numerous books and articles on a variety of financial, capital markets and risk management topics and has held editorial positions for a variety of journals. Mr. Smith is a graduate of Emory University and has a PhD from the University of North Carolina at Chapel Hill.

Paul L. Smith, age 70, has been a director of the Company since 1994. Mr. Smith was a director, Senior Vice President and the Chief Financial Officer of the Eastman Kodak Company from 1983 until he retired in 1993. He was a member of the Financial Accounting Standards Advisory Council. He is currently a director of Constellation Brands, Inc. He is also a member of the Board of Trustees of the George Eastman House and Ohio Wesleyan University. Mr. Smith is a graduate of Ohio Wesleyan University and holds an MBA Degree in finance from Northwestern University.

Thomas S. Summer, age 52, has been a director of the Company since August, 2004. Mr. Summer has been the Executive Vice President and Chief Financial Officer of Constellation Brands, Inc. since 1997. Prior to that, he held various positions in financial management with Cardinal Health, Inc., PepsiCo, Inc., and Inland Steel Industries. He is also a member of the Boards of Greatbatch, Inc. and AIDS Rochester, Inc. Mr. Summer is a graduate of Harvard University and holds an MBA degree in finance and accounting from the University of Chicago.

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Amy L. Tait, age 47, has served as a director of the Company since its inception in 1993. Effective February 15, 2001, Mrs. Tait resigned her full-time position as Executive Vice President of the Company and as a director of HP Management. She continued as a consultant to the Company pursuant to a consulting agreement that terminated on February 15, 2002. She is currently the Chief Executive Officer and a director of Broadstone Ventures, LLC and Broadstone Real Estate, LLC, where she also serves as Secretary. Mrs. Tait joined Home Leasing in 1983 and held several positions with the Company, including Senior and Executive Vice President and Chief Operating Officer. She currently serves on the M & T Bank Regional Advisory Board and the boards of the United Way of Rochester, Princeton Club of Rochester, Al Sigl Center, Center for Governmental Research, Allendale Columbia School, and Monroe County Center for Entrepreneurship. Mrs. Tait is a graduate of Princeton University and holds an MBA from the William E. Simon Graduate School of Business Administration of the University of Rochester. She is the daughter of Norman Leenhouts.

### BOARD MATTERS

#### Board Composition

The Company is managed by its Board of Directors. If all of the Nominees are elected, the Board will have twelve members.

#### Board Meetings

The Board holds regular meetings on a quarterly basis. Pursuant to the Company's By-Laws, the Board Chair, President or a majority of the Board of Directors may call for a special meeting of the Board. During 2005, the Board of Directors met eight times, including regular and special meetings. Each director attended at least 75% of the Board's meetings. Ten of the twelve directors attended all of the meetings. Two directors each missed one meeting.

#### Board Independence

Nine of the Company's twelve Board members are not employed by the Company. The Board of Directors has determined that eight of the non-employee directors are "independent" within the meaning of the Securities and Exchange Commission ("SEC") and the New York Stock Exchange ("NYSE") current director independence standards. The independent directors are: William Balderston, Josh Fidler, Alan Gosule, Leonard Helbig, Roger Kober, Clifford Smith, Paul Smith and Thomas Summer. This represents more than a majority of the members of the Board of Directors.

In determining the independence of each director, the Corporate Governance/Nominating Committee of the Board considered any relationships between the Company and the individual director and the director's immediate family members as required under the applicable standards. Consistent with the standard of the NYSE with respect to ownership of common stock, the Board has determined that ownership of limited partnership units ("Units") in Home Properties, L.P. (the "Operating Partnership"), which are exchangeable on a one-for-one basis for Common Stock and have customarily received distributions equivalent to distributions on the Company's Common Stock, does not bar the Board from determining that a director is independent of management. Messrs. Balderston, Gosule, Helbig, Kober, C. Smith, P. Smith and Summer have no relationship with the Company other than their compensation and benefits as members of the Board and its Committees and ownership of the Company's Common Stock.

In evaluating the independence of Mr. Fidler, the Corporate Governance/Nominating Committee and the full Board considered the additional relationships between Mr. Fidler and the Company and determined that none of



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them was material and that Mr. Fidler is independent. Specifically, Mr. Fidler is a principal in a diversified real estate development business known as The Macks Group. In 1999, the Company acquired 3,297 apartment units from affiliates of The Macks Group. As partial consideration for the purchase, Mr. Fidler and members of his family acquired approximately 800,000 Units in Home Properties L.P. Pursuant to the purchase agreement, the Company agreed not to sell or refinance the apartments in a transaction which would require the sellers to recognize taxable income deferred in connection with the sale. In addition, the Company agreed to register with the SEC shares of its Common Stock for which the Units could be exchanged, to pay dividends on the Units comparable to those paid on the Company's Common Stock, and to provide the holders of the Units certain rights to protect their tax and economic interests in the event of a "going private" transaction involving the Company. The Board determined that these rights are not material to the Company and do not impair Mr. Fidler's independence from management. In addition, in 2004, the Company acquired a 240 unit apartment community for \$29,496,000 in cash from an entity owned by Mr. Fidler and members of his family. Certain customary representations and warranties by both the Company and the sellers continue to survive, including related indemnity obligations for any breaches. The Board determined that since no breaches have occurred in the almost two years since the acquisition and since any breaches by either the Company or the sellers would not be material to the Company, the ongoing contractual provisions are not material to the Company and do not impair Mr. Fidler's independence from management.

In considering the relationships between Amy Tait and the Company, the Board has determined that Ms. Tait is not an independent director because of her prior employment as an officer of the Company and because Norman Leenhouts, her father, was Co-Chief Executive Officer until January 1, 2004.

### Board Evaluation

In 2005, each Board member participated in a self-evaluation of their performance as a Board member as well as an evaluation of the Board as a whole. The Board and members of senior management also participated in a written evaluation of the Chief Executive Officer.

### Board Committees

Audit Committee. The Company has a separately designated Audit Committee, which currently consists of Alan Gosule, Leonard Helbig, Roger Kober, Paul Smith and Thomas Summer. Paul Smith chairs this Committee. The Audit Committee assists the Board in fulfilling its responsibility for general oversight of the integrity of the Company's financial statements, the Company's compliance with applicable laws and regulations including the Company's own Code of Business Conduct and Ethics, and the Company's internal and disclosure controls and procedures. The Audit Committee also selects and oversees the Company's independent registered public accounting firm.

The Audit Committee has adopted procedures for the receipt, retention and treatment of concerns and complaints about accounting, internal controls and auditing matters. The Audit Committee oversees the existence of a "hot line" (1-877-888-0002) where such concerns and complaints can be anonymously reported.

The Board of Directors has reviewed the qualifications of each member of the Audit Committee and has determined that each member is independent as required by applicable securities laws and by the listing standards of the NYSE. No Audit Committee member serves on the audit committee of more than one other public company. In the exercise of its business judgment, the Board of Directors has also determined that each member of the Audit Committee is financially literate. Finally, the Board has determined that each of Roger Kober, Paul Smith and Thomas Summer qualifies as an "audit committee financial expert" as defined by applicable SEC rules.

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The Audit Committee operates under a written charter approved by the Committee and the Board. A copy of the charter is attached to this Proxy Statement as Exhibit A and is available on the Company's website at [www.homeproperties.com](http://www.homeproperties.com) under the heading "Investment Information/Corporate Governance/Highlights." In 2005, the Audit Committee conducted a self-evaluation.

The Audit Committee works closely with management and the Company's independent registered public accounting firm. It meets quarterly to review the Company's financial statements and on other occasions on an as needed basis. The Audit Committee met seven times in 2005. Each of the members of the Audit Committee attended at least 75% of the Committee's meetings.

Compensation Committee. The Company has a separately designated Compensation Committee. The Compensation Committee currently consists of William Balderston, Roger Kober and Clifford Smith, each of whom is independent as required by applicable securities laws and by the listing standards of the NYSE. Clifford Smith chairs this Committee. The Compensation Committee reviews and approves, at least annually, the Company's goals and objectives relevant to compensation of the Company's executive officers, including the Chief Executive Officer, reviews on an annual basis the performance of the Chief Executive Officer in light of those goals and objectives, recommends to the other directors for approval the Chief Executive Officer's annual compensation, approves the compensation levels of the other executive officers, reviews significant employee benefit programs, and establishes and administers executive compensation programs.

The Compensation Committee operates under a written charter approved by the Committee and the Board. A copy of the charter is available on the Company's website at [www.homeproperties.com](http://www.homeproperties.com) under the heading "Investment Information/Corporate Governance/Highlights." In 2005, the Compensation Committee conducted a self-evaluation.

The Compensation Committee met four times in 2005. Each of the members of the Compensation Committee attended all of the Committee's meetings.

Corporate Governance/Nominating Committee. The Company has a separately designated Corporate Governance/Nominating Committee. Pursuant to its charter, this Committee at all times consists of at least three directors, all of whom are independent directors and two of whom are the Chairs of the Audit and Compensation Committees. This Committee currently consists of William Balderston, Clifford Smith and Paul Smith, each of whom is independent as required by applicable securities laws and by the listing standards of the NYSE. William Balderston chairs this Committee. The Corporate Governance/Nominating Committee identifies individuals qualified to become Board members consistent with criteria approved by the Board, evaluates the size, composition and organization of the Board, monitors implementation of specific corporate governance initiatives, reviews any stockholder proposals submitted to the Company and oversees the evaluation of the Board and management.

The Corporate Governance/Nominating Committee operates under a written charter approved by the Committee and the Board. A copy of the charter is available on the Company's website at [www.homeproperties.com](http://www.homeproperties.com) under the heading "Investment Information/Corporate Governance/Highlights." In 2005, the Corporate Governance/Nominating Committee conducted a self-evaluation.

The Corporate Governance Committee met four times in 2005. Each of the members of this Committee attended all of the Committee's meetings.

Real Estate Investment Committee. The Company has a separately designated Real Estate Investment Committee. Josh Fidler, Leonard Helbig, Nelson Leenhouts,

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Edward Pettinella and Amy Tait are the current members of this Committee. Amy Tait chairs this Committee. The charter for this Committee requires that it consists of at least three directors, at least a majority of whom shall be non-employee directors. The purpose of this Committee is to review potential acquisitions and dispositions and to approve, or to recommend to the full Board for approval, acceptable transactions pursuant to the authorization parameters established by the Board.

The Real Estate Investment Committee operates under a written charter approved by the Committee and the Board. A copy of the charter is available on the Company's website at [www.homeproperties.com](http://www.homeproperties.com) under the heading "Investment Information//Corporate Governance/Highlights." In 2005, the Real Estate Investment Committee conducted a self-evaluation.

The Real Estate Investment Committee met six times in 2005. Each of the members of the Committee attended all of the Committee's meetings.

### Board Compensation

In 2005, the Company paid its non-employee directors an annual stipend of \$20,000. An additional annual stipend in the amount of \$9,000 was paid to the Chair of each of the Committees. Non-employee directors were also paid \$1,200 per day for attendance (in person or by telephone) at Board and Committee meetings provided the Committee meetings were held on a different day from the Board meetings. In addition, in 2005, each of the non-employee directors was issued 875 shares of restricted stock and 4,000 options pursuant to the Company's Amended and Restated 2003 Stock Benefit Plan. The options were issued at an exercise price of \$41.95 per share, which was the closing price of a share of the Company's common stock on the date of the 2005 Annual Meeting.

For 2006, the annual stipend will increase to \$30,000, the additional stipend paid to the Committee Chairs will increase to \$10,000 and the meeting fees will remain at \$1,200 per day. The Amended and Restated 2003 Stock Benefit Plan provides for the issuance of up to 1,000 shares of restricted stock to each of the non-employee directors in 2006. The Board authorized a grant of 1,000 shares to each non-employee director, which was awarded in February, 2006. The Amended and Restated 2003 Stock Benefit Plan also provides for the issuance of up to 10,000 options to each of the non-employee directors in 2006. The Board has approved the issuance of 4,000 options to each of the non-employee directors immediately following the 2006 Annual Meeting. The Board determined the 2006 compensation level for non-employee directors based on an analysis of the amount and type of consideration paid to the boards of the Company's peer group.

Under the Second Amended and Restated Director Deferred Compensation Plan approved by the stockholders at the 2005 Annual Meeting, the non-employee directors can defer up to 100% of their total annual cash compensation (including meeting fees) for three, five or ten years and their compensation in the form of restricted stock for five or ten years. The Company matches 10% of the deferred cash amount, which amount vests after three years. A "phantom" stock account is established for each of the director and the Company contribution amounts. Each deferral and the Company contribution is reflected by crediting those accounts with the phantom equivalent of the number of shares of the Company's Common Stock that could be purchased with the amounts deferred and contributed at the Common Stock's fair market value as of the day when the compensation would otherwise have been paid, or with the number of shares of restricted stock deferred. Participants' accounts are also credited with the number of shares of the Company's Common Stock that could be purchased with hypothetical dividends that would be paid with respect to shares previously allocated to the accounts on the same date and at the same price that shares are purchased for participants in the dividend reinvestment feature of the Company's Dividend Reinvestment and Direct Stock Purchase Plan (the "DRIP"). Payments out of the deferred accounts, upon vesting or otherwise, are made by issuance of

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Common Stock, except in the event of payment by reason of a change in control in which event payment may be made in cash or by issuance of Common Stock at the election of the Compensation Committee. The Director Deferred Compensation Plan is designed to provide substantially the same benefits to the non-employee directors as are provided to eligible employees under the Company's Deferred Bonus Plan. Under the Director Deferred Compensation Plan, five and four of the nine non-employee directors elected to defer some or all of the compensation earned by them in 2005 and 2006, respectively.

Directors of the Company who are employees of the Company do not receive any compensation for their services as directors. All directors are reimbursed for their expenses incurred in attending directors' meetings.

### Director Qualifications

The Board has established certain minimum qualifications for prospective Board members. These include a present or past (retired) successful professional career as well as the potential to contribute to the effectiveness of the Board as a whole. Specific qualifications or skills that a prospective Board member must possess include candor, trustworthiness, high ethical standards, dedication and a desire to work hard. Specific expertise must include one of the following: successful financial, legal, academic, mergers and acquisitions, technology utilization or business operating experience.

### Identifying and Evaluating Nominees for Directors

The Corporate Governance/Nominating Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Committee develops and updates a list of potential Board candidates that meet the Board qualifications. Candidates may come to the attention of the Committee through current Board members, stockholders, management or other persons. To date, the Committee has not utilized the services of a professional service firm to identify potential candidates, but it may do so in the future. If a vacancy on the Board occurs or is anticipated, the Committee selects candidates to have personal meetings with members of the Committee, the Co-Chairs of the Board and the Chief Executive Officer. Selected candidates would then be invited to interact with other Board members and management. A candidate, if acceptable, would then be elected by the Board (in the event of a mid-term vacancy) or be nominated to stand for election at the next annual stockholders meeting.

### Stockholder Nominees

The Corporate Governance/Nominating Committee will consider director candidates proposed by stockholders on the same basis as it considers other potential candidates for Board membership. Stockholders may submit nominations, which should include the name and address of the proposed candidate as well as biographical information evidencing that the proposed candidate meets the minimum qualifications and possesses the skills and expertise as required by the Board and as described above under "Director Qualifications." The submission must also include the candidate's written consent to the nomination and to serve if elected. To be considered for nomination for election at the 2007 Annual Meeting, stockholder submissions for nomination must be received at the office of the Company in care of Secretary, Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604, on or prior to February 15, 2007.

### Director Communications

Stockholders may communicate with the Board of Directors by sending written materials to the Board or any of the directors in care of Secretary, Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604. Stockholders may also communicate confidentially or anonymously through use of the Company's hotline at 1-877-888-0002. The Company's Secretary will relay all written

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communications to the Board of Directors or individual members designated by the stockholder.

### CORPORATE GOVERNANCE

#### Code of Ethics

A very significant part of the Company's culture is the focus on "doing the right thing." The Company has adopted a Code of Business Conduct and Ethics ("Code of Ethics") to embody the Company's commitment to continue to conduct business in accordance with the highest ethical standards. The Code of Ethics applies to all employees and directors of the Company. The Code of Ethics covers such topics as conflicts of interest, proper use of Company property, complete and accurate reporting and disclosure of its business and financial results and compliance with laws. Each employee and each member of the Board of Directors is required on an annual basis to acknowledge that they have received a copy of and reviewed the Code of Ethics.

The Company has also adopted a Code of Ethics for Senior Financial Officers ("Senior Financial Officer Code of Ethics") that applies to the Chief Executive Officer, Chief Financial Officer, Treasurer and Controller. These individuals are also required to comply with the Code of Ethics.

The Code of Ethics and Senior Financial Officer Code of Ethics meet the definition of "Code of Ethics" under the rules and regulations of the SEC and the listing standards of the NYSE. Both Codes are available on the Company's website at [www.homeproperties.com](http://www.homeproperties.com) under the heading "Investment Information/Corporate Governance/Highlights." Amendments to the Code of Ethics and Senior Financial Officer Code of Ethics and any waivers granted thereunder will be posted on the Company's website under that heading. The Audit Committee of the Board of Directors monitors the implementation and enforcement of both Codes.

#### Corporate Governance Guidelines

The Board of Directors has adopted a set of corporate governance guidelines (the "Guidelines") which meet the requirements of the listing standards of the NYSE and cover such topics as director qualifications and responsibilities, director access to management, and director orientation and continuing education. Some specific policies included in the Guidelines follow.

**Retirement Age.** The retirement age for directors was changed in February 2006 to 75. Previously, the retirement age of 75 was subject to exceptions if a determination was made by the other directors after confidential discussion that the over age 75 director was expected to make a significant contribution to the Company during the following year. As of the 2007 Annual Meeting, no exceptions will be permitted.

**Change of Employment.** Any director who changes jobs or employers or otherwise experiences a significant change in job responsibilities is to submit a letter to the Board offering to resign as a Board member.

**Other Boards.** Directors may not serve on the boards of more than two additional public companies.

**Stock Ownership.** Within five years of becoming a director of the Company, directors are required to have equity in the Company having a then current value of not less than \$100,000.

**Meeting Attendance.** Directors are expected to attend each annual stockholders meeting, all Board meetings and meetings of the Committees on which

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they serve. All of the directors attended the 2005 Annual Meeting of Stockholders.

**Executive Sessions.** The non-management directors are to meet at least quarterly in executive sessions and, at least once per year, without any directors who are not independent directors. The Chair of the Corporate Governance/ Nominating Committee presides at the executive sessions unless the Board determines otherwise.

A copy of the Guidelines is available on the Company's website at [www.homeproperties.com](http://www.homeproperties.com) under the heading "Investment Information/Corporate Governance/Highlights."

### Stock Option Restrictions

The Amended and Restated 2003 Stock Benefit Plan approved by the Company's stockholders at the 2005 Annual Meeting includes some features that are designed to closely align the interests of management with those of the stockholders. Options may not be repriced. Options do not vest automatically upon retirement but continue to vest as scheduled. Directors and the executive officers of the Company must hold an equivalent number of shares as were issued on an option exercise for a one year period and are not permitted to receive cash on an option exercise other than the amount necessary to pay the exercise price and withholding taxes.

### EXECUTIVE COMPENSATION

The following table sets forth the compensation paid during 2003, 2004 and 2005 to the Company's Chief Executive Officer, the four next most highly compensated executive officers and the two Board Co-Chairs and Senior Advisors (collectively the "Named Executives").

#### Summary Compensation Table

Name and Principal Position	Year	Annual Compensation (\$)		Long-Term Compensation Awards	
		Salary	Bonus (1)	Restricted Stock Awards (\$) (2)	Security Underlying Options
Edward J. Pettinella (5) President and Chief Executive Officer	2003	\$400,000	\$113,520	\$411,450	50,000
	2004	475,000	433,770	529,320	55,000
	2005	500,000	352,625	416,500	65,000
David P. Gardner (6) Executive Vice President and Chief Financial Officer	2003	215,000	92,498	97,725	15,000
	2004	245,000	171,673	246,608	15,000
	2005	263,000	114,142	229,075	25,000
Ann M. McCormick (7) Executive Vice President General Counsel and Secretary	2003	205,000	89,023	80,905	15,000
	2004	235,000	165,412	203,808	15,000
	2005	248,000	107,632	189,578	20,000
Scott A. Doyle (8) Senior Vice President	2003	175,000	64,217	31,650	10,000
	2004	215,000	130,349	126,817	12,500
	2005	233,000	88,482	124,950	15,000
John E. Smith (9) Senior Vice President	2003	170,000	60,966	31,650	10,000
	2004	189,166	99,433	64,160	10,000
	2005	205,000	77,849	83,300	15,000

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Other Employees:

Nelson B. Leenhouts (10) Co-Chair and Senior Advisor	2003	450,000	127,710	2,970,282	50,000
	2004	300,000	273,960	434,655	33,330
	2005	225,000	146,475	222,685	25,000
Norman P. Leenhouts (11) Co-Chair and Senior Advisor	2003	450,000	127,710	2,969,967	50,000
	2004	300,000	273,960	434,655	33,330
	2005	225,000	146,475	222,685	25,000

- (1) All amounts listed in the following footnotes as having been subject to mandatory deferral were required to be deferred under the Company's Incentive Compensation Plan. When the deferred amounts are paid, they are paid with interest as provided in that plan. See the description of this plan under "Incentive Compensation Plan" on page 15 of this Proxy Statement.
- (2) Amounts in this column include the value of shares of restricted stock and, where applicable, the amount of the Company's contribution of 10% of the bonus deferred voluntarily by the Named Executives pursuant to the Company's Deferred Bonus Plan (a "10% Company Contribution"). The value of the restricted stock is based on the closing price of a share of Common Stock on the NYSE on the date of grant. The amount of the 10% Company Contribution under the Deferred Bonus Plan is credited to the applicable Named Executive's account in the form of shares as described under "Deferred Bonus Plan" on page 16 of this Proxy Statement ("Plan Shares"). The restrictions on the shares of restricted stock granted in February 2003 lapse in February 2008. The restrictions on the shares of restricted stock granted to Nelson and Norman Leenhouts in October 2003 vest 20% per year on the anniversary date of the grant. The restrictions on the shares of restricted stock granted in 2004 and 2005 vest 25% per year on the anniversary date of the grant. The Plan Shares vest on the three-year anniversary of the date they were first credited to the applicable Named Executive's deferred bonus account. Dividends are paid on the restricted shares as and when dividends are paid on the Common Stock. The equivalents of dividends are paid on the Plan Shares at the time dividends are paid on the Common Stock and are reinvested. The value of all of the restricted stock (including Plan Shares) listed in this column for the Named Executives as of December 31, 2005 was as follows: Edward Pettinella \$1,342,320; David Gardner \$539,939; Ann McCormick \$444,139; Scott Doyle \$261,918; John Smith \$171,360; Nelson Leenhouts \$2,800,503; Norman Leenhouts \$2,800,144.
- (3) All options granted in 2003, 2004 and 2005 were granted under the 2003 Stock Benefit Plan. All options are exercisable for ten years following grant. All options vest 20% each year for five years. The exercise price for all options granted in 2003 is \$36.85 per share. The exercise price for all options granted in 2004 is \$38.83 per share. The exercise price for all options granted in 2005 is \$41.95 per share. The exercise price for all options granted is the closing price of a share of the Company's Common Stock on the date of grant.
- (4) Represents contributions made by the Company to the Named Executive's account under the Company's retirement savings plan.
- (5) The amount in the restricted stock column represents the value of 13,000 shares of restricted stock granted to Mr. Pettinella in 2003, 13,200 shares granted to him in 2004 and 10,000 shares granted to him in 2005. In addition to the listed compensation, in 2005 Mr. Pettinella received \$93,357 in dividends paid on the restricted stock held by him.

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- (6) Mr. Gardner's 2003 and 2004 bonuses include \$21,311 and \$22,517, respectively, which represents 50% of his 2002 bonus that was subject to mandatory deferral plus interest. The amount in the restricted stock column includes the 10% Company Contribution which was credited to Mr. Gardner's deferred bonus account in the form of 70 and 149 Plan Shares, respectively, for 2003 and 2004. The amount in the restricted stock column also includes the value of 3,000 shares of restricted stock granted to Mr. Gardner in 2003, 6,000 shares granted to him in 2004 and 5,500 shares granted to him in 2005. In addition to the listed compensation, in 2005 Mr. Gardner received \$37,950 in dividends paid on the restricted stock held by him.
- (7) Mrs. McCormick's 2003 and 2004 bonuses include \$21,147 and \$22,344, respectively, which represents 50% of her 2002 bonus that was subject to mandatory deferral plus interest. The amount in the restricted stock column includes the 10% Company Contribution which was credited to Mrs. McCormick's deferred bonus account in the form of 45, 82 and 43 Plan Shares, respectively, for 2003, 2004 and 2005. The amount in the restricted stock column also includes the value of 2,500 shares granted to Mrs. McCormick in 2003, 5,000 shares granted to her in 2004 and 4,500 shares granted to her in 2005. In addition to the listed compensation, in 2005 Mrs. McCormick received \$32,257 in dividends paid on the restricted stock held by her.
- (8) Mr. Doyle's 2003 and 2004 bonuses include \$14,552 and \$15,375, respectively, which represents 50% of his 2002 bonus that was subject to mandatory deferral plus interest. The amount in the restricted stock column includes the 10% Company Contribution which was credited to Mr. Doyle's deferred bonus account in the form of 162 Plan Shares for 2004. The amount in the restricted stock column represents the value of 1,000 shares granted to Mr. Doyle in 2003, 3,000 shares granted to him in 2004 and 3,000 shares granted to him in 2005. In addition to the listed compensation, in 2005 Mr. Doyle received \$19,860 in dividends paid on the restricted stock held by him.
- (9) Mr. Smith's 2003 and 2004 bonuses include \$12,720 and \$13,440, respectively, which represents 50% of his 2002 bonus that was subject to mandatory deferral plus interest. The amount in the restricted stock column represents the value of 1,000 shares granted to Mr. Smith in 2003, 1,600 shares granted to him in 2004 and 2,000 shares granted to him in 2005. In addition to the listed compensation, in 2005 Mr. Smith received \$14,674 in dividends paid on the restricted stock held by him.
- (10) Prior to January 1, 2004, Nelson Leenhouts served as President of the Company. The amount in the restricted stock column includes the Company's 10% Contribution which was credited to Nelson Leenhouts' deferred bonus account in the form of 315, 671 and 291 Plan Shares for 2003, 2004 and 2005, respectively. For 2003, 2004 and 2005, the restricted stock column also includes the value of 80,935, 10,166 and 5,000 shares, respectively, of restricted stock granted to Mr. Leenhouts in those years. In addition to the listed compensation, in 2005 Mr. Leenhouts received \$203,128 in dividends paid on the restricted stock held by him.
- (11) Prior to January 1, 2004, Norman Leenhouts served as Chairman of the Company. The amount in the restricted stock column includes the 10% Company Contribution which was credited to Norman Leenhouts' deferred bonus account in the form of 307, 671 and 291 Plan Shares, respectively, for 2003, 2004 and 2005. The amount in the restricted stock column for 2003, 2004 and 2005 also includes the value of 80,935, 10,166 and 5,000 shares, respectively, of restricted stock granted to Mr. Leenhouts in those years. In addition to the listed compensation, in 2005 Mr. Leenhouts received \$203,128 in dividends paid on the restricted stock held by him.



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### Stock Benefit Plans

The Company's 1994 Stock Benefit Plan was adopted by the Company at the time of its initial public offering. As of March 8, 2006, options to purchase 1,542,381 shares have been granted to employees and options to purchase 153,654 shares have been granted to non-employee directors under the 1994 Stock Benefit Plan. Of the options granted under the 1994 Stock Benefit Plan, 42,991 issued to employees and none issued to non-employee directors were outstanding on March 8, 2006. The Board of Directors has determined that no additional awards will be made under this Plan.

At the 2000 Annual Meeting, the stockholders approved the Company's 2000 Stock Benefit Plan. As of March 8, 2006, options to purchase 2,101,220 shares have been granted to employees and options to purchase 163,760 shares have been granted to non-employee directors under the 2000 Stock Benefit Plan. In addition, as of March 8, 2006, 350,702 shares of restricted stock have been issued under the 2000 Stock Benefit Plan to the executive officers and other key employees and 2,700 shares of restricted stock had been issued to the non-employee directors under the 2000 Stock Benefit Plan. Of the awards made under the 2000 Stock Benefit Plan 818,077 options and 223,963 shares of restricted stock issued to employees and 49,000 options and 2,100 shares of restricted stock issued to the non-employee directors were outstanding on March 8, 2006. The Board of Directors has determined that no additional awards will be made under this Plan.

At the 2003 Annual Meeting, the stockholders approved the Company's 2003 Stock Benefit Plan. The stockholders approved an amended and restated version of that plan at the 2005 Annual Meeting. The Amended and Restated 2003 Stock Benefit Plan provides up to 2,500,000 shares for issuance of stock options to employees (including the executive officers) and 110,000 shares for issuance of shares of restricted stock to employees (including the executive officers), 220,000 shares for issuance of stock options to non-employee directors and 29,475 shares for issuance of shares of restricted stock to non-employee directors. As of March 8, 2006, options to purchase 1,694,130 shares have been granted to employees and no shares of restricted stock have been granted to employees, options to purchase 148,000 shares have been issued to non-employee directors and 20,475 shares of restricted stock have been granted to non-employee directors under the original and the Amended and Restated 2003 Stock Benefit Plan. Of the options granted under the original and the Amended and Restated 2003 Stock Benefit Plan, 1,381,675 issued to employees and 148,000 issued to non-employee directors were issued and outstanding as of March 8, 2006. All 20,475 shares of restricted stock granted to non-employee directors also remain issued and outstanding as of March 8, 2006.

Options and restricted stock that have been issued and that are subsequently terminated, cancelled or surrendered without being exercised are available for future grant under the Amended and Restated 2003 Stock Benefit Plan. Taking those shares in account, as of March 8, 2006, 1,028,590 are available for issuance of stock options to employees and 110,000 shares are available for issuance of restricted stock to employees. In addition 72,000 shares are available for issuance of stock options to non-employee directors and 9,000 shares are available for issuance of restricted stock to non-employee directors.

As of March 8, 2006 and with respect to all three of the Company's Stock Benefit Plans, the aggregate of the shares of Common Stock subject to outstanding option grants, the shares of restricted stock outstanding and the shares still available for issuance of awards equals 8.1% of the aggregate of the Company's outstanding Common Stock and other equity that is convertible into Common Stock on an as-converted basis.

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### Option Grants in Fiscal Year 2005

The following table sets forth certain information relating to options granted to the Named Executives during the fiscal year ended December 31, 2005. These options were granted under the Amended and Restated 2003 Stock Benefit Plan. The columns labeled "Potential Realizable Value" are based on hypothetical 5% and 10% growth assumptions in accordance with the rules of the SEC. The Company cannot predict the actual growth rate of the Common Stock.

#### Option Grants in Last Fiscal Year(1) Individual Grants

Name	Number of Shares Underlying Options Granted(#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/sh.) (2)	Expiration Date	Potential Realizable at Assumed Annual Stock Price Appreciation for Option Term 5%	10%
----	-----	----	-----	----	--	--
Executive Officers:						
Edward J. Pettinella	65,000	12.5%	\$41.95	05/06/2015	\$1,714,838	\$4,140,000
David P. Gardner	25,000	4.8%	41.95	05/06/2015	659,553	1,319,106
Ann M. McCormick	20,000	3.8%	41.95	05/06/2015	527,643	1,055,286
Scott A. Doyle	15,000	2.9%	41.95	05/06/2015	395,732	791,464
John E. Smith	15,000	2.9%	41.95	05/06/2015	395,732	791,464
Other Employees:						
Nelson B. Leenhouts	25,000	4.8%	41.95	05/06/2015	659,553	1,319,106
Norman P. Leenhouts	25,000	4.8%	41.95	05/06/2015	659,553	1,319,106

- (1) Stock appreciation rights were not granted in 2005.
  - (2) The exercise price was the closing price of a share of the Company's Common Stock on the NYSE on the date of grant, May 6, 2005.
  - (3) The value of stock option awards granted in May, 2005 is based on the grant date fair value estimated by the Company for financial reporting purposes (\$3.52 per option) using the Black-Scholes option-pricing model. The ultimate values of the options will depend on the future market price of the Company's stock, which cannot be forecasted with reasonable accuracy. The actual value, if any, an employee will realize upon exercise of an option will depend on the excess of the fair market value of the Company's common stock less the grant price on the date the option is exercised.
- Option Exercises and Year-End Option Values

The following table sets forth the value of options held as of December 31, 2005 by the Company's Named Executives.

#### Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values (1)

Name	Number of Shares Acquired On Exercise(#)	Value Realized(\$)	Number of Shares Underlying Unexercised Options at Fiscal Year End(#)		Value of in-the-Money Fiscal Year-End Options
----	-----	-----	Exercisable	Unexercisable	Exercisable
----	-----	-----	-----	-----	-----
Executive Officers:					
Edward J. Pettinella	0	0	231,000	139,000	\$2,319,670
David P. Gardner	11,140	\$173,829	45,960	55,000	367,263

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Ann M. McCormick	0	0	57,600	50,000	530,440
Scott A. Doyle	0	0	39,000	37,000	353,938
John E. Smith	7,000	103,080	25,000	35,000	188,965
Other Employees:					
Nelson B. Leenhouts	3,686	45,319	76,666	111,664	477,382
Norman P. Leenhouts	3,187	25,257	73,479	111,664	447,345

- (1) Stock appreciation rights were not granted in 2005.
- (2) Based on the closing price of a share of the Company's Common Stock on the NYSE on December 31, 2005 of \$40.80 less the per share exercise price of the options.

### Employment Agreements

Edward Pettinella entered into an employment agreement with the Company for a term that commenced on January 1, 2004 and terminates on December 31, 2006. The agreement provides for the employment of Mr. Pettinella during that term as the President and Chief Executive Officer of the Company. Pursuant to the agreement, his base salary for 2004 was \$475,000 and his base salary for 2005 and 2006 is to be determined in the discretion of the Compensation Committee, but is to be no less than \$475,000. The factor to be applied to his salary for purposes of determining his bonus pool under the Company's Incentive Compensation Plan is to be a minimum of 12% for all three years. The Compensation Committee determined Mr. Pettinella's salary for 2005 and 2006 (actually March 15, 2006 to March 14, 2007) was to be \$500,000 and \$525,000, respectively. The Committee increased his bonus factor to 13% in 2005 where it remains for 2006. Options and restricted stock awards to be made to Mr. Pettinella during the term of the agreement are not specified but are rather to be made in the discretion of the Compensation Committee. The Compensation Committee recommended and the full Board approved the issuance of 55,000 and 65,000 stock options in 2004 and 2005, respectively and the issuance of 13,200 and 10,000 shares of restricted stock in 2004 and 2005, respectively. The Compensation Committee expects to make a recommendation as to the number of options and shares of restricted stock to be issued in 2006 to Mr. Pettinella at the May 2006 Board meeting. The "Compensation Committee Report on Executive Compensation" included later in the Proxy Statement describes the rationale for the Committee's prior recommendations relating to Mr. Pettinella's compensation.

Mr. Pettinella's employment agreement also provides that, if employment is terminated by the Company without cause or by Mr. Pettinella for good reason, Mr. Pettinella is entitled to receive an amount equal to two times his base salary and incentive compensation for the year preceding the termination plus, in the year following termination, the amount of incentive compensation that he would have earned if he had been an employee on December 31 of the year of termination. In such event, Mr. Pettinella would also be paid an amount to compensate him for the loss of future awards of stock options and restricted stock. In addition, all options previously granted to him would vest and the restrictions would lapse on all restricted stock held by Mr. Pettinella. Pursuant to the employment agreement, Mr. Pettinella is subject to a covenant not to compete until January 1, 2007 unless he is terminated by the Company for cause or if he resigns without good reason, in which event the covenant applies for two years after termination.

In the event of a change of control, Mr. Pettinella is entitled to receive the benefits provided under the Executive Retention Plan (described on page 16 of this Proxy Statement) except he would receive three times his base salary and bonus instead of two times as provided to other beneficiaries of that plan.

In October, 2003, Nelson and Norman Leenhouts entered into employment agreements with the Company providing for a three-year term expiring on December

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31, 2006. Under the employment agreements, the Leenhoutses agree to serve as Senior Advisors as well as Co-Chairs of the Board (provided they continue to be elected by the stockholders as directors of the Company). These employment agreements reflect the gradual reduction of the Leenhoutses' obligations to act as Senior Advisors to the Company with the portion of their business time to be spent on those obligations reducing from a maximum of two-thirds in 2004, to one-half in 2005, to one-third in 2006. Their base salary is also proportionately reduced under the employment agreements from \$225,000 in 2005 to \$150,000 in 2006. They remain entitled to receive incentive compensation at their pre-retirement bonus level factor of 12% but since the Company's Incentive Bonus Plan provides that the bonus paid is calculated based on base salary, if the total bonus payout remained the same, the bonus to be paid to the Leenhoutses will be proportionately reduced as well.

Pursuant to their employment agreements, each of the Leenhoutses was granted 64,935 shares of restricted stock in October 2003 in consideration for both past and future services to the Company. The restrictions on those shares lapse in equal amounts over the five years following the execution of the employment agreements. The agreements also provide for minimum option and restricted stock grants to the Leenhoutses. The minimum amount of options to be granted to each of the Leenhoutses is 25,000 in 2005 and 16,665 in 2006. The minimum number of shares of restricted stock to be granted to each is 5,000 in 2005 and 3,333 in 2006. The Leenhoutses each were granted 5,000 shares of restricted stock in 2005. No determination has been made yet with respect to 2006 grants.

The employment agreements also provide that if employment is terminated by the Company without cause, or by the Leenhoutses for good reason at any time, each of the Leenhouts is entitled to receive an amount equal to twice his base salary and incentive compensation for the year preceding termination plus, in the year following termination, the amount of incentive compensation that he would have earned if he had been an employee on December 31 of the year of termination. In such event, the Leenhoutses would also receive the minimum number of restricted shares yet to be issued under the employment agreements as well as the value of the options not yet granted. In addition, all options previously granted to them would vest and the restrictions would lapse on all restricted stock held by them. Pursuant to their employment agreements, each of Norman and Nelson Leenhouts are subject to a covenant not to compete with the Company during the term of the agreements and, if either is terminated by the Company for cause or resigns without good reason, for two years thereafter.

In addition, Nelson Leenhouts recently entered into a Development Agreement with the Company whereby he agrees to perform certain additional functions related to the development activities of the Company. That agreement is described in more detail on page 27 of this Proxy Statement.

### Incentive Compensation Plan

Under the Company's Incentive Compensation Plan as in effect for 2005 and 2006, eligible officers and key employees could earn a cash bonus based on two metrics: (1) year over year growth in the Company's FFO per share/unit (computed on a diluted basis); and (2) percentage of growth in the Company's same store net operating income ("NOI") from the prior year as compared to its peer group performance for the same period. Certain non-recurring items are removed from published FFO results for purposes of making the bonus calculation. In calculating the bonus units, the FFO component receives 75% weighting and the NOI component receives 25% weighting.

In the event the Company experiences financial performance in either of the metrics below the established floor or above the established ceiling, the Compensation Committee has complete discretion in determining bonus unit award

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levels that it will recommend for the Board's approval.

To calculate the actual bonus amount payable to each participant, the number of bonus units is multiplied by a factor that is assigned to each participant. That product is then multiplied by each participant's salary to calculate the bonus payable to them.

The entire amount of the bonus otherwise payable to the Chief Executive Officer is payable in the discretion of the Compensation Committee and 50% of the bonus otherwise payable to other participants is payable in the discretion of senior management.

Incentive Plan participants in the 1% and 2% bonus categories are limited to bonuses equal to 10% and 20%, respectively, of their salaries. There is no limit for participants in the 3% bonus category and above, except there is a deferral component if the number of bonus units awarded exceeds eight bonus units. For 2005, 5.425 bonus units were awarded. No changes to the Incentive Compensation Plan are anticipated in 2006.

### Deferred Bonus Plan

Eligible employees can elect to defer up to 100% of their bonus under the Incentive Compensation Plan for three, five or ten years. The Company matches 10% of the amount deferred, which amount vests after three years. A "phantom" stock account is established for both amounts. Each deferral and Company contribution is reflected by crediting those accounts with the number of shares of the Company's Common Stock that could be purchased with the amounts deferred and contributed at the Common Stock's fair market value as of the day when the bonus would otherwise have been paid. The equivalent of dividends on those shares is also credited to the accounts at the time dividends are paid on the Company's Common Stock. Shares that could be purchased with the hypothetical dividends are credited to accounts at the same price that shares are purchased for participants under the dividend reinvestment feature of the Company's DRIP. Payments out of deferred accounts, upon vesting or otherwise, are made by issuance of Common Stock, except in the event of payment by reason of a change in control in which event payment may be made in cash or by issuance of Common Stock at the election of the Compensation Committee.

This plan was adopted in 1998 and has not been submitted to the stockholders for approval. It provides for the issuance of 100,000 shares. As of December 31, 2005, 72,320 shares have been issued or reserved for issuance under this plan.

Under the Deferred Bonus Plan, the Named Officers collectively deferred approximately \$310,000 of their 2005 bonuses.

### Executive Retention Plan

The Company's Executive Retention Plan provides for severance benefits and other compensation to be received by certain employees, including the executive officers, in the event of a change of control of the Company and a subsequent termination of their employment by the employer without cause or by the employee for good reason at any time following the change of control and, with respect to the executive officers, for any reason for a thirty day window following the one year anniversary of the change of control. Under this Plan, the executive officers, in the event of a termination covered by the Plan, would receive a lump sum payment equal to two times their current base salary, two times their last paid bonus under the Incentive Compensation Plan plus a "gross-up" amount necessary to pay any excise tax due on the payment. In addition, all accrued or deferred bonuses under the Incentive Compensation Plan would be paid, all stock options would vest and the restrictions on all restricted stock would lapse automatically.

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### Compensation Committee Interlocks and Insider Participation in Compensation Decisions

During the fiscal year 2005, the Compensation Committee was comprised of William Balderston, III, Roger Kober and Clifford W. Smith, Jr. None of the above individuals has ever been an officer of the Company or any of its subsidiaries.

### Compensation Committee Report on Executive Compensation

The Compensation Committee administers the Company's executive compensation program, as well as broad based compensation plans for the Company's other officers and employees. In this regard, the role of the Committee is to oversee all compensation plans and policies and to administer the Company's stock option plans (including reviewing and approving stock option grants and other awards to executive officers). On an ongoing basis, the Committee also reviews and approves the Company's goals and objectives relevant to compensation of the executive officers and considers the structure of the Company's compensation program as it applies to all employees. When appropriate, the Committee recommends to the full Board changes to the executive and the general compensation plans. In addition, on an annual basis, the Committee also makes specific annual compensation recommendations to the Board relating to the Company's Chief Executive Officer and generally approves the compensation for the other executive officers.

The Compensation Committee consists solely of independent directors. The Committee meets on at least a quarterly basis and more often as appropriate. The Committee Chair reports on Committee actions and recommendations at Board meetings. The Committee's Charter reflects the various responsibilities of the Committee and the Board periodically reviews and revises the Committee's Charter.

The Company's human resources team supports the Committee and its work and, in some cases, acts pursuant to delegated authority to fulfill various functions in administering the Company's compensation programs. In addition, the Committee has the authority to engage the services of outside advisors and experts to assist the Committee.

**Compensation Philosophy.** The Company's compensation philosophy is designed to support its primary goal of creating long-term value for its stockholders. The Committee continues to believe that the success of the Company in achieving that goal is, in large part, attributable to the performance and dedication of its employees and, in particular, to the leadership efforts of its executive officers. The Committee also continues to believe that it is important that the interests of its executives and other employees are aligned closely with the interests of the Company's stockholders.

**Compensation Objectives.** The Committee's objectives for the Company's compensation program continue to be to: (i) attract and retain highly capable employees by offering a competitive total compensation package; (ii) link compensation to the operating and financial performance of the Company; and (iii) provide appropriate incentives to motivate employees to maximize the long-term going-concern value of the Company.

**Components of Compensation.** The Company's executive compensation program consists of three components: base salary, annual incentive compensation in the form of a bonus under the Incentive Compensation Plan, and awards of restricted stock and stock options under the Company's stock benefit plans. It is the Committee's practice to provide a balanced mix of cash and equity based compensation that the Committee believes appropriate to align the short and long-term interests of the Company's executives with that of its stockholders

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and to encourage executives to act as equity owners of the Company. When the Committee considers any component of the Chief Executive Officer's and the other executive officers' compensation, the aggregate amounts and mix of all components, including salary, bonus, equity, the Company's 401-k match and accumulated option and restricted stock gains, are taken into consideration.

The Committee believes that appropriately balancing the total package and ensuring the viability of each component of the package is necessary in order to provide market-competitive compensation and benefits, and to ensure the health of the Company, which benefits employees and stockholders alike. It is the Committee's practice to make the most significant compensation decisions in a multi-step process over more than one meeting, so that Committee members have the ability to consider and discuss alternative courses of action, to ask for additional information as necessary and to raise and discuss further questions.

As part of its consideration as to the appropriateness of the executive officers' compensation, the Committee reviews market data for executives in the property sector classification of real estate companies and for executives in comparably sized companies in the services industry. The primary benchmark used by the Committee for the Chief Executive Officer's compensation is, however, its thirteen member peer group in the apartment REIT industry. This is the same peer group that is used to calculate the bonus payable pursuant to the Company's Incentive Compensation Plan. Compensation data from the peer group is taken from their most recently available proxy statements. These proxy statements typically contain compensation information that is over one year old. The Committee takes the age of this information into consideration when setting compensation levels. This benchmarking is done with respect to the key elements of the executive compensation program, as well as the compensation of individual executives where job descriptions are sufficiently similar. The Committee does not aim to achieve compensation levels within a particular range related to levels provided by industry peers, but uses these comparisons as one factor in determining the expected total value of salary, short-term incentives and long-term incentives that fairly compensate executive officers when considered in combination.

**Base Salary.** In general, base pay for each employee, including executive officers, is established based on the individual's job responsibilities, performance and experience, the Company's overall budget for merit increases and the competitive environment. On an annual basis, the Committee reviews and approves adjustments for the executive officers based on the recommendations of the Chief Executive Officer. With respect to Chief Executive Officer adjustments, the Committee takes a vote at an executive session and a recommendation is made to the full Board for approval.

The Committee's philosophy with respect to setting base salary is generally to compensate executive officers with reasonable current income on a competitive basis. In both 2005 and 2006, the Committee reviewed peer market data for the Chief Executive Officer and the other executive officers. Based on that peer review and the performance of the Company, the Committee increased Mr. Pettinella's salary by 5.3% and 5.0% in 2005 and 2006, respectively. The other executive officers received increases averaging 7.4% and 6.7%, respectively.

**Incentive Compensation.** The Incentive Compensation Plan is designed to motivate employees to maximize the Company's annual operating and financial performance. The Committee reviews the Plan on an annual basis to determine whether it continues to provide the appropriate level and type of motivation. Specifically, the Committee considers the weighting of the two metrics used in the formula - FFO and same store NOI. The plan continues to place emphasis on FFO (75%) because the Committee believes FFO to be the metric that best captures the performance of the Company. Same store NOI (25%) continues as the other metric because it is considered by the Committee to be an important driver of real estate property values and thus stockholder value.

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It is the Committee's philosophy that the proportion of an individual's total compensation that varies with individual and Company performance should increase as the individual's business responsibilities increase. While most participants in the Incentive Compensation Plan have factors of 3% or less assigned to them, Mr. Pettinella's bonus factor for 2005 was 13% and remains 13% for 2006. The bonus factor for the other executive officers ranged from 5% to 8% in 2005 and has been increased to a range of 6% to 9% for 2006.

The Committee also determines and recommends to the Board what portion of the bonus otherwise earned should be paid to the Chief Executive Officer. In making its determination as to what portion of the 2005 bonus (payable in 2006) should be paid to Mr. Pettinella, the Committee considered a variety of factors including leadership and managerial ability, focus, business knowledge, execution of the Company's business plan and overall business strategy, adherence to the Company's values as well as a performance appraisal completed by directors and each executive officer. In addition, the Committee considered progress on several initiatives led by Mr. Pettinella. The Committee recommended and the Board approved payment to Mr. Pettinella of 100% of his 2005 bonus. The Chief Executive Officer, with input from other members of senior management, determines what portion of their bonus should be paid to the other executive officers (50% is discretionary). Consideration is given to the achievement of individual initiatives as well as to the overall performance of the Company. Each of the executive officers received 100% of their 2005 bonus.

Stock Compensation. The purpose of equity compensation grants is to provide employees an incentive to maximize their efforts to promote the Company's long-term going concern value and thereby advance the interests of the Company's stockholders. To encourage employees to seek long-term appreciation in the value of the Company's common stock, stock options granted to employees have not been immediately exercisable, but vest over five years. In addition, with respect to options issued in 2002 and later, executive officers of the Company may not receive cash upon an option exercise and must retain for a period of not less than one year ownership of no less than the same number of shares as the officer received in an option exercise.

Executive officers receive a relatively large portion of their overall targeted compensation in the form of equity in order to align interests of management and stockholders and promote a focus on long-term results. In 2005, the Compensation Committee reviewed the stock compensation of the Chief Executive Officer and the other executive officers in light of the other elements of their compensation, their overall equity interest in the Company's business and the comparison to the peer group.

As a result, in February 2005, the Committee recommended and the Board of Directors approved the issuance of 39,000 shares of restricted stock to executive officers. This number does not include the shares of restricted stock that the Company was contractually obligated to issue to Nelson and Norman Leenhouts pursuant to their employment agreements. Mr. Pettinella received 10,000 shares of restricted stock and the other executive officers received various numbers of shares of restricted stock ranging from 1,200 to 5,500 shares.

In addition, in May 2005, the Compensation Committee recommended and the Board of Directors approved the issuance of up to 448,600 additional options to purchase Common Stock to certain officers and employees of the Company at an option price equal to the closing price on the NYSE for a share of the Company's Common Stock on the date of the grant. Edward Pettinella received 65,000 additional options. The other executive officers received options granted ranging from 15,000 to 25,000 shares. These options vest 20% per year and expire in ten years.

While the Committee has traditionally made its recommendation with regard



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to restricted stock grants in February of each year and with regard to option grants in August of each year, for 2006 and beyond the Committee expects to make its recommendation with respect to both restricted stock and option grants at the May Board meetings. This will enable the Committee to review more recent peer group data for this component of compensation because the peer group proxy statements for the current year will be available. It will also enable the Committee to consider both of these components of equity compensation at the same time.

Perquisites. The Committee has adopted and the Board has approved a policy of providing only modest perquisites to its executives. For example, the Company does not provide for the payment or reimbursement for Company vehicles or aircraft, country club memberships, tax preparation or financial counseling services or similar benefits frequently provided by other companies.

Chief Executive Officer Compensation. The Committee considers and develops recommendations to the full Board on matters pertaining to the compensation of Edward J. Pettinella substantially in conformity with the policies described above for all other executive officers of the Company. In addition, in 2006, the Committee reviewed a compensation tally sheet detailing Mr. Pettinella's total compensation (salary, bonus, equity and the Company's 401-k match) for 2004 and 2005, an overview of his equity ownership and an overview of compensation that would be due to him under various termination scenarios. The Committee also considered internal pay equity analyses that compared Mr. Pettinella's total compensation to the total compensation paid to the members of the senior management team as well as to the average total compensation paid to employees in the Company's first level management position within property management. For 2005 and 2006, the Board also considered a written evaluation of Mr. Pettinella's performance completed by each member of the Board of Directors, as well as each of the other executive officers. The Board meets in executive session to approve compensation levels for the Chief Executive Officer.

Section 162(m). As a real estate investment trust, the Company does not pay tax at the corporate level and thus the limit on deductibility under Section 162(m) of the Internal Revenue Code and related regulations does not impact the Company. Nevertheless, it is the Committee's present intention to use the requirements of Section 162(m) as a guide in its compensation related decisions, except where the best interests of the Company and its stockholders dictate otherwise.

Summary. The Committee's review of the Company's executive compensation programs and practices includes an analysis of all elements of compensation, consisting of base salary, incentive compensation, equity grants, retirement programs, and health and welfare benefits. As a result of this review, tnd 2006 executive compensation that it believes are appropriate and reasonable.he Committee made determinations with respect to 2005 and 2006 executive compensation that it believes are appropriate and reasonable.

Submitted by the Compensation Committee,

Clifford W. Smith, Jr., Chair  
William Balderston, III  
Roger W. Kober

### Performance Graph

The following graph compares the cumulative return on the Company's Common Stock during the five year period ended December 31, 2005 to the cumulative return of the NAREIT All Equity REIT Index and the Standard and Poor's 500 Index for the same period. The total return assumes that dividends were reinvested quarterly at the same discounted price as provided under the Company's DRIP and

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is based on a \$100 investment on December 31, 2000. Stockholders should note that past performance does not predict future results.

	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005
HME	\$100.00	\$122.97	\$144.16	\$181.11	\$205.23	\$207.01
NAREIT	\$100.00	\$113.93	\$118.29	\$162.21	\$213.43	\$239.39
S&P 500	\$100.00	\$88.11	\$68.64	\$88.33	\$97.94	\$102.75

### REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors of the Company is composed entirely of independent directors as required by applicable securities laws and the current listing standards of the NYSE. Its members are identified at the end of this report. The Audit Committee operates under a written charter adopted by the Committee and the Board. A copy of the Third Amended and Restated Audit Committee Charter is attached as Exhibit A to this Proxy Statement and is available on the Company's website at [www.homeproperties.com](http://www.homeproperties.com) under the heading "Investment Information/Corporate Governance/Highlights."

As described more fully in its Charter, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. Among other matters, the Audit Committee is responsible for the selection and oversight of the Company's independent registered public accounting firm.

The management of the Company is responsible for the preparation and integrity of the financial reporting information and related systems of internal controls. The independent registered public accounting firm is responsible for performing an integrated audit on the Company's consolidated financial statements as well as on Management's Report on Internal Control over Financial Reporting in accordance with generally accepted auditing standards and for issuing a report thereon. The Committee, in carrying out its role, relies on the Company's senior management and its independent public accountants.

During 2005, the Committee met seven times. The Committee's meetings include, no less frequently than quarterly, executive sessions with the Company's independent registered public accounting firm without the presence of the Company's management and executive sessions with the Company's management without the presence of the Company's independent registered public accounting firm. The Committee also meets with the Company's Vice President, Internal Audit without the presence of the Company's management.

As part of its oversight responsibility, the Audit Committee reviewed and discussed with both management and the Company's independent registered public accounting firm, all annual and quarterly financial statements prior to their issuance. Management advised the Committee that each set of the Company's financial statements were prepared in accordance with generally accepted accounting principles and reviewed significant accounting and disclosure issues with the Committee. In addition, the Committee continued to monitor the scope and adequacy of the Company's internal audit program.

The Committee also discussed with the Company's independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees). In addition, the Company's independent registered public accounting firm provided to the

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Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussion With Audit Committees). The Committee discussed with the independent registered public accounting firm their independence from management and the Company.

All audit and non-audit services provided by PricewaterhouseCoopers LLP and the fees paid by the Company with respect to such services have been reviewed and pre-approved by the Audit Committee, which has also considered whether the provision of any non-audit services is compatible with maintaining the independent registered public accounting firm's independence.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee,

Paul L. Smith, Chair  
Alan L. Gosule  
Leonard F. Helbig, III  
Roger W. Kober  
Thomas S. Summer

### Principal Accounting Fees and Services

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the Company's independent registered public accounting firm. The Committee pre-approves on an annual basis the provision of certain audit, audit related and tax services specifically described to the Committee. Any additional engagements require separate pre-approval. As permitted by the SEC's rules, the Audit Committee has authorized its Chair, Paul Smith, to approve any additional non-audit services to be provided by the independent registered public accounting firm, provided that such service is permitted under applicable regulations and reported to the full Audit Committee at its next meeting.

All of the services described below for 2005 were pre-approved by the Audit Committee. The Audit Committee considered whether the provision of non-audit services by PricewaterhouseCoopers LLP was compatible with maintenance of the firm's independence in the conduct of its audit function and determined that such service was compatible with the maintenance of independence.

Aggregate fees for professional services rendered to the Company by PricewaterhouseCoopers LLP as of or for the years ended December 31, 2005 and 2004, were:

	2005	2004
	----	----
Audit fees (1)	\$1,642,000	\$1,615,000
Audit-related fees (2)	37,000	74,000
Tax fees (3)	136,000	220,000
All other fees (4)	51,000	3,000
	-----	-----
Total fees	\$1,866,000	\$1,912,000
	=====	=====

(1) Audit fees consisted of professional services rendered for the audits of

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the consolidated financial statements of the Company and the audit of Management's Report on Internal Controls over Financial Reporting.

- (2) Audit-related fees consisted of assurance and related services related to SEC Regulation S-X Rule 3-14 audits performed in connection with property acquisitions, issuance of comfort letters, consents and assistance with review of documents filed with the SEC.
- (3) Tax fees consisted of services related to preparation of tax returns and claims for refunds (\$89,000 for 2005 and \$142,000 for 2004) and tax planning and tax advice (\$47,000 for 2005 and \$78,000 for 2004).
- (4) All other fees consisted of license fees for software developed by PricewaterhouseCoopers LLP that assists with partner allocations for the Operating Partnership.

### SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

#### Securities Ownership of Management

The following table sets forth information as of March 8, 2006 regarding the beneficial ownership of shares of Common Stock by: (i) Nominees and Named Executives of the Company; and (ii) Nominees and executive officers of the Company as a group. The table also includes information relating to the number and percentage of shares of Common Stock and Units beneficially owned by the persons included in (i) and (ii) above (such Units are exchangeable into shares of Common Stock, or cash at the election of the Company). In preparing this table, the Company has relied on information supplied by its officers and directors, and upon information contained in filings with the SEC.

Name of Beneficial Owner -----	Amount of Shares and Nature of Beneficial Ownership (1) -----	Percentage of Shares Outstanding (1) -----	Amount of Shares/Units and Nature of Beneficial Ownership (2) -----	Per Sha -----
Edward J. Pettinella (3)	397,204	1.27%	397,204	
Nelson B. Leenhouts (4)	132,648	*	336,872 (5)	
Norman P. Leenhouts (6)	135,913	*	340,385 (7)	
William Balderston, III (8)	37,232	*	37,232	
Josh E. Fidler (9)	2,675	*	519,782	
Alan L. Gosule (10)	28,947	*	28,947	
Leonard F. Helbig, III (11)	60,005	*	60,005	
Roger W. Kober (12)	31,983	*	31,983	
Clifford W. Smith, Jr. (13)	51,646	*	51,646	
Paul L. Smith (14)	19,791	*	19,791	
Thomas S. Summer (15)	3,675	*	3,675	
Amy L. Tait (16)	127,253	*	141,066	

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David P. Gardner (17)	108,461	*	111,967
Ann M. McCormick (18)	101,444	*	103,746
Scott A. Doyle (19)	56,061	*	56,061
John E. Smith (20)	43,426	*	43,426
All executive officers and directors as a group (19 persons)	1,471,338 (21)	4.59% (22)	2,416,762

\* Less than 1%

- (1) Assumes that all currently exercisable options or options exercisable within 60 days ("Currently Exercisable Options") issued to the person have been exercised and that restrictions on all restricted stock issued to the person have lapsed. The total number of shares outstanding used in calculating the percentage assumes that none of the options held by any other person have been exercised and that none of the restrictions on restricted stock issued to any other person have lapsed. Does not include shares in certain of the listed individual's accounts pursuant to the Company's Deferred Bonus Plan (employees) and the Director Deferred Compensation Plan (non-employee directors). Shares of Common Stock are issued on a one-for-one basis upon the expiration of the deferral periods. None of the deferral periods expire within 60 days.
- (2) Same assumptions as footnote (1) plus assumes that Units in the Operating Partnership issued to the person have been exchanged for shares of Common Stock (on a one-for-one basis) and that for purposes of calculating the percentage the total number of shares assumes that none of the Units issued to any other person have been exchanged for shares of Common Stock.
- (3) Includes 244,000 shares which may be acquired upon the exercise of Currently Exercisable Options and 29,100 shares of restricted stock.
- (4) Includes 64,853 shares which may be acquired upon the exercise of Currently Exercisable Options and 66,794 shares of restricted stock. There are 15,860 additional shares in Mr. Leenhouts' account pursuant to the Deferred Bonus Plan.
- (5) Includes Units owned by Home Leasing. Nelson Leenhouts is a director, officer and sole stockholder of Home Leasing. Also includes 50,000 Units owned by Nelson Leenhouts' spouse as to which he disclaims beneficial ownership.
- (6) Includes 61,666 shares which may be acquired upon the exercise of Currently Exercisable Options, 700 shares in custodial accounts for the benefit of Mr. Leenhouts' grandchildren (as to which he disclaims beneficial ownership) and 66,794 shares of restricted stock. There are 24,976 additional shares in Mr. Leenhouts' account pursuant to the Deferred Bonus Plan.
- (7) Includes Units owned by Knollwood Ventures, Inc. Norman Leenhouts is a director, officer and sole stockholder of Knollwood Ventures, Inc. Also includes 50,000 Units owned by Norman Leenhouts' spouse as to which he disclaims beneficial ownership.
- (8) Includes 14,800 shares which may be acquired upon the exercise of Currently Exercisable Options and 2,575 shares of restricted stock. There are 380 additional shares in Mr. Balderston's account pursuant to the Director

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### Deferred Compensation Plan.

- (9) Includes 800 shares which may be acquired upon the exercise of Currently Exercisable Options and 1,875 shares of restricted stock. The Shares/Units owned include 101,126 Units held by Mr. Fidler's wife as to which he disclaims beneficial ownership and 343,442 Units owned by Morton J. Macks Family Limited Partnership (the "FLP"). Mr. Fidler is the president of the corporate general partner of the FLP and has the authority in this capacity to buy and sell securities on behalf of the FLP. Mr. Fidler's proportionate interest in the FLP is 687 Units. He disclaims beneficial ownership of the balance of the Units owed by FLP.
- (10) Includes 21,800 shares which may be acquired upon the exercise of Currently Exercisable Options and 1,300 shares of restricted stock. There are 8,278 additional shares in Mr. Gosule's account pursuant to the Director Deferred Compensation Plan.
- (11) Includes 14,800 shares which may be acquired upon the exercise of Currently Exercisable Options. Mr. Helbig is also the holder of 1,850 shares of the Company's Series F Cumulative Redeemable Preferred Stock. There are 11,690 additional shares in Mr. Helbig's account pursuant to the Director Deferred Compensation Plan.
- (12) Includes 14,800 shares which may be acquired upon the exercise of Currently Exercisable Options. There are 6,982 additional shares in Mr. Kober's account pursuant to the Director Deferred Compensation Plan.
- (13) Includes 14,800 shares which may be acquired upon the exercise of Currently Exercisable Options. Also includes 1,400 shares owned by Mr. Smith's spouse as custodian for their minor children and 700 shares held in a trust for the benefit of one of Mr. Smith's minor children as to which he disclaims beneficial ownership. There are 13,565 additional shares in Mr. Smith's account pursuant to the Director Deferred Compensation Plan.
- (14) Includes 7,800 shares which may be acquired upon the exercise of Currently Exercisable Options and 2,575 shares of restricted stock. There are 2,287 additional shares in Mr. Smith's account pursuant to the Director Deferred Compensation Plan.
- (15) Includes 800 shares which may be acquired upon the exercise of Currently Exercisable Options of 1,875 shares of restricted stock.
- (16) Includes 29,800 shares which may be acquired by Mrs. Tait upon the exercise of Currently Exercisable Options and 2,575 shares of restricted stock. Also includes 6,036 shares held in a custodial account for Mrs. Tait's minor children and 10,655 shares and 70 Units owned by Mrs. Tait's spouse as to which she disclaims beneficial ownership. Mrs. Tait shares voting and dispositive power with respect to 15,000 shares and 2,548 Units with her spouse.
- (17) Includes 50,960 shares which may be acquired upon the exercise of Currently Exercisable Options and 11,125 shares of restricted stock. Mr. Gardner shares voting and dispositive power with his spouse with respect to 10,240 shares. There are 3,740 additional shares in Mr. Gardner's account pursuant to the Deferred Bonus Plan.
- (18) Includes 46,599 shares which may be acquired upon the exercise of Currently Exercisable Options and 9,375 shares of restricted stock. Mrs. McCormick shares voting and dispositive power with respect to 7,650 shares and 1,737 Units with her spouse. There are 3,790 additional shares in Mrs. McCormick's account pursuant to the Deferred Bonus Plan.

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- (19) Includes 42,000 shares which may be acquired upon exercise of Currently Exercisable Options, 5,550 shares of restricted stock and 209 shares held in Mr. Doyle's account under the Company's retirement savings plan. There are 1,889 additional shares in Mr. Doyle's account pursuant to the Deferred Bonus Plan.
- (20) Includes 28,000 shares which may be acquired upon exercise of Currently Exercisable Options, 4,100 shares of restricted stock and 516 shares held in Mr. Smith's account under the Company's retirement savings plan.
- (21) Includes 741,778 shares which may be acquired upon the exercise of Currently Exercisable Options and 214,713 shares of restricted stock.
- (22) Assumes that all Currently Exercisable Options issued to all listed persons have been exercised and that restrictions on all restricted stock issued to such persons have lapsed.
- (23) Same assumptions as footnote (22) plus assumes that all Units issued to all listed persons have been exchanged for shares of Common Stock.

Security Ownership by Beneficial Owners of More than 5% of The Company's Common Stock

The following table sets forth information regarding the beneficial ownership of Common Stock by each person known by the Company to be the beneficial owner of more than 5% of the outstanding Common Stock as of December 31, 2005. In preparing this table, the Company has relied on information supplied by certain stockholders and on information contained in filings with the Securities and Exchange Commission.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percent C
Cohen & Steers, Inc. 280 Park Avenue, 10th Floor New York, NY 10017	4,564,000 (2)	
Mac-Per-Wolf Company 311 S. Wacker Drive Suite 6000 Chicago, IL 60606	1,947,852 (3)	
Janus Capital Management LLC 151 Detroit Street Denver, CO 80206	1,900,172 (4)	
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	1,597,481 (5)	

(1) Percentage is based on actual number of shares outstanding as of December 31, 2005 and may be different than the percentage referenced in the reports described below.

(2) Based on a report on Schedule 13G (Amendment No. 2) filed jointly by Cohen & Steers, Inc., Cohen & Steers Capital Management, Inc. and Houlihan Rovers SA on February 13, 2006, reflecting that: (a) Cohen & Steers, Inc. beneficially owns 4,564,000 shares, has sole voting power with respect to 4,396,702 shares, sole dispositive power with respect to 4,546,400 shares, and shared voting and dispositive power with respect to 17,600 shares; (b) Cohen & Steers Capital Management, Inc. beneficially owns 4,546,400 shares,

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has sole voting power with respect to 4,396,702 shares and sole dispositive power with respect to 4,546,400 shares; and (c) Houlihan Rovers SA beneficially owns 17,600 shares and has sole voting and dispositive power with respect to 17,600 shares. Cohen & Steers, Inc. holds a 100% interest in Cohen & Steers Capital Management, Inc. and a 50% interest in Houlihan Rovers SA.

- (3) Based on a report on Schedule 13G (Amendment No. 5), filed February 15, 2006, reflecting that Mac-Per-Wolf & Company beneficially owns 1,947,852 shares, has sole voting and dispositive power with respect to 47,680 shares and shared voting and shared dispositive power with respect to 1,900,172 shares. The report was filed on behalf of two subsidiaries, PWMCO, LLC and Perkins, Wolf, McDonnell and Company, LLC, the latter of which furnishes investment advice to others, including Janus Capital Management LLC, a minority owner of Perkins, Wolf, McDonnell and Company, LLC, which filed a separate Schedule 13G reflecting that it has sole voting and dispositive power with respect to 1,900,172 shares.
- (4) Based on a report on Schedule 13G filed by Janus Capital Management LLC on February 14, 2006, reflecting that Janus Capital Management LLC beneficially owns 1,900,172 shares and has shared voting and dispositive power of all of the listed shares. Janus Capital Management LLC has an indirect 77.5% ownership stake in Enhanced Investment Technologies LLC and indirect 30% ownership stake in Perkins, Wolf, McDonnell and Company LLC. Due to the foregoing ownership structure, holdings for Janus Capital Management LLC, Enhanced Investment Technologies LLC and Perkins, Wolf, McDonnell and Company, LLC are aggregated for purposes of filing of the Schedule 13G.
- (5) Based on a report on Schedule 13G filed by The Vanguard Group, Inc. on February 13, 2006, reflecting that: (a) The Vanguard Group, Inc. beneficially owns 1,597,481 shares and has sole voting power with respect to 42,859 shares and sole dispositive power with respect to 1,597,481 shares; and (b) Vanguard Fiduciary Trust Company, a wholly owned subsidiary of the Vanguard Group, Inc., is the beneficial owner of 42,859 shares as a result of its serving as investment manager of collective trust accounts and it directs the voting of such shares.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC and the NYSE. Officers, directors and greater than 10% stockholders are required to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended December 31, 2005, all Section 16(a) filing requirements applicable to its executive officers, directors and greater than 10% beneficial owners were satisfied.

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company's corporate headquarters are located in a building that is owned by an entity in which Norman and Nelson Leenhouts indirectly have a 75% interest. The Operating Partnership and the building owner have entered into various leases for approximately 75,000 square feet. The base rent payable by the Operating Partnership under the leases for 2005 was approximately \$884,000, which increased to approximately \$895,000 for 2006. The lease also requires the



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Operating Partnership to pay its pro-rata portion of property improvements, real estate taxes and common area maintenance.

On a month-to-month basis, the Operating Partnership subleases 3,379 square feet of its corporate headquarters to Home Leasing, LLC a company currently owned by Nelson Leenhouts. For 2006, the gross monthly rental payment is \$6,163.86.

Josh E. Fidler is a principal in a diversified real estate development business known as The Macks Group. In 1999, the Company acquired 3,297 apartment units from affiliates of The Macks Group. In connection with that transaction, Mr. Fidler and members of his family acquired approximately 800,000 Units in the Operating Partnership. In addition, in 2004, the Company acquired a 240 unit apartment community for \$29,496,000 in cash from an entity owned by Mr. Fidler and members of his family. Certain rights under the acquisition agreements continue to survive as described on page 5 of this Proxy Statement.

In March, 2005, the Company, the Operating Partnership and Home Leasing entered into a settlement agreement with Genesee Valley Medical Center, L.P. and certain of its limited partners ("GVMC"), which had commenced a legal action in 2000 against the Company, the Operating Partnership and Home Leasing. The law suit related to the exclusion of a commercial property from the Company's initial public offering in 1994. Pursuant to the settlement agreement, GVMC was paid \$3.5 million. The Board of Directors of the Company authorized the Company to pay the full settlement and to reimburse Home Leasing for approximately \$200,000 of legal fees that it incurred in defending this action. This was in recognition of the fact that the matters alleged in the law suit against Home Leasing related directly and solely to the promotion and creation of the Company.

In March, 2006, Nelson Leenhouts entered into a Development Agreement with the Company, which is retroactive to January 1, 2006 and terminates on December 31, 2006. This is in addition to his Employment Agreement described on page 15 of this Proxy Statement. Pursuant to the Development Agreement, Nelson Leenhouts agrees to assume a leadership role in connection with the development activities of the Company as more specifically outlined in a development plan approved by the Board of Directors of the Company. In consideration for his services, Mr. Leenhouts is to be paid a base annual amount of \$250,000 in monthly installments. In addition, he is entitled to earn a bonus of up to \$150,000 upon the achievement of certain specified objectives.

### PROPOSAL 2 RATIFICATION OF APPOINTMENT OF THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2006

The Audit Committee has appointed and the Board of Directors has ratified the appointment of the accounting firm of PricewaterhouseCoopers LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2006. PricewaterhouseCoopers LLP (and its predecessor, Coopers & Lybrand, L.L.P.) has served as the Company's independent registered public accounting firm since commencement of the Company's operations and is considered by the Audit Committee, the Board of Directors and management of the Company to be well qualified. A representative of PricewaterhouseCoopers LLP will be present at the Annual Meeting, will be given the opportunity to make a statement if he or she so desires and will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO RATIFY THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY FOR THE 2006 FISCAL YEAR.

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## ADDITIONAL INFORMATION

### Solicitation of Proxies

The cost of solicitation of proxies in the form enclosed herewith will be paid by the Company. In addition to the solicitation of proxies by mail, the directors, officers and employees of the Company may also solicit proxies personally or by telephone without additional compensation for such activities. The Company will also request persons, firms and corporations holding shares in their names or in the names of their nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from such beneficial owners. The Company will reimburse such holders for their reasonable expenses.

### Stockholder Proposals

A stockholder proposal submitted pursuant to Rule 14a-8 under the Exchange Act for inclusion in the Company's proxy statement and form of proxy for the 2007 Annual Meeting of stockholders must be received by the Company by the close of business on December 1, 2006. Any proposal received after February 15, 2007 will not, under the rules of the SEC, be considered timely for presentation at the 2007 Annual Meeting. A proposal must comply with the requirements as to form and substance established by the SEC for such a proposal to be included in the proxy statement and form of proxy, and the proponent or a representative of the proponent must attend the annual meeting to present the proposal.

### Form 10-K

Copies of the Form 10-K may be obtained without charge from Yvonne Wheeler, Home Properties, Inc., 850 Clinton Square, Rochester, New York 14604. A copy of the Form 10-K is also available through the Company's Web site at [www.homeproperties.com](http://www.homeproperties.com) or from the SEC at its Web site at [www.sec.gov](http://www.sec.gov).

### Other Matters

The Board of Directors does not know of any matters other than those described in this Proxy Statement which will be presented for action at the Annual Meeting. If other matters are presented, proxies will be voted in accordance with the best judgment of the proxy holders.

REGARDLESS OF THE NUMBER OF SHARES YOU OWN, YOUR VOTE IS IMPORTANT TO THE COMPANY. PLEASE VOTE BY INTERNET, TELEPHONE OR COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY CARD TODAY.

## EXHIBIT A

### HOME PROPERTIES, INC.

#### Third Amended and Restated Audit Committee Charter

### Mission Statement

The Audit Committee will assist the Board of Directors of Home Properties, Inc. (the "Company") in fulfilling its oversight responsibilities. The Audit Committee will review the financial reporting process, the integrity of the Company's financial statements, the system of internal controls, the audit process, and the Company's process for monitoring compliance with laws and regulations and with the Company's Code of Business Conduct and Ethics, including the Code of Conduct for Senior Financial Officers (the "Code of

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Conduct"). In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, management, and the internal and independent auditors. To perform his or her role effectively, each Committee member will obtain an understanding of the Company's business, operations, and risks.

### Organization

The Audit Committee shall consist of three or more directors as determined by the Board, each of whom shall be independent directors for purposes of Audit Committee membership in accordance with the rules of the New York Stock Exchange Securities and Exchange Commission and all other applicable legal and regulatory requirements. All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise and shall meet the criteria for a "financial expert" as such term is defined in regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act.

No director may serve as a member of the Committee if he or she serves on the Audit Committee of more than two other public companies, unless the Board determines that such simultaneous service would not impair the ability of such individual to serve on the Committee effectively. Any such determination will be disclosed in the Company's annual proxy statement.

The members of the Committee shall be appointed by a majority vote of the Board. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee Membership.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee should meet at least annually with management, the manager of the internal auditing department and the independent auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

The Committee shall have the right to unrestricted access to members of management, employees and any relevant information.

### Roles and Responsibilities

#### Internal Controls

- o Evaluate whether management is setting the appropriate tone at the top by communicating the importance of internal controls;
- o Focus on the extent to which internal and independent auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown;
- o Gain an understanding of whether internal control recommendations made by internal and independent auditors have been implemented by management; and
- o Provide the opportunity for the independent auditors to keep the audit committee informed about any acts of suspected fraud, illegal acts, deficiencies in internal controls, and certain other matters.

### Financial Reporting

#### General

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- o Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements;
- o Discuss with management the form and type of information generally to be included in earnings press releases and in other financial disclosures, as well as financial information and earnings guidance provided to analysts and rating agencies;
- o Ask management and the internal and independent auditors about significant risks and exposures and the plans to manage such risks; and
- o On a periodic basis, meet separately with management and with the independent auditors.

### Annual Financial Statements

- o Review the annual financial statements and determine whether they are consistent with the information known to Committee members, and assess whether the financial statements reflect appropriate accounting principles;
- o Pay particular attention to complex and/or unusual transactions;
- o Review issues involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of asset impairment; loan losses; environmental liability; litigation reserves; and other commitments and contingencies;
- o Meet with management and the independent auditors to review the financial statements and the results of the audit, as well as any audit problems or difficulties and management's response;
- o Review management's handling of proposed audit adjustments identified by the independent auditors;
- o Discuss the Company's annual audited financial statements with management and the independent auditors, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations"; and
- o Require the independent auditors to communicate certain required matters to the Committee and discuss with the Committee the quality, not just the acceptability of the Company's accounting principles and underlying estimates.

### Interim Financial Statements

- o Be briefed on how management develops and summarizes quarterly financial information, the extent of internal audit involvement, the extent to which the independent auditors review quarterly financial information;
- o Discuss the Company's quarterly audited financial statements with management and the independent auditors, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- o Review interim financial statements and related press releases before they are released and before filing of the related Form 10-Q; and
- o Require the independent auditors to communicate certain required matters to the Committee and representatives of financial management prior to the

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filing of the Form 10-Q.

### Compliance with Laws and Regulations

- o Review the systems in place for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting irregularities;
- o Periodically obtain updates from management, general counsel, and tax manager regarding compliance; and
- o Review the findings of any examinations by regulatory agencies such as the Securities and Exchange Commission, or the Internal Revenue Service.

### Compliance with Code of Conduct

- o Regularly review that a Code of Conduct is formalized in writing and that all employees are aware of it;
- o Evaluate whether management is setting the appropriate tone at the top by communicating the importance of the Code of Conduct and the guidelines for acceptable business practices;
- o Review the program for monitoring compliance with the Code of Conduct; and
- o Periodically obtain updates from management and general counsel regarding compliance.

### Internal Audit

- o Review the activities and organizational structure of the internal audit function;
- o Review the qualifications of the internal audit function and concur in the appointment, replacement, reassignment, or dismissal of the internal audit manager;
- o Review the effectiveness of the internal audit function; and
- o On a periodic basis, meet separately with the internal audit staff.

### External Audit

- o Pre-approve or adopt policies and procedures for pre-approval of all auditing services (including providing comfort letters in connection with securities offerings) and non-audit services (including tax services) provided to the Company or its subsidiaries by the Company's independent auditors. The Audit Committee may delegate to one or more of its members the authority to grant pre-approvals of audit and permitted non-audit services, provided the decision is reported to the full Audit Committee at its next scheduled meeting;
- o Be directly responsible for the appointment, termination, compensation, and oversight of the work of any independent accounting firm employed by the Company (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. Each such independent accounting firm will report directly to the Audit Committee;
- o Have the sole authority to approve all audit engagement fees and terms, as well as all significant non-audit engagements of the Company's independent

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auditors;

- o Review and confirm in writing the independence of the independent auditors by reviewing the non-audit services provided and the auditors' assertion of their independence in accordance with professional standards;
- o The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditors;
- o In order to evaluate the independent auditors' qualifications, performance and independence, at least annually obtain and review a report by the independent auditors describing: the firm's internal quality control procedures; any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by government or professional authorities within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditors and the Company. This evaluation should include review of the partner in the independent auditing firm who has principal responsibility for its audits of the Company's financial statements and should take into account the opinions of management and the Company's internal auditors; and.
- o Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditors who participated in any capacity in the audit of the Company.

### Other Responsibilities

- o Review the significant findings and recommendations made by the internal and independent auditors and management's handling of them;
- o Discuss policies with respect to risk assessment and management of risk;
- o Review with the appropriate counsel, any legal matters that could have a significant impact on the Company's financial statements;
- o Review the policies and procedures in effect for officers' expenses and perquisites;
- o If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist the Committee with the Company providing appropriate funding, as determined by the Audit Committee, for payment of professional services of any such advisors employed by the Committee;
- o Perform other oversight functions as requested by the full Board;
- o Review the Charter and update as appropriate after receiving approval of any changes from the Board;
- o Establish procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; and
- o Conduct an annual evaluation of its own performance.

### Reporting Responsibilities

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- o Regularly update the Board of Directors about Committee activities and make appropriate recommendations;
- o The Audit Committee must prepare a report for inclusion in the annual proxy statement, followed by the names of all Committee members, stating whether the Committee:
- o Reviewed and discussed the audited financial statements with management
- o Discussed with the auditors the matters requiring discussion by SAS 61
- o Received the written disclosures and letter from the auditors required by Independence Standards Board No.1, and discussed with the auditors their independence
- o Based on the above, recommended to the full board that the audited financial statements be included in the company's Annual Report on Form 10-K

Approved: November 4, 2005

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED THEREON. IF NO DIRECTION IS MADE, IT WILL BE VOTED FOR PROPOSALS 1 AND 2. IN HIS DISCRETION, THE PROXY IS AUTHORIZED TO VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT THEREOF.**

Please Mark Here for Address Change or Comments



**SEE REVERSE SIDE**

	FOR all nominees listed (except as marked to the contrary)	WITHHOLD AUTHORITY to vote for the nominees listed		FOR	AGAINST	ABSTAIN
<b>PROPOSAL ONE -</b>			<b>PROPOSAL TWO -</b>			
To elect the following persons as directors to serve until the next annual meeting of stockholders and until their successors have been elected and have qualified.	<input type="radio"/>	<input type="radio"/>	To ratify the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm for 2006.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Nominees**

- |                            |                         |                           |
|----------------------------|-------------------------|---------------------------|
| 01 William Balderston, III | 05 Roger W. Kober       | 09 Clifford W. Smith, Jr. |
| 02 Josh E. Fidler          | 06 Norman P. Leenhouts  | 10 Paul L. Smith          |
| 03 Alan L. Gosule          | 07 Nelson B. Leenhouts  | 11 Thomas S. Summer       |
| 04 Leonard F. Helbig, III  | 08 Edward J. Pettinella | 12 Amy L. Tait            |

Choose **MLink<sup>sm</sup>** for fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect<sup>®</sup>** at [www.melloninvestor.com/isd](http://www.melloninvestor.com/isd) where step-by step instructions will prompt you through enrollment.

**(Instruction: To withhold authority to vote for any individual nominee, write that nominee's name in the space provided below.)**

Please mark, sign, date and return this proxy card using the enclosed envelope.

Signature \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

NOTE: (Please sign above exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.)

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**Vote by Internet or Telephone or Mail**  
**24 Hours a Day, 7 Days a Week**

**Internet and telephone voting is available through 11:59 PM Eastern Time  
the day prior to annual meeting day.**

**Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner  
as if you marked, signed and returned your proxy card.**

**Internet**  
**<http://www.proxyvoting.com/hme>**

**Telephone**  
**1-866-540-5760**

**Mail**

Use the internet to vote your proxy.  
Have your proxy card in hand when  
you access the web site.

**OR**

Use any touch-tone  
telephone to vote your  
proxy. Have your proxy card  
in hand when you call.

**OR**

Mark, sign and date your  
proxy card and return it in  
the enclosed postage-paid  
envelope.

**If you vote your proxy by Internet or by telephone,  
you do NOT need to mail back your proxy card.**

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**HOME PROPERTIES, INC.**

**REVOCABLE PROXY SOLICITED BY THE BOARD OF DIRECTORS  
ANNUAL MEETING OF STOCKHOLDERS MAY 4, 2006**

The undersigned hereby appoints Edward J. Pettinella as Proxy with full power of substitution to represent the undersigned and to vote all Common Stock of Home Properties, Inc. which the undersigned would be entitled to vote at the 2006 Annual Meeting of Stockholders of the Company to be held on May 4, 2006 and any adjournment thereof.

**CONTINUED AND TO BE SIGNED ON REVERSE SIDE**

**Address Change/Comments (Mark the corresponding box on the reverse side)**

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**Ù FOLD AND DETACH HERE Ù**