

ASSOCIATED ESTATES REALTY CORP
Form 10-K
February 18, 2015

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

Form 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from to Commission File Number 1-12486

Associated Estates Realty Corporation
(Exact name of registrant as specified in its charter)

OHIO
(State or other jurisdiction of incorporation or organization)

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

1 AEC Parkway, Richmond Heights, Ohio 44143-1550
(Address of principal executive offices)

Registrant's telephone number, including area code (216) 261-5000

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Shares, without par value	New York Stock Exchange NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant was \$997.0 million as of June 30, 2014.

The number of Common Shares outstanding as of February 3, 2015 was 57,715,771.

DOCUMENTS INCORPORATED BY REFERENCE (To the Extent Indicated Herein).

Notice of Annual Meeting and Proxy Statement for the 2015 Annual Meeting of Shareholders (in Part III).

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FOR THE YEAR ENDED DECEMBER 31, 2014

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PART I

Except as the context otherwise requires, all references to "we," "our," "us," "AERC," "AEC" and the "Company" in this report collectively refer to Associated Estates Realty Corporation and its consolidated subsidiaries.

Item 1. Business

GENERAL

We are a fully-integrated, self-administered and self-managed equity real estate investment trust ("REIT"). Our common shares are publicly traded on the New York Stock Exchange ("NYSE") and the Nasdaq Global Select Market ("NASDAQ") under the ticker symbol "AEC." Our headquarters, located at 1 AEC Parkway in Richmond Heights, Ohio, is composed of one office building of approximately 42,000 square feet and two adjacent parcels of land containing approximately 1.1 and 3.0 acres, respectively, all of which are suitable for further development or expansion and all of which are subject to a long-term ground lease.

We specialize in multifamily ownership, operation, acquisition, development, disposition and property management activities. We own a taxable REIT subsidiary ("TRS") that performs construction management services for our own account in connection with the development of multifamily properties that we own and operate, including consolidated and unconsolidated joint ventures. As of December 31, 2014, our operating portfolio consisted of 49 apartment communities containing 12,734 units in eight states that are owned, either directly or indirectly, through subsidiaries. See Item 2 for a state-by-state listing of our portfolio. Additionally, in May 2012, in conjunction with our acquisition of land for development of an apartment community, we acquired a commercial building in Los Angeles, California containing approximately 78,800 total square feet of office and commercial space. During 2014, we assumed property management responsibilities for a fee for apartment properties we expect to acquire pursuant to existing contracts. Our consolidated financial statements include the accounts of all subsidiaries, including the TRS, which is separately taxed for federal income tax purposes under the REIT Modernization Act implemented in 1999. Our consolidated financial statements also include the results of a partnership in which we own a 98.1% equity interest.

BUSINESS SEGMENTS

Substantially all of our properties are multifamily communities and, while the economic climate of the markets in which they are located may vary from time to time, the communities offer similar products and services and have similar economic characteristics. Management evaluates the performance of our properties and makes acquisition/disposition decisions on an individual basis. In the aggregate, our multifamily properties provided approximately 98.6% of our consolidated revenue for 2014. We have determined that, as of December 31, 2014, we have one reportable segment, which is multifamily properties.

OPERATING STRATEGY AND BUSINESS OBJECTIVES

Acquisition/Disposition. Our acquisition/disposition strategy in recent years has been to: (i) buy properties located in high growth submarkets outside of the Midwest; (ii) sell properties where market conditions are such that the reinvestment of cash proceeds derived from a sale are expected to provide, over time, a significantly greater return on equity and increased cash flow; (iii) reduce the average age of our portfolio; and (iv) improve the operating margins of our portfolio. In 2014, we acquired the following property:

(Dollar amounts in thousands)

Acquisition Date	Property	Location	Units	Purchase Price
June 10, 2014	Alpha Mill Phase I and Phase II	Charlotte, NC	267	\$45,075

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In 2014, we also disposed of the following five properties:

(Dollar amounts in thousands)

Disposition Date	Property	Location	Units	Sales Price
December 12, 2014	Cypress Shores	Coconut Creek, FL	300	\$44,250
June 16, 2014	Annen Woods	Pikesville, MD	131	20,500
April 28, 2014	Reflections	Columbia, MD	184	38,400
April 2, 2014	Vista Germantown	Nashville, TN	242	53,250
February 24, 2014	Hampton Point	Silver Springs, MD	352	60,000
			1,209	\$216,400

In addition, in 2014, we acquired a land parcel in Woodland Hills, California for \$15.8 million that is entitled for a 379-unit apartment community.

We continue to monitor acquisition opportunities in our existing markets, in particular Central and Southeast Florida, Charlotte, Atlanta and Dallas. We have also identified Southern and Northern California as targeted growth markets. We will also consider opportunistic acquisition and development opportunities in other markets.

We continually monitor the current and expected return on investment of all of our properties. We will consider opportunistic sales of properties in any market, including our targeted growth markets, if we determine that the proceeds from such sales would provide a greater return on investment and increased cash flow when redeployed, or when proceeds could be used to fund development or to reduce debt.

During the three years ended December 31, 2014, we acquired 10 multifamily properties containing a total of 2,607 units for an aggregate purchase price of approximately \$469 million, and we sold 15 multifamily properties containing a total of 4,122 units for an aggregate sales price of approximately \$423 million.

Development. We intend to contribute to our growth by developing new properties. During 2014, we acquired a parcel of land in Woodland Hills, California that is entitled for a 379-unit apartment community. Additionally, during 2014, we continued development on our 175-unit apartment community in the Mid-Wilshire submarket of Los Angeles, California, our 140-unit apartment community with 6,898 square feet of commercial space in Bethesda, Maryland and our 249-unit apartment community in the Turtle Creek neighborhood of the Uptown submarket of Dallas, Texas. We are also developing a 472-unit apartment community with 19,700 square feet of commercial space in the Arts District of downtown Los Angeles, California, and a 410-unit apartment community with 40,000 square feet of commercial space in the South of Market ("SoMa") submarket San Francisco, California. These two projects, known respectively as 950 East Third and 350 8th, are being developed in 50/50 joint venture partnerships. Construction has commenced on the 950 East Third and 350 8th projects. Additionally, the Company was a 50/50 joint venture partner in a property in Monrovia, California known as 5th and Huntington. See Note 3 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K. On February 3, 2015, we acquired our partner's 50.0% interest in 5th and Huntington for \$8.4 million, increasing our ownership percentage in the development to 100%.

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Property Operations. We operate in a number of different markets and submarkets. The economic climate in these markets will vary from time to time and, as a result, occupancy and the degree to which we can maintain or increase rents varies. However, our goal is to maximize property net operating income in all of our markets through a combination of increasing rents, maintaining occupancy levels and aggressively managing controllable operating expenses. Strategies to increase revenues include constant monitoring of our markets and submarkets, providing superior resident service and creating highly desirable communities in which to live. We use Property Solutions International to leverage the power of the Internet through enhanced property websites and resident portals that allow integrated resident communication, and by implementing resident billing programs for utilities and refuse collections. We use LRO™, a rental revenue software product that provides comprehensive submarket-based statistical data to assist in maximizing rental revenue while remaining market competitive. We combine this data with our proprietary market knowledge and experience to maximize rental revenues and try to maintain high occupancy levels. With LRO™, we try to generate long-term rent growth by adjusting rents to address market forces in real-time. Our AEC Academy for Career Development provides training and support for our employees, which help us provide better educated and skilled personnel at our communities while minimizing employee turnover. We aggressively manage controllable operating expenses through strategies such as utilizing centralized purchasing contracts benefiting multiple properties and through diligent upkeep and regular maintenance at all of our communities.

Financing and Capital. We use proceeds received from new debt, refinancings, property sales and equity issuances to maximize returns, while remaining keenly focused on strengthening our balance sheet. Increasing both our coverage ratios and the number of unencumbered assets have been two of our principal objectives. During the past three years, we continued to focus on lowering our cost of debt. The weighted average interest rate on our total debt declined 110 basis points from 4.8% per annum at December 31, 2011 to 3.7% per annum at December 31, 2014. Our interest coverage ratio and fixed charge coverage ratios were 3.29:1 and 3.29:1, respectively, at December 31, 2014, up from 2.34:1 and 2.34:1, respectively, at December 31, 2011.

2014 Activities. On July 25, 2014, we amended and restated our \$150 million unsecured term loan. Among other modifications, the amendment extended the maturity date from January 3, 2018 to January 3, 2020, and reduced the interest rate spread across the pricing grid. We also amended our unsecured revolving credit facility to implement corresponding financial covenant modifications.

On February 3, 2014, we entered into a partnership agreement with AIG Global Real Estate (AIG) for the development and operation of 350 8th, a 410-unit apartment community with 40,000 square feet commercial space and underground parking located in the SoMa neighborhood of San Francisco, California. We are a 50.01% partner with AIG, which has contributed \$33.9 million to the partnership. The land upon which the project is being developed was purchased by us for \$46.6 million on May 28, 2013. As of December 31, 2013, this land was included in our consolidated financial statements. Upon the formation of our partnership with AIG, the land and improvements to date, with a carrying value of \$50.3 million, were deconsolidated. On April 25, 2014, the partnership entered into a construction loan agreement for \$143.6 million with a five-year term. We have guaranteed the payment of all future borrowings from this loan and the completion of construction in connection with the partnership's development.

2013 Activities. On October 23, 2013, we consummated a subsidiary merger transaction that had the effect of converting the remaining 74,083 operating partnership units related to the 1998 acquisition of an operating partnership into a right to receive cash merger consideration, pursuant to which \$1.4 million was paid on November 6, 2013.

On October 21, 2013, we completed the issuance of \$100 million of unsecured notes. The notes were offered in a private placement with two maturity tranches: \$45.0 million with a 7-year maturity at 4.29% per annum, and \$55.0 million with a 10.2-year maturity at 4.94% per annum. The \$100 million total issuance had a weighted average term of 8.8 years and a weighted average interest rate of 4.65% per annum. Proceeds from the issuance were used to repay borrowings on our unsecured revolving credit facility.

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On October 1, 2013, we settled Forward Share Agreements with forward purchasers entered into on May 29, 2013 by delivering 7,047,958 common shares at a price of \$17.25 per share. We received net proceeds of approximately \$115.1 million based on the adjusted net settlement price of \$16.33 per share. Proceeds from the forward sale were applied toward the repayment of debt that matured on October 1, 2013.

On June 19, 2013, we amended the terms of our \$350 million unsecured revolving credit facility. Among the modifications, we reduced the credit spread and extended the maturity from January 12, 2016 to June 15, 2017. Total costs associated with this amendment were \$1.2 million. This facility provides improved flexibility and the ability to capitalize on strategic opportunities without the delays associated with financing contingencies. Our borrowing capacity under the unsecured revolving credit facility is a function of our unencumbered property pool.

On April 12, 2013, we filed a new shelf registration statement on Form S-3 to register the sale and issuance of equity and debt securities in public offerings, which replaced our shelf registration statement that was to expire in June 2013. This current shelf registration expires in April 2016. Additionally, on April 12, 2013, we filed a prospectus supplement to register an at-the-market ("ATM") program, which allows us to sell up to \$75 million of our common shares in open market transactions at the then-current market price per share. The ATM program was originally established in August 2012. Due to the filing of the new shelf registration statement on Form S-3, it was necessary to file a new prospectus supplement to continue the ATM program. As of December 31, 2013, we have sold 107,498 shares under the ATM program for total gross proceeds of \$2.0 million, and have remaining availability of approximately \$73.0 million. There were no shares sold during 2014 under this \$75 million ATM program.

On April 2, 2013, we entered into a forward starting interest rate swap on \$125 million of our \$150 million unsecured term loan, fixing the rate beginning June 2, 2016 at a rate of 1.55% per annum plus the credit spread, which was 1.40% per annum as of December 31, 2014, or an all-in rate of 2.95% per annum until the loan matures in January 2018. The credit spread is subject to change, from time to time, from a minimum of 0.90% per annum to a maximum of 1.90% per annum over LIBOR based upon our qualified ratings as defined in the term loan agreement. See Note 11 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K for additional information regarding this swap. See also Note 19 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K for additional information.

On February 15, 2013, we purchased our development partner's interest in Vista Germantown, a 242-unit apartment community located in downtown Nashville, Tennessee, for \$4.5 million. Prior to the purchase, we held a 90.0% equity interest in Vista Germantown. This property was included as a consolidated entity in our financial statements before and after the purchase. On April 2, 2014, we disposed of Vista Germantown for a sales price of \$53.3 million.

On January 22, 2013, we completed the issuance of \$150 million of unsecured notes. The notes were offered in a private placement with two maturity tranches: \$63.0 million with an 8-year maturity at 4.02% per annum, and \$87.0 million with a 10-year maturity at 4.45% per annum. The \$150 million total issuance had a weighted average term of 9.2 years and a weighted average interest rate of 4.27% per annum. Net proceeds from the issuance were used to repay borrowings on our unsecured revolving credit facility.

2012 Activities. On October 19, 2012, we completed modifications to our unsecured term loan, which included increasing the outstanding principal amount to \$150 million from \$125 million and extending the maturity date from June 2016 to January 2018. An investment grade pricing grid was also added to determine the interest rate on the loan upon our achieving investment grade credit ratings. Total costs associated with this modification were \$600,000.

During 2012, we sold 681,178 shares under our \$25 million ATM program for total gross proceeds of \$11.3 million, or \$11.1 million net of sales commissions and other costs. The net proceeds were used to reduce borrowings on our unsecured revolving credit facility and for general corporate purposes. At June 30, 2012, all \$25 million of common shares available for issuance under the ATM program had been sold and the program was completed. In August 2012, we entered into an ATM program that would allow us to sell up to \$75 million of our common shares in open market transactions at the then market price per share.

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On June 27, 2012, we sold 6,325,000 of our common shares in an underwritten public offering at a price of \$14.40 per share, which resulted in total net proceeds of approximately \$87.2 million. The net proceeds were used to fund property acquisitions and development and for general corporate purposes.

In January 2012, we increased our \$250 million unsecured revolving credit facility to \$350 million. This facility provided additional financial flexibility. Debt procurement costs associated with this modification were \$2.3 million. Our borrowing capacity under the unsecured revolving credit facility was a function of our unencumbered property pool.

General Contractor/Construction. We perform construction management services for our own account in connection with the development of multifamily properties we own and operate as well as unconsolidated joint ventures. Among other things, we believe we will realize significant cost savings and improved quality of our development properties as a result of our in-house development and construction management capabilities.

INCOME TAXES

See Note 10 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

COMPETITIVE CONDITIONS

See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report on Form 10-K.

CUSTOMERS

Our business, taken as a whole, is not dependent upon any single customer or a few customers.

EMPLOYEES

On February 3, 2015, we employed approximately 410 people.

EXECUTIVE OFFICERS

The following information regarding our executive officers is provided pursuant to Instruction 3 to Item 401(b) of Regulation S-K.

Name	Age	Position with the Company
Jeffrey I. Friedman	63	Chairman of the Board, President and Chief Executive Officer
Lou Fatica	48	Senior Vice President, Treasurer and Chief Financial Officer
Jason A. Friedman	40	Senior Vice President, Acquisitions and Development
Scott D. Irwin	48	Senior Vice President, General Counsel and Secretary
John T. Shannon	53	Senior Vice President, Operations

Jeffrey I. Friedman is Chairman of the Board, President and Chief Executive Officer of Associated Estates. Mr. Friedman was named President in 2000 and has served as Chairman and CEO since 1993. He originally joined the Company in 1974.

Mr. Friedman also currently serves on the Board of Directors of the Greater Cleveland Sports Commission and the Board of Trustees of the Cleveland Clinic.

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With more than 40 years of real estate experience, Mr. Friedman has been an instrumental part of building a team of apartment experts who deliver on the highest of standards in apartment living, professional fulfillment and shareholder value. In 1993, Mr. Friedman took the Company public. Since then, he has led the growth of the company from assets valued at approximately \$160 million, to assets valued in excess of \$2 billion. Under Mr. Friedman's guidance, Associated Estates has a diversified portfolio of high-quality properties in high growth submarkets with a national footprint. The Company has increased average property revenue per occupied unit from below \$900 in 2007 to nearly \$1,300 in 2014; increased the quarterly cash dividend by 18% over the last three years, while maintaining one of the lowest payout ratios in the multifamily sector; and achieved investment grade ratings from Moody's, Fitch and S&P. As the Chairman and CEO of one of 10 publicly traded multifamily REITs in the country, Mr. Friedman is active in several professional organizations, which include the National Association of Real Estate Investment Trusts, Chief Executives Organization and the National Multi-Housing Council.

Mr. Friedman's past Board positions include United Way, Boy Scouts of America, Cleveland Center for Contemporary Art and the Jewish Community Center of Cleveland. He was honored by Ernst & Young as an "Entrepreneur of the Year" in 2011. He holds a Bachelor of Science degree from The Ohio State University. He is also a graduate of Leadership Cleveland which is designed to enhance and leverage leadership resources within the Cleveland Community. Mr. Friedman is the father of Jason A. Friedman.

Lou Fatica, Senior Vice President, Chief Financial Officer and Treasurer, joined Associated Estates in 1999 as Controller and was promoted to Vice President, Controller in 2000. He assumed his current role in 2001. Mr. Fatica is responsible for financial operations including capital markets, reporting, internal audit and Sarbanes-Oxley compliance as well as tax, treasury and finance functions for the Company. He has more than 25 years of finance and accounting experience and is a Certified Public Accountant ("CPA"). He earned his bachelor's degree in Accounting from Cleveland State University. Mr. Fatica is a member of the American Institute of Certified Public Accountants, the Ohio Society of CPAs, and serves as a member of the Board of Directors of the Hillcrest Family YMCA.

Jason A. Friedman, Senior Vice President, Acquisition and Development, joined Associated Estates in 2009. Mr. Jason A. Friedman is responsible for overseeing the Company's acquisition efforts including the purchase of new assets. Additionally, Mr. Jason A. Friedman is responsible for all new development and construction activities including the purchasing of new land, design and entitlement. He has more than 16 years of real estate experience, including acquisitions, development, construction and financing. He earned his bachelor's degree in Communications and Business from Auburn University. Mr. Jason A. Friedman is a member of the Urban Land Institute, National Multi-Housing Council, National Association of Home Builders, Young Presidents Organization, and National Association of Real Estate Investment Trusts (NAREIT). He also serves as a board member for the American Red Cross and the Domestic Violence and Child Advocacy Center.

Scott D. Irwin, Senior Vice President, General Counsel and Secretary, joined Associated Estates in 2013. Mr. Irwin is responsible for all aspects of the Company's legal matters, providing advice and counsel in the negotiation, structuring and implementation of the Company's property acquisition, development, disposition, financing and capital markets activities, as well as risk management, corporate governance, public company reporting and litigation. From 2010 to 2013, Mr. Irwin served as Executive Vice President, General Counsel and Secretary of Buffets, Inc., one of the largest family dining restaurant companies in the United States. He has more than 22 years of overall experience in law, specializing in finance, corporate governance and compliance, acquisitions and divestitures, labor and employment, and litigation. Mr. Irwin earned his bachelor's degree, summa cum laude, from Kent State University, where he was inducted into Phi Beta Kappa. His Juris Doctorate was awarded, summa cum laude, by The Ohio State University College of Law, where he was elected to the Order of the Coif.

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John T. Shannon, Senior Vice President of Operations, joined Associated Estates in 2004. Mr. Shannon is responsible for the overall direction and guidance of property operations with the objective of maximizing growth and profitability, while fostering a culture committed to providing excellence in service. He also has oversight responsibilities for dispositions, marketing, ancillary services; and he provides day-to-day support of the Company's strategic goals. He has 25 years of property management experience. Mr. Shannon earned his bachelor's degree in Business Administration with a concentration in real estate finance and construction management from the University of Denver.

ENVIRONMENTAL CONSIDERATIONS

See Item 1A, "Risk Factors" for information concerning the potential effects of environmental regulations on our operations.

AVAILABLE INFORMATION

Shareholders may obtain, free of charge from our Internet site at AssociatedEstates.com, a copy of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934, as amended, as soon as reasonably practicable after we file such material electronically with, or furnish it to, the Securities and Exchange Commission ("SEC").

REPORTS TO SECURITY HOLDERS

We issue annual reports to our security holders that contain financial statements.

Item 1A. Risk Factors

We are subject to certain risks and uncertainties as described below. These risks and uncertainties are not the only ones we face and there may be additional risks that we do not presently know of or that we currently consider immaterial. All of these risks could adversely affect our business, financial condition, results of operations and cash flows. Our ability to pay dividends on, and the market price of, our equity securities may be adversely affected if any of such risks result in a material adverse effect upon our operations and/or financial condition.

We are subject to risks inherent in the real estate business and operation of a REIT. We own and manage multifamily apartment communities that are subject to varying degrees of risk generally incident to the ownership of real estate. Our financial condition, the value of our properties and our ability to make distributions to our shareholders will be dependent upon our continued access to the debt and equity markets, and our ability to operate our properties in a manner sufficient to generate income in excess of operating expenses and debt service charges, which may be affected by the following risks, some of which are discussed in more detail below:

changes in the economic climate in the markets in which we own and manage properties, including interest rates, the overall level of economic activity, the availability of consumer credit and mortgage financing, unemployment rates and other factors;

elimination of, or limitations on, federal government support for Fannie Mae and/or Freddie Mac that may result in significantly reduced availability of mortgage financing sources, as well as increases in interest rates for mortgage financing;

our ability to refinance debt on favorable terms at maturity;

risks of a lessening of demand for the multifamily units we own;

competition from other available multifamily units, single family units available for rental or purchase, and changes in market rental rates;

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- the failure of development projects or redevelopment activities to achieve expected results due to, among other causes, construction and contracting risks, unanticipated increases in materials and/or labor, delays in project completion and/or lease-up that result in increased costs and/or reduce the profitability of a completed project, and the absence of our right to control all activities and decisions of joint venture developments where the applicable agreement allocate decision making authority to, or require the consent of, our joint venture partner;
- the failure to enter into development joint venture arrangements on acceptable terms;
- increases in property and liability insurance costs;
- unanticipated increases in real estate taxes and other operating expenses;
- weather conditions that adversely affect operating expenses;
- expenditures that cannot be anticipated, such as utility rate and usage increases and unanticipated repairs;
- our inability to control operating expenses or achieve increases in revenue;
- shareholder ownership limitations that may discourage a takeover otherwise considered favorable by shareholders;
- the cost, disruption and diversion of management's attention associated with campaigns commenced by activist investors seeking to influence the Company to take particular actions favored by the activist or gain representation on our Board of Directors;
- information security breaches and other disruptions that could comprise our information or expose us to business interruption;
- the results of litigation involving us;
- changes in tax legislation;
- risks of personal injury and property damage claims that are not covered by our insurance;
- catastrophic property damage losses that are not covered by our insurance;
- risks associated with property acquisitions, such as failure to achieve expected results or matters not discovered in due diligence;
- risks related to the perception of residents and prospective residents as to the attractiveness, convenience and safety of our properties or the neighborhoods in which they are located; and
- those risks factors and special considerations set forth in the documents the Company files from time to time with the SEC.

We are dependent on rental income from our multifamily apartment communities. If we are unable to attract and retain residents, or if our residents are unable to pay their rental obligations, our financial condition and funds available for distribution to our shareholders may be adversely affected.

Our multifamily apartment communities are subject to competition. Our apartment communities are located in developed areas that include other apartment communities and compete with other housing alternatives, such as condominiums, single family and multifamily rental homes and owner occupied single family and multifamily homes. Foreclosed single family homes that become rental properties could create additional competition in certain of our markets. Such competition may impact our rental rates, and affect our ability to attract and retain residents.

Our insurance may not be adequate to cover certain risks. There are certain types of risks, generally of a catastrophic nature, such as earthquakes, floods, windstorms, acts of war and terrorist attacks, that may be uninsurable, are not economically insurable, or are not fully covered by insurance. Moreover, certain risks, such as mold and environmental exposures and certain employment related claims, generally are not covered by our insurance. Other risks are subject to various limits, sub-limits, deductibles and self- insurance retentions, which help to control insurance costs, but which may result in increased exposures to uninsured losses. Significant uninsured losses could have a material adverse effect on our business, financial condition and results of operations.

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Secured debt financing could adversely affect our performance. At December 31, 2014, eight of our 49 operating properties were encumbered by project specific, non-recourse, and non-cross-collateralized mortgage debt. There is a risk that these properties may not have sufficient cash flow from operations to pay required principal and interest. Additionally, at December 31, 2014, we had two construction loans with balances that are collateralized by the respective development properties, as well as an additional unconsolidated construction loan for which we are the guarantor which has no borrowings. We may not be able to refinance these loans at an amount equal to the loan balance, and the terms of any refinancing may not be as favorable as the terms of existing indebtedness. If we are unable to make required payments on indebtedness that is secured by a mortgage, the property securing the mortgage may be foreclosed with a consequent loss of income and value to us. Although Fannie Mae and Freddie Mac continue to provide needed financing to qualified borrowers, such as us, there is no assurance those mortgage capital sources will remain available or available on competitively favorable terms. Additional sources of secured financing are provided by life insurance companies, commercial banks and commercial mortgage-backed securities, which from time-to-time offer terms competitive with Fannie Mae and Freddie Mac. We believe we currently have access to such financing at competitive terms. However, there can be no assurance that such financing will be available or that we will qualify for such financing in the future. In addition, there are currently numerous proposals before Congress that could curtail the lending ability of Fannie Mae and Freddie Mac.

Financial covenants could limit our ability to achieve our strategic objectives. The agreements governing our unsecured credit facility and term loan contain certain restrictions, requirements and other limitations on our ability to incur additional secured and unsecured debt, commence project construction, acquire additional land or development projects and make other strategic investments or business acquisitions or dispositions. These agreements also contain certain financial and operating covenants including, among other things, maintenance of certain financial ratios. Additionally, our unsecured notes contain certain provisions that mirror the requirements of our unsecured credit facility and term loan. Our unsecured credit facility, term loan and unsecured notes are cross-defaulted, and also contain cross default provisions with all of our other outstanding indebtedness of \$25.0 million or more.

Real estate investments are generally illiquid, and we may not be able to sell our properties when it is economically or strategically advantageous to do so. Real estate investments generally cannot be sold quickly, and our ability to sell properties may be adversely affected by market conditions. We may not be able to further diversify or vary our portfolio in accordance with our strategies or in response to economic or other conditions. In addition, provisions of the Internal Revenue Code of 1986, as amended (the "Code"), limit the ability of a REIT to sell its properties in some situations when it may be economically advantageous to do so, thereby potentially adversely affecting our ability to make distributions to our shareholders.

Litigation may result in unfavorable outcomes. Like many real estate operators, we are frequently involved in lawsuits, including those pertaining to premises liability claims, housing discrimination claims and alleged violations of landlord-tenant laws, which may give rise to class action litigation or governmental investigations. Any material litigation not covered by insurance, such as a class action, could result in substantial costs being incurred.

The costs of complying with laws and regulations could adversely affect our cash flow. Our properties must comply with Title III of the Americans with Disabilities Act (the "ADA") to the extent they are "public accommodations" or "commercial facilities" as defined in the ADA. The ADA does not consider apartment communities to be public accommodations or commercial facilities, except for portions of such communities, such as leasing offices and commercial space, that are open to the public. In addition, the Fair Housing Amendments Act of 1988 (the "FHAA") requires apartment communities first occupied after March 13, 1990 to be accessible to disabled individuals. Other state and local laws also require apartment communities to be disability accessible. The FHAA also prohibits discrimination against protected classes of individuals. Noncompliance with these laws could result in the imposition of fines or an award of damages to private litigants. We have been subject to lawsuits alleging violations of accessible design laws in connection with certain of our properties.

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Under various federal, state and local laws, an owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on, under or in the property. This liability may be imposed without regard to whether the owner or operator knew of, or was responsible for, the presence of the substances. Other laws impose on owners and operators certain requirements regarding conditions and activities that may affect human health or the environment. Failure to comply with applicable requirements could complicate our ability to lease or sell an affected property, and could subject us to monetary penalties, costs required to achieve compliance and potential liability to third parties. All of our properties and development sites have been the subject of environmental assessments completed by qualified independent environmental consulting companies. While these environmental assessments have not revealed, nor are we aware of, any environmental liability that our management believes would have a material adverse effect, there can be no assurance that we will not incur such liabilities in the future. There have been an increasing number of lawsuits against owners and managers of multifamily properties alleging personal injury and property damage caused by the presence of mold in residential real estate. As some of these lawsuits have resulted in substantial monetary judgments or settlements, insurance carriers have reacted by excluding mold-related claims from standard policies and pricing mold endorsements at prohibitively high rates. While we have adopted programs designed to minimize the existence of mold in any of our properties, as well as guidelines for promptly addressing and resolving reports of mold to minimize any impact mold might have on our residents and our properties, should mold become an issue in the future, our financial condition or results of operations may be adversely affected. Further, it is possible that material environmental contamination or conditions exist, or could arise in the future in our apartment communities or on the land upon which they are located or be present in land or improvements which we may acquire in the future.

Changes in applicable laws could adversely affect our operations or expose us to liability. In addition to the costs of compliance with applicable laws currently in effect, applicable laws are subject to change and new legislation may be enacted, all of which may have the effect of increasing our costs of compliance and/or exposing us to increased potential liabilities. Compliance with changes in: (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions; (ii) rent control or rent stabilization laws; (iii) increased construction costs for additional accommodations for disabled residents; (iv) required employee benefits, such as health care coverage, or additional employer obligations; or (v) other governmental rules and regulations or enforcement policies affecting the use and operation of our communities, including changes to building codes and fire and life-safety codes, may result in lower revenue growth or significant unanticipated expenditures.

We are subject to risks associated with development, acquisition, disposition and expansion of multifamily apartment communities. Development projects, acquisitions, dispositions and expansions of apartment communities are subject to a number of risks, including:

- availability of acceptable financing;
- competition with other entities for investment opportunities, dispositions, development or construction services or tenants;
- failure by our properties to achieve anticipated operating results;
- failure to avoid retained liabilities with respect to property dispositions or assumed liabilities with respect to property acquisitions;
- development costs of a property exceeding estimates;
- delays in construction of developments or expansions due to, among other causes, weather, required governmental approvals and/or unavailability of labor and materials;
- expenditure of funds on, and the devotion of management time to, transactions that may not come to fruition;
- construction and construction business risks, including, without limitation, rapid and unanticipated increases in prices of building materials and commodities; and
- additional costs due to environmental contamination and compliance.

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Failure to succeed in new markets, or in activities ancillary to the development, ownership and operation of multifamily apartment communities, may adversely effect our operations. We may, from time to time, commence development activity or make acquisitions outside of our existing market areas when appropriate opportunities arise. Our experience in our existing markets in acquiring, developing, owning and operating multifamily apartment communities does not ensure that we will be able to operate successfully in new markets when we choose to enter them. Entering new markets may expose us to a variety of risks, including an inability to accurately evaluate local apartment market conditions; an inability to identify appropriate acquisition opportunities; an inability to hire and retain key personnel; and lack of familiarity with local governmental requirements. Although we are primarily in the multifamily business, we may also own and lease ancillary commercial space when such ancillary rental activities are a component of our multifamily rental activities. We may be unsuccessful in owning and leasing ancillary commercial space at or adjacent to our apartment communities, which could have an adverse effect on our results of operations.

We impose stock ownership limitations that may discourage a takeover otherwise considered favorable by shareholders. With certain limited exceptions, our Second Amended and Restated Articles of Incorporation, as amended, prohibit the ownership of more than 4.0% of our outstanding common shares (the "Ownership Limit"), and more than 9.8% of the shares of any series of any class of our preferred shares by any person unless we grant a waiver. Absent such a waiver, any shares owned in excess of such Ownership Limit are subject to repurchase by us and other consequences as set forth in our Second Amended and Restated Articles of Incorporation, as amended. A transfer of shares may be void if it causes a person to violate the Ownership Limit. The Ownership Limit could delay or prevent a change in control and, therefore, could adversely affect our security holders' ability to realize a premium over the then prevailing market price for their shares. At our 2015 Annual Meeting, we will ask shareholders to approve our Third Amended and Restated Articles of Incorporation, which eliminates the Ownership Limit.

We have a shareholders rights plan which would delay or prevent a change in control. We have a shareholders rights plan that may be triggered if any person or group becomes the beneficial owner of, or announces an offer to acquire, 15.0% or more of our common shares. While our Board of Directors believes our shareholders rights plan could assist in maximizing value for our shareholders in a change in control transaction, our shareholders rights plan would likely have the effect of precluding an acquisition of control of us without our consent. In December 2014, our Board of Directors approved the elimination of our shareholder rights plan, which is expected to be completed during the first quarter of 2015.

We may fail to qualify as a REIT. Commencing with our taxable year ending December 31, 1993, we have operated in a manner so as to permit us to qualify as a REIT under the Code, and we intend to continue to operate in such a manner. Many of the REIT requirements, however, are highly technical and complex. We cannot, therefore, guarantee that we have qualified or will qualify in the future as a REIT. The determination that we are a REIT requires an analysis of various factual matters that may not be totally within our control. For example, to qualify as a REIT, our gross income must generally come from rental and other real estate or passive related sources that are itemized in the REIT tax laws. We are also required to distribute to security holders at least 90.0% of our REIT taxable income excluding capital gains. If we were to fail to qualify as a REIT in any taxable year, we would not be allowed a deduction for distributions to our shareholders in computing our taxable income and would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Unless we are entitled to relief under certain Code provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which REIT qualification was lost. As a result, the cash available for distribution to our shareholders could be reduced or eliminated for each of the years involved.

Changes in tax laws could adversely affect the value of our common stock. If Congress enacts legislation that eliminates the REIT provisions from the Code or otherwise decreases the advantages of qualified REIT status under the Code, such as imposing a direct tax on some or all of our real estate related income, such legislation would likely have an adverse impact upon the market value of our common shares and may also result in a reduction of the dividends payable on our common shares.

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We depend on our key personnel. Our success depends to a significant degree upon the continued contribution of key members of our management team, who may be difficult to replace. The loss of services of these executives could have a material adverse effect on us. There can be no assurance that the services of such personnel will continue to be available to us. Our Chairman of the Board, President and Chief Executive Officer, Mr. Jeffrey I. Friedman, is a party to an employment agreement with us. Other than Mr. Friedman, we do not have employment agreements with key personnel. We do not hold key-man life insurance on any of our key personnel.

Any material weaknesses identified in our internal control over financial reporting could have an adverse effect on our share price. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal control over financial reporting. If we identify one or more material weaknesses in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which in turn could have an adverse effect on our share price.

A currently pending proxy contest, and any other actions of activist stockholders, could cause us to incur substantial costs, divert management's attention and resources, and have an adverse effect on our business. On November 17, 2014, Land & Buildings Investment Management, LLC, a shareholder that, together with its affiliates, held 2.9% of our outstanding common shares, issued by press release a public letter to our shareholders announcing its intent to nominate a slate of seven individual candidates for election to our Board of Directors at our 2015 Annual Meeting of Shareholders.

As a result of this pending proxy contest, or if other activist shareholder activities ensue, our business could be adversely affected because responding to proxy contests and reacting to other actions by activist shareholders can be costly and time-consuming, disrupt our operations and divert the attention of management and our employees. We have retained the services of various professionals to advise us on this matter, including legal, financial and communications advisors, the costs of which may negatively impact our future financial results. In addition, perceived uncertainties as to our future direction, strategy or leadership created as a consequence of these and any similar activist shareholder initiatives may result in the loss of potential business opportunities, harm our ability to attract new investors and joint venture partners, and cause our common share price to experience periods of volatility or stagnation. Moreover, if individuals are elected to our Board of Directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our current initiatives, retain and attract experienced executives and employees, and execute on our long-term strategy.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our Portfolio. The following table represents our portfolio as of December 31, 2014, which consists of properties we owned, directly or indirectly, or joint ventures in which we have an ownership interest.

	Total Number of Properties	Total Number of Units
State		
Florida	4	1,294
Georgia	2	354
Indiana	3	836
Michigan	7	2,216
North Carolina	7	1,671
Ohio	15	2,884
Texas	4	1,093
Virginia	7	2,386
	49	12,734
Development Projects		
7001 Arlington at Bethesda ⁽¹⁾	—	—
Cantabria at Turtle Creek ⁽²⁾	—	—
The Desmond on Wilshire ⁽³⁾	—	—
	49	12,734
Joint Venture Development Projects		
950 East Third ⁽⁴⁾	—	—
350 8th ⁽⁵⁾	—	—
Total Portfolio	49	12,734

	Location	Acres
Land Parcels		
Westlake	Westlake, OH	39.0
Wyndemere	Franklin, OH	10.0
5th and Huntington ⁽⁶⁾	Monrovia, CA	2.9
Warner Center ⁽⁷⁾	Woodland Hills, CA	4.6

Total undeveloped acres 56.5

(1) Development in process in Bethesda, Maryland of 140 units with 7,000 square feet of ground floor commercial space.

(2) Development in process in Dallas, Texas of 249 units.

(3) Development in process in Los Angeles, California of 175 units.

(4) Joint venture development in process in Los Angeles, California of 472 units.

(5) Joint venture development in process in San Francisco, California of 410 units.

Planned joint venture development in Monrovia, California of 154 units. On February 3, 2015, we purchased our partner's 50.0% interest in 5th and Huntington for \$8.4 million, increasing our ownership percentage in the development to 100%. See Note 19 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K for further information related to this subsequent event.

(7) Planned development in Woodland Hills, California of 379 units.

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	Total Number of Units	Age ⁽¹⁾
State		
Florida		
Doral West	388	16
Vista Lago	316	11
Waterstone at Wellington	222	16
Windsor Pines	368	16
	1,294	
Georgia		
Cambridge at Buckhead	168	19
Morgan Place	186	25
	354	
Indiana		
Center Point	344	17
Residence at White River	228	23
Steeplechase at Shiloh	264	16
	836	
Michigan		
Arbor Landings	328	15
Clinton Place	202	26
Georgetown Park	480	15
Landings at the Preserve	190	23
Oaks at Hampton	544	26
Spring Valley	224	27
Summer Ridge	248	23
	2,216	
North Carolina		
Alpha Mill Phase 1	167	4
Alpha Mill Phase 2 ⁽²⁾	100	—
St. Mary's Square	134	1
Southpoint Village	211	6
The Apartments at Blakeney	295	6
The Apartments at the Arboretum	205	5
The Lofts at Weston Lakeside	215	1
The Park at Crossroads	344	8
	1,671	

(1) Age of property is determined by the number of years since construction of the property was completed.

(2) Construction completed during 2014.

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	Total Number of Units	Age ⁽¹⁾	
State			
Ohio			
Bedford Commons	112	27	
Heathermoor	280	25	
Kensington Grove	76	19	
Lake Forest	192	20	
Mallard's Crossing	192	24	
Perimeter Lakes	189	22	
Residence at Barrington	288	15	
Saw Mill Village	340	27	
Sterling Park	128	20	
The Residence at Christopher Wren	264	21	
Village at Avon	312	13	
Village of Western Reserve	108	16	
Westchester Townhomes	136	25	
Westlake Seven	7	29	
Williamsburg Townhomes	260	24	
	2,884		
Texas			
Rienzi at Turtle Creek	152	12	
San Raphael	222	15	
San Raphael Phase II	99	1	
The Brixton	224	17	
21 Forty Medical District	396	5	
	1,093		
Virginia			
Ashborough	504	10	
Dwell Vienna Metro	250	6	
River Forest	300	8	
Riverside Station	304	9	
The Alexander at Ghent	268	8	
The Belvedere	296	9	
Westwind Farms	464	8	
	2,386		
Total properties	12,734	15	
	Location	Acres	Anticipated Completion
Development Projects			
7001 Arlington at Bethesda	Bethesda, MD	2.5	2015
Cantabria at Turtle Creek	Dallas, TX	2.4	2015
The Desmond on Wilshire	Los Angeles, CA	2.2	2015
350 8th ⁽²⁾	San Francisco, CA	3.4	2016
950 East Third ⁽³⁾	Los Angeles, CA	5.9	2017
Future Development Land Parcels			
5th and Huntington ⁽⁴⁾	Monrovia, CA	2.9	—

Warner Center

Woodland Hills, CA 4.6

—

(1) Age of property is determined by the number of years since construction of the property was completed.

(2) Joint venture 50.01% owned.

(3) Joint venture 50.0% owned.

Joint venture 50.0% owned. On February 3, 2015, we purchased our partner's 50.0% interest in 5th and Huntington for \$8.4 million, increasing our ownership percentage in the development to 100%. See Note 19 of the Notes to the

(4) Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K for further information related to this subsequent event.

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Indebtedness Encumbering the Properties. We have financed the acquisition, development and rehabilitation of certain of our properties with a variety of sources of mortgage indebtedness. At December 31, 2014, 41 of the 49 wholly-owned operating properties were unencumbered. The remaining eight properties were encumbered by property-specific mortgages. Additionally, at December 31, 2014, we had two construction loans with balances that are collateralized by the respective development properties, as well as an additional unconsolidated construction loan for which we are the guarantor which has no borrowings.

Item 3. Legal Proceedings

In conjunction with our May 2012 acquisition of land for development of an apartment community, we acquired a commercial building in Los Angeles, California (the "Property"), and entered into a triple net master lease (the "Lease") of the Property as landlord with Art and Architecture Books of the 21st Century, as tenant ("Tenant").

When Tenant failed to pay December 2012 rent when due under the Lease, we served Tenant with a notice to pay rent or vacate the premises pursuant to the California Code of Civil Procedure. On December 20, 2012, we filed an unlawful detainer action in the Superior Court for the State of California. Tenant did not pay rent for January or February 2013.

On February 19, 2013 (the scheduled trial date for our unlawful detainer suit), Tenant filed its Chapter 11 petition with the U.S. Bankruptcy Court (the "Bankruptcy Court") for the Central District of California (the "Bankruptcy Case"). On March 29, 2013, Tenant filed a motion to assume the Lease. We opposed Tenant's lease assumption motion. On September 12, 2013, the Bankruptcy Court granted Tenant's motion to assume the Lease. We appealed the Bankruptcy Court's order granting Tenant's motion to assume the Lease to the U.S. District Court for the Central District of California (the "District Court"). On December 2, 2013, the District Court ruled in our favor and held the Bankruptcy Court had erred when it concluded the Lease had not been terminated prior to the date Tenant filed its Chapter 11 petition. Tenant appealed the District Court's decision to the U.S. Court of Appeals for the Ninth Circuit. The District Court remanded the case back to the Bankruptcy Court for further proceedings consistent with the District Court's determination. On October 27, 2014, the Bankruptcy Court, on the matter remanded by the District Court, denied Tenant's lease assumption motion. Tenant has appealed the Bankruptcy Court's decision, and petitioned the Bankruptcy Court for a stay pending the outcome of Tenant's appeals. On December 29, 2014, the Bankruptcy Court granted Tenant's motion for stay pending appeal, which stayed the effect of the Bankruptcy Court's denial of Tenant's lease assumption motion, including the requirement that Tenant surrender the Property.

If we conclude, based on the outcome of this litigation, that it is unlikely Tenant will remain at the Property, we will accelerate the amortization of the remaining intangible asset associated with the Lease at that time. The intangible asset is being amortized over the initial five-year term of the Lease, beginning May 2012, and had a balance of \$887,000 at December 31, 2014. In addition, we may be required to refund to Tenant the \$630,000 cure payment Tenant paid to us in connection with its assumption of the lease.

On December 26, 2014, the United States District Court for the Northern District of Ohio (the "Court") entered an order approving a settlement and dismissing a shareholder derivative and class action captioned Monson v. Friedman, et al. (the "Action"). Pursuant to the settlement, and in exchange for releases and a dismissal of the Action with prejudice, Mr. Jeffrey I. Friedman voluntarily relinquished, and the Company rescinded, 63,714 of the 125,000 options awarded to him in 2012, and for the twelve-month period following final settlement, the Company will not award any stock options to Mr. Friedman. Also, the Company will implement additional processes relating to the future granting of equity awards and pay for plaintiffs' counsel fees and expenses approved by the Court with respect to the Action. We maintain insurance that will help defray the cost of the settlement, and the settlement did not have a material impact on our financial results.

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In addition to the above, we are subject to other legal proceedings, lawsuits and other claims in the ordinary course of our business (collectively, "Litigation"). Litigation is subject to uncertainties and outcomes are difficult to predict. Many of the claims in Litigation are covered by insurance, subject to deductible amounts. With respect to current Litigation, we have determined either that a loss is not reasonably possible or that the estimated loss or range of loss, if any, will not have a material adverse impact on our financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common shares are traded on the NYSE and NASDAQ under the trading symbol "AEC." The following table sets forth for the periods indicated the high and low sale prices per common share as reported on the NYSE (composite tape) and the dividends declared per common share.

	Price Range				Dividends Declared Per Share	
	2014		2013		2014	2013
	High	Low	High	Low		
First Quarter	\$17.70	\$15.49	\$18.67	\$15.79	\$0.19	\$0.19
Second Quarter	\$18.81	\$16.37	\$19.09	\$14.98	\$0.19	\$0.19
Third Quarter	\$18.87	\$17.27	\$16.79	\$13.10	\$0.20	\$0.19
Fourth Quarter	\$23.95	\$17.26	\$16.62	\$14.28	\$0.21	\$0.19
					\$0.79	\$0.76

On February 3, 2015, there were approximately 680 holders of record and approximately 14,000 beneficial owners of our common shares.

We maintain a dividend reinvestment plan under which shareholders may elect to reinvest their dividends automatically in our common shares, and may also acquire additional common shares the plan administrator purchases in the open market.

There is a total of \$26.3 million remaining on our Board of Director authorizations to repurchase our common shares. We did not repurchase any common shares using this authority during 2014. Additionally, we have a policy that allows employees to pay their portion of the income taxes related to restricted shares vesting by surrendering a number of shares to us equal in value on the day of vesting to the amount of taxes due up to the statutory withholding amount.

Issuer Purchases of Equity Securities for the Three Months Ended December 31, 2014

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
October 1 through October 31	—	\$—	—	\$26,288
November 1 through November 30	—	—	—	26,288
December 1 through December 31	65	22.94	—	26,288
Total	65	\$22.94	—	

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Performance Graph. The following graph compares the cumulative return on our common shares during the five-year period ended December 31, 2014 to the cumulative return of the Russell 2000 and the MSCI US REIT Index for the same period. The comparisons assume an initial investment of \$100 and the reinvestment of all dividends during the comparison period. Performance during this comparison period is not necessarily indicative of future performance.

Index	Period Ending					
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Associated Estates Realty Corporation	\$100.00	\$142.90	\$155.61	\$164.73	\$171.79	\$262.19
Russell 2000	\$100.00	\$126.86	\$121.56	\$141.43	\$196.34	\$205.95
MSCI US REIT Index	\$100.00	\$128.48	\$139.65	\$164.46	\$168.52	\$219.72

Source: SNL Financial LC, Charlottesville, VA

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Item 6. Selected Financial Data

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

	Year Ended December 31,				
(In thousands, except per share amounts)	2014	2013	2012	2011	2010
Operating Data:					
Revenue					
Property revenue	\$191,306	\$179,982	\$157,507	\$132,754	\$105,852
Office revenue	1,883	1,497	1,046	—	—
Property management and construction services revenue	891	—	—	16,869	17,868
Total revenue	194,080	181,479	158,553	149,623	123,720
Total expenses	(156,647)	(146,849)	(129,399)	(133,751)	(108,264)
Interest expense	(25,976)	(29,342)	(29,273)	(28,743)	(26,251)
Gain on disposition of properties	133,254	—	—	—	—
Income (loss) from continuing operations	144,711	5,288	(119)	(12,871)	(10,795)
Income from discontinued operations:					
Operating income, net of interest expense	—	3,179	3,881	3,642	1,965
Gain on disposition of properties	—	52,828	26,849	14,597	245
Income from discontinued operations	—	56,007	30,730	18,239	2,210
Net income (loss)	144,711	61,295	30,611	5,368	(8,585)
Net income attributable to noncontrolling interests	—	(45)	(19)	(40)	(51)
Net income (loss) attributable to AERC	144,711	61,250	30,592	5,328	(8,636)
Preferred share dividends	—	—	—	—	(2,030)
Preferred share redemption/repurchase costs	—	—	—	—	(993)
Allocation to participating securities	(473)	(228)	—	—	—
Net income (loss) applicable to common shares	\$144,238	\$61,022	\$30,592	\$5,328	\$(11,659)
Earnings per common share - Basic:					
Income (loss) from continuing operations applicable to common shares	\$2.51	\$0.10	\$—	\$(0.31)	\$(0.46)
Income from discontinued operations	—	1.08	0.66	0.44	0.08
Net income (loss) applicable to common shares	\$2.51	\$1.18	\$0.66	\$0.13	\$(0.38)
Earnings per common share - Diluted:					
Income (loss) from continuing operations applicable to common shares	\$2.49	\$0.10	\$—	\$(0.31)	\$(0.46)
Income from discontinued operations	—	1.07	0.66	0.44	0.08
Net income (loss) applicable to common shares	\$2.49	\$1.17	\$0.66	\$0.13	\$(0.38)
Weighted average shares outstanding - basic	57,478	51,622	46,063	41,657	30,421
Weighted average shares outstanding - diluted	57,975	52,184	46,063	41,657	30,421

Dividends declared per common share	\$0.79	\$0.76	\$0.71	\$0.68	\$0.68
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(Dollar amounts in thousands)

	2014	2013	2012	2011	2010	
Cash flow data:						
Cash flow provided by operations	\$76,232	\$81,825	\$70,606	\$53,317	\$33,511	
Cash flow provided by (used for) investing activity	\$32,815	\$(219,438)	\$(157,319)	\$(146,333)	\$(283,432)	
Cash flow (used for) provided by financing activity	\$(108,941)	\$137,459	\$87,125	\$92,974	\$250,691	
Balance Sheet Data at December 31:						
Total net real estate	\$1,381,427	\$1,373,999	\$1,139,917	\$986,834	\$875,000	
Total assets	\$1,465,697	\$1,422,497	\$1,172,477	\$1,018,493	\$918,235	
Total debt	\$749,113	\$812,974	\$716,778	\$664,788	\$555,666	
Total shareholders' equity attributable to AERC	\$647,226	\$544,450	\$403,398	\$308,793	\$316,184	
Other Data:						
Property net operating income ^{(1) (6)}	\$118,305	\$112,103	\$96,879	\$80,986	\$62,618	
Funds from operations ^{(2) (7)}	\$72,780	\$66,078	\$57,179	\$42,707	\$26,153	
Operating FFO ^{(3) (7)}	\$73,089	\$66,078	\$59,330	\$42,707	\$27,075	
Funds available for distribution ^{(4) (7)}	\$66,281	\$58,311	\$52,820	\$36,417	\$22,291	
Total properties (at end of period)	49	53	52	53	52	
Total apartment units (at end of period)	12,734	13,676	13,950	13,908	13,662	
Monthly property revenue per occupied unit	\$1,266	\$1,255	\$1,326	\$1,055	\$968	
Average occupancy ⁽⁵⁾	95.2	% 95.4	% 92.5	% 94.3	% 94.5	%

We consider property net operating income ("property NOI") to be an important indicator of the overall performance of our multifamily property portfolio because it reflects the operating performance of our property portfolio and is used to assess regional property level performance. Property NOI is determined by deducting property operating and maintenance expenses from property revenue. Property NOI should not be considered (i) as an alternative to net income determined in accordance with accounting principles generally accepted in the United States ("GAAP"), (ii) as an indicator of financial performance, (iii) as cash flow from operating activities (determined in accordance with GAAP), or (iv) as a measure of liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of our needs. See footnote 6 for those items that are used to compute property NOI. Other real estate companies may define property NOI in a different manner. Property NOI has been recast for discontinued operations for periods shown.

(2) We calculate funds from operations ("FFO") in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts. This definition includes all operating results, both recurring and non-recurring, except those results defined as "extraordinary items" under GAAP, adjusted for depreciation on real estate assets, amortization of intangible asset and lease up costs for development properties, and excludes impairment write-downs of depreciable real estate and gains and losses from the disposition of previously depreciated real estate. We calculate FFO per share using the weighted average shares outstanding amounts used in the calculation of basic and diluted earnings per share in accordance with GAAP. FFO does not represent cash generated from operating activities in accordance with GAAP, is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income as an indicator of our operating performance or as an alternative to cash flow as a measure of liquidity. FFO is used in the real estate industry as a supplemental measure of the operating performance of real estate companies because it excludes charges such as real estate depreciation that are

generally considered not to be reflective of the actual value of real estate assets over time. See Footnote 7 for those items that are used to compute FFO. Other real estate companies may define FFO in a different manner.

Operating FFO is FFO, as defined above, adjusted for certain corporate transactions to provide an amount that is more representative of the operations of our real estate portfolio. We consider Operating FFO to be a more (3) appropriate measure of comparing the operating performance of our real estate portfolio between periods as well as to that of other real estate companies. See Footnote 7 for those items that are used to compute Operating FFO.

Other real estate companies may define Operating FFO in a different manner.

We define funds available for distribution ("FAD") as Operating FFO, as defined above, plus depreciation other and amortization of deferred financing fees less recurring fixed asset additions. Fixed asset additions exclude development, investment, revenue enhancing and non-recurring capital additions. We consider FAD to be an (4) appropriate supplemental measure of the performance of an equity REIT because, like FFO and Operating FFO, it captures real estate performance by excluding gains or losses from the disposition of previously depreciated real estate and depreciation on real estate assets and amortization of intangible asset and lease up costs for development properties. Unlike FFO and Operating FFO, FAD also reflects the recurring capital expenditures that are necessary to maintain the associated real estate. See Note 7 for a reconciliation of Operating FFO to FAD.

(5) Average occupancy is defined as the average number of units occupied during the period divided by total number of units.

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(6) Reconciliation of property NOI to net income (loss) attributable to AEC.

(In thousands)	Year Ended December 31,				
	2014	2013	2012	2011	2010
Property net operating income	\$ 118,305	\$ 112,103	\$ 96,879	\$ 80,986	\$ 62,618
Office revenue	1,883	1,497	1,046	—	—
Property management and construction services revenue	891	—	—	16,869	17,868
Construction and other services expenses	(396)	—	(176)	(19,297)	(17,160)
Depreciation and amortization	(63,557)	(58,053)	(49,938)	(45,768)	(31,379)
General and administrative expense	(18,729)	(19,481)	(16,995)	(15,944)	(15,684)
Development costs	(779)	(912)	(864)	(435)	(208)
Costs associated with acquisitions	(185)	(524)	(798)	(539)	(599)
Interest expense	(25,976)	(29,342)	(29,273)	(28,743)	(26,251)
Gain on disposition of properties	133,254	—	—	—	—
Income (loss) from continuing operations	144,711	5,288	(119)	(12,871)	(10,795)
Income from discontinued operations:					
Operating income, net of interest expense	—	3,179	3,881	3,642	1,965
Gain on disposition of properties	—	52,828	26,849	14,597	245
Income from discontinued operations	—	56,007	30,730	18,239	2,210
Net income (loss)	144,711	61,295	30,611	5,368	(8,585)
Net income attributable to noncontrolling redeemable interest	—	(45)	(19)	(40)	(51)
Net income (loss) attributable to AERC	\$ 144,711	\$ 61,250	\$ 30,592	\$ 5,328	\$ (8,636)

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(7) Reconciliation of net income (loss) attributable to AERC to FFO, Operating FFO and FAD:

(In thousands, except per share amounts)	Year Ended December 31,				
	2014	2013	2012	2011	2010
Net income (loss) attributable to AERC	\$144,711	\$61,250	\$30,592	\$5,328	\$(8,636)
Depreciation - real estate assets	58,039	53,779	48,547	44,006	35,593
Amortization of intangible assets	3,284	3,877	4,889	7,970	2,219
Preferred share dividends	—	—	—	—	(2,030)
Preferred share redemption/repurchase costs	—	—	—	—	(993)
Gain on disposition of properties	(133,254)	(52,828)	(26,849)	(14,597)	—
Funds from operations	72,780	66,078	57,179	42,707	26,153
Gain on insurance recoveries	—	—	—	—	(245)
Defeasance/prepayment and other costs associated with debt repayments	—	—	2,430	—	—
Preferred share repurchase costs	—	—	—	—	993
Shareholder activism costs	309	—	—	—	—
Trust preferred redemption costs	—	—	—	—	727
Refund of defeasance costs for previously defeased loans	—	—	(279)	—	(553)
Operating FFO	73,089	66,078	59,330	42,707	27,075
Depreciation - other assets	2,234	2,176	2,108	1,954	1,827
Amortization of deferred financing fees	1,879	2,002	2,128	1,970	1,415
Recurring fixed asset additions	(10,921)	(11,945)	(10,746)	(10,214)	(8,026)
Funds available for distribution	\$66,281	\$58,311	\$52,820	\$36,417	\$22,291
Funds from operations per common share - basic	\$1.27	\$1.28	\$1.24	\$1.03	\$0.85
Operating FFO per common share - basic	\$1.27	\$1.28	\$1.29	\$1.03	\$0.89
Funds from operations per common share - diluted	\$1.26	\$1.27	\$1.23	\$1.03	\$0.85
Operating FFO per common share - diluted	\$1.26	\$1.27	\$1.27	\$1.03	\$0.89
Weighted average shares outstanding - basic	57,478	51,622	46,063	41,657	30,421
Weighted average shares outstanding - diluted	57,975	52,184	46,553	41,657	30,421

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Part II, Item 8 of this report on Form 10-K. This discussion may contain forward-looking statements based on current judgments and current knowledge of management, which are subject to certain risks, trends and uncertainties that could cause actual results to vary from those projected, including but not limited to, expectations regarding our 2015 performance that are based on certain assumptions. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. These forward-looking statements are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "expects," "projects," "believes," "plans," "anticipates" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that these forward-looking statements involve risks and uncertainty that could cause actual results to differ from estimates or projections contained in these forward-looking statements. For a discussion of these risks and uncertainties, see "Risk Factors" in Item 1A of this report on Form 10-K.

Overview. We are engaged primarily in the ownership and operation of multifamily apartment units. Our subsidiary, Merit, is a construction manager that acts as our in-house construction management division. Our primary source of cash and revenue from operations is rental payments from the leasing of apartment units, which represented 98.6% of our consolidated revenue for the year ended December 31, 2014.

The operating performance of our properties is affected by general economic trends including, but not limited to, household formation, job and wage growth, unemployment rates, population growth, immigration, the supply of new multifamily rental units and, in certain markets, the supply of other housing alternatives, such as condominiums, single family and multifamily rental homes and owner occupied single family and multifamily homes. Additionally, our performance may be affected by our ability to access the capital markets and the prices we can obtain for our debt and equity securities.

Rental revenue collections are impacted by rental rates and occupancy levels. We use LRO™, a rental revenue software program that provides comprehensive submarket-based statistical data to assist in maximizing rental revenue while remaining market competitive. We combine this data with our proprietary market knowledge and experience to maximize rental revenues and maintain high occupancy levels. With LRO™, we generate long-term rent growth by adjusting rents to address market forces in real-time. We adjust our rental rates in our continuing effort to adapt to changing market conditions, and we continuously monitor physical occupancy and revenue per occupied unit to track our success in maximizing property revenue. These indicators are more fully described in the Results of Operations comparison. Additionally, we consider property net operating income ("NOI"), Funds from Operations ("FFO") and Operating FFO to be important indicators of our overall performance. Property NOI (property revenue less property operating and maintenance expenses) is a measure of the profitability of our properties, and has the largest impact on our financial condition and operating results. FFO is used by real estate investment trusts as a supplemental measure of the operating performance of real estate companies because it excludes charges such as real estate depreciation and amortization on intangible assets that are generally considered not to be reflective of the actual value of real estate assets over time. Additionally, gains and losses from the sale of most real estate assets and certain other items are also excluded from FFO. See Selected Financial Data presented in Part II, Item 6 of this report on Form 10-K for reconciliations of property NOI, FFO and Operating FFO to consolidated net income (loss) in accordance with accounting principles generally accepted in the United States ("GAAP").

Our Same Community portfolio includes properties we have owned and operated for the entire two-year period ending December 31, 2014, and consists of 43 properties containing 11,184 units. Our Same Community portfolio accounted for 80.8% of total revenue and 82.8% of our property NOI in 2014. Acquired/Development properties represent one property acquired in 2014, a 99-unit expansion located in Dallas, Texas completed in 2013 and stabilized in 2014, and five properties acquired in 2013. See Results of Operations for an additional discussion of our Same Community properties.

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Same Community property NOI increased 3.3% in 2014 compared to 2013 as a result of a \$1.8 million or 4.2% increase in property NOI from our Midwest (Indianapolis, Michigan and Ohio) portfolio. Our Mid-Atlantic (Metro DC, Raleigh-Durham and Virginia) portfolio property NOI increased \$493,000 or 1.4%, our Southeast (Florida and Atlanta) portfolio property NOI increased \$684,000 or 6.2%, and our Southwest (Dallas) portfolio property NOI increased \$167,000 or 2.8% in 2014.

The following table presents property NOI results for 2014 and 2013:

(In thousands)	Year Ended December 31,		Variance
	2014	2013	
	Property NOI	Property NOI	
Same Community Properties:			
Midwest	\$43,996	\$42,216	\$1,780
Mid-Atlantic	36,138	35,645	493
Southeast	11,797	11,113	684
Southwest	6,076	5,909	167
Total Same Community	98,007	94,883	3,124
Acquired Properties	14,716	3,966	10,750
Development	542	58	484
Dispositions	5,040	13,196	(8,156)
Total Property NOI	\$118,305	\$112,103	\$6,202

We intend to continue to evaluate potential property acquisitions and development opportunities within our investment criteria. We also may sell properties where market conditions are such that the reinvestment of cash proceeds derived from a sale are expected to provide, over time, a greater return on equity, an increase in cash flow or further enhance our strategic objectives. We will continue to focus on three important metrics: (i) the ratio of our net debt to the undepreciated book value of our real estate assets, which was 39.4% at December 31, 2014 compared with 45.9% at December 31, 2013, (ii) the level of secured debt to gross real estate assets, which was 15.3% at December 31, 2014 compared to 15.9% at December 31, 2013, and (iii) our fixed charge coverage ratio, which improved to 3.29 times at December 31, 2014 from 2.98 times at of December 31, 2013.

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

A REIT is precluded from owning more than 10.0% of the outstanding voting securities of any one issuer, other than a wholly owned subsidiary or another REIT, and more than 10.0% of the value of all securities of any one issuer. As an exception to this prohibition, a REIT is allowed to own up to 100% of the securities of a taxable REIT subsidiary ("TRS") that can provide non-customary services to REIT tenants and others without disqualifying the rents that a REIT receives from its tenants. However, no more than 25.0% of the value of a REIT's total assets can be represented by securities of one or more TRS's. The amount of intercompany interest and other expenses charged in transactions between a TRS and a REIT are subject to arms length allocation requirements contained in the Code and Treasury regulations. We believe we have qualified and plan to, and believe we will, continue to qualify as a REIT. However, qualification as a REIT is subject to the satisfaction of numerous highly technical and complex requirements. We cannot, therefore, guarantee that we have qualified or will qualify in the future as a REIT. See "Risk Factors" in Item 1A of this report on Form 10-K.

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LIQUIDITY AND CAPITAL RESOURCES

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

Significant Cash Sources (Uses):

(In thousands)	Year Ended December 31,		
	2014	2013	2012
Net cash provided by operations	\$76,232	\$81,825	\$70,606
Fixed assets:			
Acquisitions and development expenditures	(129,174)	(320,008)	(207,207)
Net property disposition proceeds	212,053	135,580	64,422
Recurring, revenue enhancing and non-recurring capital expenditures	(13,794)	(13,626)	(12,314)
Cash proceeds from sale of equity interest in development property	24,075	—	—
Deposits on potential future acquisitions	3,192	(13,192)	(4,500)
Contributions to joint ventures	(20,811)	(9,271)	—
Escrow deposits related to property sales	(115,587)	—	—
Escrow disbursements related to property acquisition	72,292	—	—
Debt:			
Decrease in mortgage and construction notes payable, net	(6,094)	(124,004)	(132,784)
(Decrease) increase in unsecured revolving credit facility borrowings, net	(57,000)	(57,000)	132,500
Increase in term loan borrowings	—	—	25,000
Unsecured note issuances	—	250,000	—
Purchase of operating partnership units	—	(1,393)	—
Exercise of stock options	733	2,470	312
Issuance of common shares	—	116,751	98,149
Purchase of treasury shares	(1,034)	(2,618)	(959)
Operating partnership redemption	—	(1,393)	—
Purchase of noncontrolling interest	—	(4,544)	—
Cash dividends and operating partnership distributions paid	(44,849)	(38,975)	(32,460)

Our primary sources of liquidity are cash flow provided by operations, short-term borrowings on our unsecured revolving credit facility, project-specific loans and the sale of debt or equity securities. We have one scheduled debt maturity for 2015, a mortgage loan totaling approximately \$19.6 million. We intend to repay this loan from one or more of the following sources: borrowings on our unsecured revolving credit facility, unsecured debt financings or proceeds from property sales. The maximum amount of borrowings available to us under the unsecured revolving credit facility is \$350 million and, as of February 3, 2015, there were outstanding borrowings of \$96.0 million on this facility. We were in compliance with the covenants of our debt instruments at December 31, 2014.

On July 25, 2014, we amended and restated our \$150 million unsecured term loan. Among other modifications, the amendment extended the maturity date from January 3, 2018 to January 3, 2020, and reduced the interest rate spread across the pricing grid. We amended our unsecured revolving credit facility to implement corresponding financial covenant modifications.

Cash flow provided by operations decreased \$5.6 million when comparing 2014 to 2013. The decrease was primarily the result of changes in accounts payable due to the timing of payments.

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Cash flow provided by operations increased \$11.2 million when comparing 2013 to 2012. The increase was primarily due to a 5.0% increase in Same Community property NOI and the contribution from the five properties acquired during 2013. In 2013, we also had the full year of contribution from the four properties acquired in 2012 and the completion and lease up of our Vista Germantown development in 2012. This was partially offset by the disposition of four properties during 2013 and six properties during 2012.

Shelf Availability. We have an unallocated shelf registration statement that relates to the offering, from time to time, of debt securities (including convertible debt), preferred shares, depositary shares, common shares and common share warrants. This registration statement expires in April 2016.

Liquidity: Normal Business Operations. We anticipate cash flow provided by operations for the upcoming year will be sufficient to meet normal business operations and liquidity requirements. We believe that if net cash provided by operations is below projections, other sources, such as our unsecured revolving credit facility and/or secured and unsecured borrowings, are or can be made available, and will be sufficient to meet our normal business operations and liquidity requirements.

Liquidity: Non-Operational Activities. Sources of cash available for repayment of debt, any property acquisitions, development spend and funding other capital expenditures are expected to be provided primarily by proceeds from the refinancing of borrowings, construction loans, our unsecured revolving credit facility, the sale of properties and possibly the issuance of common shares through the ATM program, overnight offerings or otherwise. The development of the 140-unit apartment community in Bethesda, Maryland and the 249-unit apartment community in Dallas, Texas will be funded through construction financings. We anticipate the development of our Desmond on Wilshire project in Los Angeles, California will be funded from some combination of property sale proceeds and borrowings on our unsecured revolving credit facility. Additionally, we expect the required funding for our development joint ventures in California will be funded from some combination of property sale proceeds, construction financings and borrowings on our unsecured revolving credit facility. For detailed information about these joint ventures, see Note 6 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Long-Term Contractual Obligations. The following table summarizes our long-term contractual obligations at December 31, 2014.

(In thousands)	Payments Due In				2020 and Later Years
	Total	2015	2016-2017	2018-2019	
Contractual Obligations					
Debt payable - principal	\$747,722	\$21,446	\$167,408	\$61,071	\$497,797
Debt payable - interest	148,847	27,267	47,581	39,870	34,129
Operating leases	224	75	149	—	—
Purchase obligations	282,859	205,932	76,897	30	—
Total	\$1,179,652	\$254,720	\$292,035	\$100,971	\$531,926

Debt Payable - Principal. Debt payable - principal includes principal payments on all property-specific mortgages, the unsecured term loan, the unsecured revolving credit facility and the unsecured notes based on amounts and terms of debt in existence at December 31, 2014. For detailed information about our debt, see Note 7 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Debt Payable - Interest. Debt payable - interest includes accrued interest at December 31, 2014, and interest payments as required based upon the terms of the debt in existence at December 31, 2014. Interest related to floating rate debt included in the above table was calculated based on applicable rates as of December 31, 2014.

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Operating Leases. We lease certain equipment and facilities under operating leases. Future minimum lease payments under all non-cancellable operating leases in which we are the lessee are immaterial.

Purchase Obligations. Purchase obligations represent agreements to purchase goods or services and contracts for the acquisition of properties that are legally binding and enforceable and that specify all significant terms of the agreement. Our purchase obligations include, but are not limited to, obligations under construction contracts for labor and materials, as well as vendor contracts for property operations entered into in the normal course of operations, such as for landscaping, snow removal, elevator maintenance, security, trash removal and electronically generated services. During the third quarter of 2013, we entered into an agreement to acquire a portfolio of seven properties for a total purchase price of \$323.9 million, including the assumption of \$28.0 million of existing mortgage financing. Payments will be made of \$149.8 million, which are net of escrow deposits of \$10.0 million paid in 2013, related to the remaining two properties expected to close in 2015 under this agreement. Each of these remaining closings is contingent upon the completed construction of the property. Our obligation to purchase these properties is subject to certain closing conditions specified in the agreement. Although we intend to acquire the remaining two properties, and regard our acquisition of each property as probable, there can be no assurance that we will acquire such properties. See Note 3 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K for further information on the acquisition portfolio. In addition, 2016 includes an agreement to acquire a property that is being developed in Ft. Lauderdale, Florida for a purchase price of \$80.2 million. Payment will be made of \$76.2 million, which is net of a \$4.0 million earnest money deposit paid in 2012. Our purchase obligation is conditioned upon the successful completion of the property in accordance with agreed upon plans and specifications and up to an 18-month period to allow for lease up of the property. Closing will not occur unless the conditions are satisfied, which is currently expected to occur in early 2016. If we choose not to purchase the property, despite the closing conditions having been satisfied within the time period contemplated by the purchase agreement, we would forfeit our \$4.0 million earnest money deposit. Obligations included in the above table represent agreements dated December 31, 2014 or earlier.

Dividends. On December 3, 2014, we declared a dividend of \$0.21 per common share, which was paid in cash on January 30, 2015, to shareholders of record on December 30, 2014. We anticipate that we will continue paying regular quarterly dividends in cash. The dividend declared in December 2014 represents the second increase to the quarterly dividend since the third quarter 2014. With the September 8, 2014 declaration, we increased the quarterly dividend to \$0.20 per share from \$0.19 per share effective with the dividend paid in November 2014. In conjunction with revising the Company's dividend policy, the Board of Directors evaluated the Company's past performance and future prospects for earnings growth. Additional factors considered in determining the increase included current dividend distributions, the relationship of dividend distributions to taxable income, distribution requirements under rules governing REITs and expected growth in taxable income.

Capital Expenditures. We anticipate incurring approximately \$18.3 million in capital expenditures for 2015. This includes replacement of worn carpet and appliances and refurbishing parking lots and similar items in accordance with our current property expenditure plan, as well as commitments for investment/revenue enhancing and non-recurring expenditures, including \$3.1 million for in-unit upgrades throughout the portfolio. We expect to use cash provided by operating activities to pay for these expenditures.

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The following table identifies our capital expenditures for the year ended December 31:

(In thousands)	2014	2013	Variance	
Recurring fixed asset additions	\$9,349	\$11,710	\$(2,361))
Revenue enhancing/non-recurring fixed asset additions	4,445	1,916	2,529	
Acquisition fixed asset additions ⁽¹⁾	49,506	234,652	(185,146))
Development fixed assets:				
Internal costs	3,500	2,800	700	
Capitalized interest	4,800	3,600	1,200	
Land and other development costs	71,368	78,956	(7,588))
Total development fixed asset additions	\$79,668	\$85,356	\$(5,688))
Total fixed asset additions	\$142,968	\$333,634	\$(190,666))

The decrease in Acquisition fixed asset additions in 2014 compared to 2013 is due to the acquisition of one operating property in 2014, Alpha Mill for \$45.1 million, compared to the acquisition of five operating properties in 2013, Doral West for \$93.5 million, Rienzi at Turtle Creek for \$48.9 million, The Apartments at Blakeney for \$53.2 million, St. Mary's Square for \$27.3 million and Lofts at Weston Lakeside for \$38.3 million.

Financing and Other Commitments. For detailed information about our debt, see Note 7 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

At December 31, 2014, we had 41 unencumbered operating properties. These properties generated net income of \$34.1 million for the year ended December 31, 2014, and had a net book value of \$819.9 million at December 31, 2014.

We lease certain equipment and facilities under operating leases. Future minimum lease payments under all non-cancellable operating leases in which we are the lessee are included in the previous contractual obligations table. Operating Partnership. We owned one of our properties, Windsor Pines, in Pembroke Pines, Florida, containing 368 apartment units, through an Operating Partnership structured as a "DownREIT" (the "DownREIT Partnership"). As general partner of the DownREIT Partnership, we guaranteed the obligation of the DownREIT Partnership to redeem limited partner interests ("OP units") held by the limited partners. The DownREIT Partnership was obligated to redeem OP units for our common shares or cash, in certain circumstances, at a price per OP unit equal to the average closing price of our common shares for the 20-day period preceding a limited partner's redemption notice. On October 23, 2013, we consummated a subsidiary merger transaction that had the effect of converting the remaining 74,083 OP units into a right to receive cash merger consideration, pursuant to which we paid \$1.4 million on November 6, 2013. As of December 31, 2013, there were no remaining OP units as all remaining units had been redeemed for cash or canceled in the merger. These transactions had the effect of increasing our interest in the DownREIT Partnership from 97.6% to 100%. For additional information regarding the OP units, see Note 2 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Acquisition and Development Activities. During 2014, we acquired one property for an approximate total purchase price of \$45.1 million. In addition, in 2014, we acquired a parcel of land for future development of an apartment community in Woodland Hills, California. The aggregate purchase price for the land and existing improvements was approximately \$15.8 million. During 2013, we acquired five properties for an approximate total purchase price of \$261.2 million, inclusive of a \$28.0 million assumed loan. For additional information regarding the loan assumed in 2013, see Note 7 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K. In addition, in 2013, we acquired land for development of an apartment community in San Francisco, California. The aggregate purchase price for the land and existing improvements was approximately \$46.6 million. On February 3, 2014, we entered into a 50/50 partnership to develop and own this site known as 350 8th.

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During 2014, we continued active development of our 140-unit apartment community in Bethesda, Maryland, our 249-unit apartment community in Dallas, Texas and our 175-unit apartment community in Los Angeles, California. During 2013, we substantially completed the development of a parcel of land adjacent to our existing San Raphael property in North Dallas, which stabilized operations in the first quarter of 2014. See Note 3 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

On July 14, 2011, we entered into a partnership agreement with Keating Project Development, Inc., an unrelated third-party, pursuant to which we hold a 98.1% equity interest in the partnership. In March 2012, the partnership acquired a 2.5-acre parcel of land in Bethesda, Maryland for \$12.2 million on which it is developing 140 apartment units and 6,898 square feet of commercial space. We have determined that this entity is not a variable interest entity and that we hold a controlling interest in the entity. As such, this entity is included in our consolidated financial statements.

We intend to continue to evaluate opportunities to acquire land for development and property acquisitions. Any future acquisitions or developments would be financed with the most appropriate sources of capital, which may include the assumption of mortgage indebtedness, bank and other institutional borrowings, property sale proceeds, the exchange of properties, undistributed earnings, secured or unsecured debt financings, or the issuance of common shares.

Unconsolidated Development. During the quarter ended March 31, 2014, we entered into a 50/50 partnership with AIG Global Real Estate, an unrelated third-party for the development and operation of 350 8th, a 410-unit apartment community with 40,000 square feet commercial space and underground parking in San Francisco, California. The land, upon which development has commenced, was acquired by us on May 28, 2013 for \$46.6 million. As of December 31, 2014, we have contributed \$39.2 million to the partnership.

During the quarter ended September 30, 2013, we entered into a partnership agreement with LPC MM Monrovia, LLC, an unrelated third-party, for the limited purpose of acquiring a property in Monrovia, California, and to produce construction drawings for improvements to the property, known as 5th and Huntington. We held a 50.0% equity interest in the partnership. The land, upon which the partnership intended to construct a 154-unit multifamily apartment complex, was purchased by the partnership on August 9, 2013, for \$13.1 million. As of December 31, 2014, we had contributed \$7.9 million to the partnership. On February 3, 2015, we purchased our partner's 50.0% interest in 5th and Huntington for \$8.4 million, increasing our ownership percentage in the development to 100%. See Note 19 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K for further information related to this subsequent event.

During the quarter ended June 30, 2013, we entered into a partnership agreement with Legendary Investors Group No. 1 LLC ("Legendary"), an unrelated third-party, for the development and operation of 950 East Third, a 472-unit apartment community and 19,700 square feet of commercial space in Los Angeles, California. We are a 50.0% partner with Legendary, which contributed the land to the partnership at a value of \$30.0 million. As of December 31, 2014, we have contributed \$7.7 million to the partnership.

As these partnerships are not sufficiently funded to finance the activities of the entity, and not all of the capital will be funded up front, the partnerships have been deemed to not have sufficient equity, and have therefore been determined to be variable interest entities. It has also been determined that we do not control the decisions that most significantly affect the economics of the entities, and that we do not hold a controlling financial interest in the entities. As such, our investments in the entities are included in our consolidated financial statements using the equity method. Our strategy with respect to these ventures was to reduce our financial risk related to the development of the properties. However, we do not believe that these investments have a materially different impact upon our liquidity, cash flows, capital resources, credit or market risk than the other consolidated development activities.

Dispositions. During 2014, we sold five properties for a sales price of approximately \$216.4 million and recognized gains of approximately \$133.3 million.

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General Contractor/Construction. Our subsidiary, Merit, is a construction manager that acts as our in-house construction management division. Merit also formerly provided general contracting and construction management services to third parties. Additionally, Merit completed construction of our 99-unit expansion to our San Raphael property in Dallas, Texas, and is serving as construction manager for our 140-unit apartment community in Bethesda, Maryland, our 249-unit apartment community in Dallas, Texas and our 175-unit apartment community in Los Angeles, California, which are expected to be completed in 2015. Additionally, we have entered into Guaranteed Maximum Price contracts with third party general contractors for our Bethesda, Dallas and Los Angeles development projects.

RESULTS OF OPERATIONS

Our Same Community portfolio represents operating properties that we owned for all of the comparison periods. Acquired Properties are added to our Same Community portfolio after they have been owned for all of the comparison periods. Development Properties are added to our Same Community portfolio after they have been stabilized for all of the comparison periods. We consider a property to be stabilized when it has reached 93% occupancy. For the twelve month comparison periods ended December 31, 2014 and 2013, the Same Community portfolio consisted of 43 properties containing 11,184 units. In 2014, the four properties that we acquired in 2012 (The Apartments at the Arboretum, Southpoint Village, 21 Forty Medical District and The Park at Crossroads), containing 1,156 units, moved into the Same Community portfolio from the Acquired Properties portfolio. Properties that are sold or are classified as held for sale are removed from the Same Community portfolio at that time. Four of the five properties we sold during 2014 containing 967 units have been removed from the Same Community portfolio. The remaining property sold during 2014 containing 242 units had not been added to our Same Community portfolio, having not been owned and stabilized for all of the comparison periods. Acquired Properties for the twelve month comparison periods ended December 31, 2014 and 2013 include one property acquired in 2014 and five properties acquired in 2013. For the twelve month comparison periods ended December 31, 2013 and 2012, the Same Community portfolio consisted of 39 properties containing 10,028 units. The eight Same Community properties we sold during 2014 and 2013 containing 2,524 units have been removed from the Same Community portfolio. Acquired Properties for the twelve month comparison periods ended December 31, 2013 and 2012 include five properties acquired in 2013 and four properties acquired in 2012. The Development Property for the twelve month comparison periods ended December 31, 2014 and 2013 is a 99-unit expansion in Dallas, Texas that was completed during the fourth quarter of 2013 and stabilized during the first quarter of 2014.

Net income increased \$83.4 million during 2014 compared to 2013 primarily as the result of an increase in gain on disposition of properties of \$80.4 million and a decrease in interest expense of \$3.4 million. Net income increased \$30.7 million during 2013 compared to 2012 primarily as the net result of an increase in gain on disposition of properties of \$26.0 million and an increase in operating income of \$5.5 million.

The following chart reflects the amount and percentage change in line items relevant to the changes in overall operating performance:

(Dollar amounts in thousands)	Increase (Decrease) When Comparing the Years Ended December 31,					
	2014 to 2013 ⁽¹⁾		2013 to 2012			
Property revenue	\$11,324	6.3	%	\$22,475	14.3	%
Property operating and maintenance expenses	5,122	7.5	%	7,251	12.0	%
Depreciation and amortization	5,504	9.5	%	8,115	16.3	%
General and administrative expenses	(752)	(3.9)	)%	2,486	14.6	%
Interest expense	(3,366)	(11.5)	)%	69	0.2	%
Income from discontinued operations	(56,007)	(100.0)	)%	25,277	82.3	%

Refer to Note 2, which describes the impact of adopting ASU 2014-08, "Presentation of Financial Statements (1)(Topic 205) and Property, Plant and Equipment (Topic 360): Reporting of Discontinued Operations and Disclosures of Components of an Entity."

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Property Revenue. Property revenue is impacted by a combination of rental rates, fees and occupancy levels, i.e., property revenue per occupied unit. Average occupancy for each period and property revenue per occupied unit are presented in the following tables:

	Average Occupancy ⁽¹⁾				
	For the Comparison Period		For the Comparison Period		
	December 31,		December 31,		
	2014	2013	2013	2012	
Same Community Properties:					
Midwest	95.5	% 95.8	% 95.8	% 96.6	%
Mid-Atlantic	95.8	% 95.2	% 95.1	% 95.5	%
Southeast	96.5	% 95.9	% 96.0	% 96.0	%
Southwest	95.4	% 95.7	% 96.1	% 95.4	%
Total Same Community	95.7	% 95.6	% 95.6	% 96.1	%
Acquired Properties	92.3	% 93.7	% 94.5	% 94.2	%
Development ⁽²⁾	93.6	% N/A	N/A	N/A	
Total	95.2	% 95.3	% 95.3	% 95.9	%

(1) Average occupancy is defined as the average number of units occupied during the period divided by total number of units.

(2) The years ended 2014 and 2013 reflect a 99-unit expansion in Dallas, Texas that was completed in 2013.

	Monthly Property Revenue Per Occupied Unit			
	For the Comparison Period		For the Comparison Period	
	December 31,		December 31,	
	2014	2013	2013	2012
Same Community Properties:				
Midwest	\$1,056	\$1,029	\$1,029	\$976
Mid-Atlantic	\$1,469	\$1,457	\$1,545	\$1,512
Southeast	\$1,402	\$1,340	\$1,339	\$1,298
Southwest	\$1,191	\$1,145	\$1,057	\$1,015
Total Same Community	\$1,221	\$1,193	\$1,191	\$1,145
Acquired Properties	\$1,601	\$1,618	\$1,415	\$1,170
Development ⁽¹⁾	\$1,402	N/A	N/A	N/A
Total	\$1,266	\$1,234	\$1,234	\$1,148

(1) The years ended 2014 and 2013 reflect a 99-unit expansion in Dallas, Texas that was completed in 2013.

Property revenue increased in 2014 compared to 2013 primarily as a result of an increase of \$19.2 million contributed by the Acquired and Development properties. Property revenue for the Same Community properties increased \$3.8 million primarily due to increased rental revenue as a result of an increase in overall monthly property revenue per occupied unit (net rents less vacancies). Property revenue from sold properties decreased \$11.6 million. All regions produced improved property revenue with the largest improvement coming from the Midwest portfolio. Property revenue increased in 2013 compared to 2012 primarily as a result of an increase of \$17.5 million contributed by the Acquired and Development properties. Property revenue for 2013 compared to 2012 for the Same Community properties increased \$5.0 million primarily due to increased rental revenue as a result of an increase in overall monthly property revenue per occupied unit.

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Property Operating and Maintenance Expenses. Property operating and maintenance expenses increased \$5.1 million when comparing 2014 to 2013. This increase was primarily due to property operating and maintenance expenses for the Acquired and Development and Same Community properties increasing \$7.9 million and \$700,000, respectively, offset by the \$3.5 million of operating expenses relating to the properties sold in 2014 when comparing these periods. Property operating and maintenance expenses increased \$7.3 million when comparing 2013 to 2012. This increase was primarily due to property operating and maintenance expenses for the Acquired and Development properties increasing \$6.9 million and the Same Community properties increasing \$400,000 when comparing these periods.

Depreciation and Amortization. Depreciation and amortization increased \$5.5 million when comparing 2014 to 2013. This increase was primarily due to an increase of approximately \$9.6 million in depreciation due to the Acquired and Development properties and an increase of \$1.9 million in amortization of intangible assets recorded in connection with the Acquired properties. This was partially offset by a \$2.5 million reduction in amortization of intangibles for the Same Community properties as well as a \$3.5 million reduction in depreciation related to sold properties.

Depreciation and amortization increased \$8.1 million when comparing 2013 to 2012. This increase was primarily due to an increase of approximately \$7.7 million in depreciation due to the Acquired and Development properties and an increase of \$1.5 million in amortization of intangible assets recorded in connection with the properties acquired during 2013.

General and Administrative Expenses. General and administrative expenses decreased \$750,000 when comparing 2014 to 2013. This decrease was primarily due to decreases in payroll expense, the majority of which related to lower long-term incentive compensation and bonus expense in the current year. These decreases were partially offset by expenses of \$310,000 related to shareholder activism, an increase of \$180,000 in our audit fees as well as an increase of \$200,000 in legal costs in 2014 associated with litigation related to the master lease holder at our commercial building in Los Angeles, California. See "Legal Proceedings" presented in Part I, Item 3 of this report on Form 10-K for additional information about this litigation. General and administrative expenses increased \$2.5 million when comparing 2013 to 2012. This increase was primarily due to increases in payroll resulting from the overlap in 2013 of the final year of the 2010 multi-year component of our long-term incentive plan and the first year of the 2013 multi-year component. The 2010 multi-year component had a three-year measurement period ending December 31, 2012, plus a one-year additional service period ending December 31, 2013. The 2013 multi-year component has a three-year measurement period that began January 1, 2013 and ends December 31, 2015, plus a one-year additional service period ending December 31, 2016. Additionally, we incurred approximately \$940,000 of legal costs in 2013 associated with litigation related to the master lease holder at our commercial building in Los Angeles, California.

Interest Expense. Interest expense decreased \$3.4 million when comparing 2014 to 2013 primarily due to a reduction of mortgage interest expense resulting from the payoff of five mortgages during 2013 and four mortgages during 2014, and an increase of capitalized interest during 2014. Partially offsetting these decreases was an increase in interest expense related to the unsecured notes issued during 2013.

Gain on Disposition of Properties and Income from Discontinued Operations. Income from discontinued operations decreased when comparing 2014 to 2013 due to an accounting standard update that no longer requires the disposition of certain assets to be considered discontinued operations, therefore allowing the operating results as well as the gain or loss on sale their disposition generates to be considered part of income or loss from continuing operations. The corresponding increase of \$133.3 million in gain on disposition of properties in 2014, reflects the gain from the sale of five properties during the year ended December 31, 2014, while the \$52.8 million of income from discontinued operations in the year ended December 31, 2013, reflects the operating results as well as the recognized gains for four properties sold in 2013. For further details on this accounting standard update see Note 2 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

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Inflation. We believe the effects of inflation only minimally impact our operational performance because our leases are mostly for 12 month terms, which allow us the opportunity to increase our new lease and lease renewal rents to account for inflationary price increases. We are careful to account for inflationary factors that may impact our development projects. However, there can be no assurance that inflation will not result in development costs exceeding original estimates in future periods. See Item 1A, "Risk Factors."

Critical Accounting Estimates

Our consolidated financial statements include accounts of all subsidiaries, our taxable REIT subsidiary and a partnership in which we are a 98.1% partner that owns our development property in Bethesda, Maryland. The preparation of the consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the consolidated financial statements and related notes. In preparing these consolidated financial statements, we have utilized available information, including industry practice and our own past history, in forming estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible the ultimate outcome we anticipated in formulating the estimates inherent in these consolidated financial statements may not materialize. As a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates that may impact comparability of our results of operations to those of other companies in similar businesses.

We have identified four accounting policies subject to critical estimates. These critical accounting policies are those that have the most impact on the reporting of our financial condition and those requiring significant judgments and estimates. With respect to these critical accounting policies, management believes the application of judgments and estimates is consistently applied and produces financial information that fairly presents the results of operations for all periods presented. The four critical accounting policies are:

Variable Interest Entities. We may enter into various joint venture agreements with unrelated third-parties to hold or develop real estate assets. We assess each entity in which we have an investment or contractual relationship to determine if it may be deemed to be a variable interest entity ("VIE"). If such an entity is a VIE, we then perform an analysis to determine who is the primary beneficiary. If we determine that we are the primary beneficiary, the entity is consolidated. If we determine that we are not the primary beneficiary, we will then determine whether we need to account for the investment under the equity or cost basis of accounting. We evaluate our accounting for investments on a quarterly basis or when a reconsideration event with respect to our investments occurs. The analysis required to identify VIEs and primary beneficiaries is complex and judgmental, and the analysis must be applied to various types of entities and legal structures.

Impairment of Long-Lived Assets, Development and Investments in Unconsolidated Entities. Our held for investment real estate assets are assessed for impairment if current events or circumstances, such as significant adverse changes in general market conditions, decreases in property net operating income, or reductions in expected future cash flows, indicate that the carrying value (cost less accumulated depreciation) may not be recoverable. Factors we consider in evaluating impairment of real estate assets held for investment include estimated future growth rates, capitalization rates, occupancy assumptions, current expectations regarding the holding period for the individual assets, and external data to the extent available. Our development properties are assessed for impairment as well, in which we consider the projected future cash flows from the development properties' planned use upon project completion in relation to their current carrying value plus the cost to complete. Our investments in unconsolidated entities are assessed for other than temporary impairment, in which we consider the fair value of the investment in relation to its current carrying value. Should the estimates used change, impairment may result, which could materially impact our results of operations.

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Share Based Compensation. We estimate the fair value of share-based compensation awarded. We use the Black-Scholes option-pricing model to estimate the fair value of the stock options, and the Monte Carlo method to estimate the fair value of restricted share awards in which the number of shares that will ultimately vest are subject to market conditions. The use of judgment and/or estimates is required in determining certain of the assumptions used by these valuation models, such as volatility of share prices and forfeitures of awards. If we had used different judgment and/or estimates, different valuations would have been produced that may have resulted in a material change to our results of operations. We also estimate future performance results related to certain share-based awards. If the results vary from our estimate, it may require us to make a material adjustment to our results of operations.

Acquisitions of Investment Properties. We allocate the purchase price of properties to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values. In making estimates of fair values for purposes of allocating purchase price, we utilize a number of sources, including analysis provided by an advisor, independent appraisals that may be obtained in connection with the acquisition or financing of the applicable property, our own analysis of recently acquired and existing comparable properties in our portfolio and other market data. We amortize intangible assets associated with multifamily acquisitions, consisting primarily of existing leases, over the remaining life of the lease which is approximately 6 to 12 months, and had we determined different estimates it could have resulted in the recognition of different expense amounts.

CONTINGENCIES

Environmental. We have reviewed tangible long-lived assets and other agreements for associated asset retirement obligations ("AROs") and have determined that we do not have any material AROs that would require recognition as a liability or disclosure in our financial statements at December 31, 2014. Phase I environmental audits were obtained at the time of our initial public offering in 1993, or property acquisition and/or property refinancing, as applicable, on all of our owned properties.

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

Pending Litigation. While there can be no assurance, we are not aware of any pending or threatened litigation which is likely to result in a material adverse liability. For a discussion of pending litigation, see "Legal Proceedings" presented in Part I, Item 3 and Note 9 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Based on our variable rate debt outstanding at December 31, 2014 and 2013, an interest rate change of 100 basis points would impact interest expense by approximately \$1.5 million and \$1.7 million on an annual basis, respectively. Additionally, we have interest rate risk associated with fixed rate debt at maturity. We have managed, and will continue to manage, interest rate risk as follows: (i) maintain what we believe to be a prudent ratio of fixed rate, long-term debt to total debt, such that variable rate exposure is kept at an acceptable level; (ii) consider hedges for certain long-term variable and/or fixed rate debt through the use of interest rate swaps or interest rate caps; and (iii) consider the use of treasury locks where appropriate to hedge rates on anticipated debt transactions. We use various financial models and advisors to assist us in analyzing opportunities to achieve those objectives. For additional information relating to interest rate hedge agreements, see "Derivative Instruments and Hedging Activities" in Note 11 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K. The table below provides information about our financial instruments that are sensitive to change in interest rates. For debt obligations, the table below presents principal cash flows and related weighted average interest rates based on expected maturity dates.

(Dollar

amounts in December 31, 2014

December 31, 2013

thousands)

	2015	2016	2017	2018	2019	Thereafter	Total	Fair Market Value	Total	Fair Market Value
Long Term Debt										
Fixed:										
Fixed rate mortgage debt ⁽¹⁾	\$ 19,560	\$ 40,099	\$ —	\$ 47,591	\$ 11,711	\$ 103,582	\$ 222,543	\$ 235,108	\$ 269,216	\$ 276,774
Unsecured notes	—	—	—	—	—	250,000	250,000	256,563	250,000	240,897
Weighted average interest rate	4.6	% 6.2	% —	% 4.6	% 5.3	% 4.4	% 4.6	%		
Variable Swapped to Fixed:										
Unsecured term loan ⁽²⁾	—	—	—	—	—	125,000	125,000	131,518	125,000	130,716
Variable: Variable rate mortgage debt ⁽³⁾	—	48,679	—	—	—	—	48,679	48,620	8,100	8,112
Variable rate unsecured term loan ⁽⁴⁾	—	—	—	—	—	25,000	25,000	24,970	25,000	25,064

LIBOR based revolving credit facility ⁽⁵⁾	—	—	76,500	—	—	—	76,500	76,507	133,500	133,345
Total variable rate debt	—	48,679	76,500	—	—	25,000	150,179	150,097	166,600	166,521
Total long term debt	\$19,560	\$88,778	\$76,500	\$47,591	\$11,711	\$503,582	\$747,722	\$773,286	\$810,816	\$814,908

The fixed rate mortgage debt is not inclusive of \$1.4 million and \$2.2 million of net unamortized premium at (1) December 31, 2014 and December 31, 2013, respectively, relating to the fair value of debt assumed in the acquisition of two operating properties with debt coming due in 2016 and 2019.

The Company entered into a forward starting interest rate swap in December 2011 fixing the rate beginning in June 2013 until June 2016 at a rate of 1.26% per annum plus the credit spread, which was 1.40% per annum at December 31, 2014, or an all-in rate of 2.66% per annum. Additionally, the Company entered into a forward starting interest rate swap in April 2013 fixing the rate beginning June 2016 at a rate of 1.55% per annum plus the credit spread, which was 1.40% per annum at December 31, 2014, or an all-in rate of 2.95% per annum until (2) January 2018. Furthermore, the Company entered into a forward starting interest rate swap in January 2015 fixing the rate beginning January 2018 at a rate of 1.75% per annum plus the credit spread, which was 1.40% per annum at December 31, 2014, or an all-in rate of 3.15% per annum until the loan matures in January 2020.

(3) Our variable rate mortgage debt had a weighted average interest rate of 1.50% per annum at December 31, 2014.

Our unsecured term loan had a weighted average interest rate of 1.57% per annum at December 31, 2014. The (4) Company entered into a forward starting interest rate swap in January 2015 fixing the rate beginning January 2016 at a rate of 1.42% per annum plus the credit spread, which was 1.40% per annum at December 31, 2014, or an all-in rate of 2.82% per annum until the loan matures in January 2020.

(5) Our unsecured revolving credit facility had a weighted average interest rate of 1.47% per annum at December 31, 2014.

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Item 8. Consolidated Financial Statements and Supplementary Data

Please see Part IV, Item 15 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. We evaluated the design and operation of our disclosure controls and procedures to determine whether they are effective in ensuring the disclosure of required information is made timely in accordance with the Securities Exchange Act of 1934 ("Exchange Act") and the rules and forms of the SEC. This evaluation was made under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as of the end of the period covered by this annual report on Form 10-K. The CEO and CFO have concluded, based on their review, that our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of period covered by this annual report on Form 10-K, were effective to ensure that information required to be disclosed in reports that we file under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding disclosure.

Management's Report on Internal Control Over Financial Reporting. We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f). We assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control - Integrated Framework (2013)." Based on that assessment and those criteria, we concluded that our internal control over financial reporting was effective as of December 31, 2014. Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has issued an audit report on the effectiveness of our internal control over financial reporting, which is included in the "Report of Independent Registered Public Accounting Firm" in Part II, Item 8 of this report on Form 10-K.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting during the fourth quarter of 2014 that materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

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

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information regarding our Directors, including information regarding our Audit Committee's financial expert, contained in the Notice of Annual Meeting and Proxy Statement for the 2015 Annual Meeting of Shareholders, (the "2015 Proxy Statement") is incorporated by reference in this report on Form 10-K. Such information will be filed with the SEC no later than April 30, 2015.

We have adopted a Code of Ethics for Senior Financial Officers that applies to our Chief Executive Officer and Chief Financial Officer. The Code of Ethics is posted on our website, AssociatedEstates.com. Any future amendments to, or waivers from, the Code of Ethics that apply to these individuals will be posted on the website. More information concerning our Code of Ethics for Senior Financial Officers, as well as other Corporate Governance Matters, will be included in the 2015 Proxy Statement and is incorporated by reference in this report on Form 10-K.

Information required by this item regarding our executive officers is included in Part I of this Report in the section entitled "Executive Officers."

Item 11. Executive Compensation

The information on Executive Compensation contained in the 2015 Proxy Statement is incorporated by reference in this report on Form 10-K. Such information will be filed with the SEC no later than April 30, 2015.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

On May 4, 2011, our shareholders approved the Associated Estates Realty Corporation 2011 Equity-Based Award Plan (the "2011 Plan"). The 2011 Plan provides for the grant to our officers, other employees and directors of options to purchase our common shares, rights to receive the appreciation in value of common shares, awards of common shares subject to vesting and restrictions on transfer, awards of common shares issuable in the future upon satisfaction of certain conditions and other awards based on common shares. On February 25, 2014, the Board adopted The Associated Estates Realty Corporation Amended and Restated 2011 Equity-Based Award Plan (the "Restated Equity Plan") to increase the number of Shares reserved and available under the 2011 Plan. The details of the Restated Equity Plan are consistent with the 2011 Plan, except to increase the shares available for future Awards by 2,700,000 shares, and increase the individual annual Award limit of Stock Options and Share Appreciation Rights to 500,000. Our 2001 and 2008 equity-based compensation plans were discontinued in May 2011 in conjunction with the shareholder approval of our 2011 Plan. For more information regarding all of our plans, see Note 17 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

The following table summarizes information about our common shares that may be issued upon exercise of options outstanding and the total number of securities available for future issuance under all of the existing compensation plans as of December 31, 2014:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	360,376	\$11.29	3,221,120
Equity compensation plans not approved by security holders	—	\$—	—
	360,376		3,221,120

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Share amounts in the above table do not include shares that may be issued to members of our Board of Directors who elect to defer cash compensation under the Directors' Deferred Compensation Plan. See Note 18 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Additionally, the information on Security Ownership of Certain Beneficial Owners and Management contained in the 2015 Proxy Statement is incorporated by reference in this report on Form 10-K.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information on Certain Relationships and Related Transactions contained in the 2015 Proxy Statement is incorporated by reference in this report on Form 10-K. Such information will be filed with the SEC no later than April 30, 2015.

Additionally, the information on Security Ownership of Certain Beneficial Owners and Management contained in the 2015 Proxy Statement is incorporated by reference in this report on Form 10-K.

Item 14. Principal Accountant Fees and Services

The information on Principal Accountant Fees and Services contained in the 2015 Proxy Statement is incorporated by reference in this report on Form 10-K.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets at December 31, 2014 and 2013.

Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2014, 2013 and 2012.

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012.

Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012.

Notes to Consolidated Financial Statements.

- Financial Statement Schedules: The following financial statement schedules of Associated Estates Realty Corporation are filed as part of this report and should be read in conjunction with the Consolidated Financial Statements of Associated Estates Realty Corporation.
- 2.

Schedules	Page
II Valuation and Qualifying Accounts	<u>F-45</u>
III Real Estate and Accumulated Depreciation	<u>F-46</u>

Schedules not listed above have been omitted because they are not applicable or not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits: The Exhibits listed on the accompanying Index to Exhibits are filed as part of, or incorporated by reference into, this report.

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POWER OF ATTORNEY

KNOW ALL MEN/WOMEN BY THESE PRESENTS, that each person whose signature appears below, hereby constitutes and appoints Jeffrey I. Friedman and Lou Fatica, or either of them, his attorneys-in-fact and agents, with full power of substitution and resubstitution for him in any and all capacities, to do all acts and things which said attorneys and agents, or either of them, deem advisable to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any requirements or regulations of the Securities and Exchange Commission in respect thereof, in connection with the Company's filing of an annual report on Form 10-K for the Company's fiscal year 2014, including specifically, but without limitation of the general authority hereby granted, the power and authority to sign his name as a director of the Company, as indicated below opposite his signature, to the Form 10-K, and any amendment thereto; and each of the undersigned does hereby fully ratify and confirm all that said attorneys and agents, or either of them, or the substitute of either of them, shall do or cause to be done by virtue hereof.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 18th day of February, 2015.

ASSOCIATED ESTATES REALTY CORPORATION

By: /s/ Jeffrey I. Friedman
 Jeffrey I. Friedman, Chairman of the Board and Chief
 Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 18th day of February, 2015.

Signature	Title	Date
/s/ Jeffrey I. Friedman Jeffrey I. Friedman	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 18, 2015
/s/ Lou Fatica Lou Fatica	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 18, 2015
/s/ Albert T. Adams Albert T. Adams	Director	February 18, 2015
/s/ Douglas Crocker II Douglas Crocker	Director	February 18, 2015
/s/ Michael E. Gibbons Michael E. Gibbons	Director	February 18, 2015
/s/ James J. Sanfilippo James J. Sanfilippo	Director	February 18, 2015
/s/ James A. Schoff James A. Schoff	Director	February 18, 2015
/s/ Richard T. Schwarz Richard T. Schwarz	Director	February 18, 2015

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INDEX TO EXHIBITS

Number	Title	Filed herewith or incorporated herein by reference
1.1	Equity Distribution Agreement between Associated Estates Realty Corporation and Barclays Capital Inc.	Exhibit 1.1 to Form 8-K filed April 12, 2013.
1.2	Equity Distribution Agreement between Associated Estates Realty Corporation and Citigroup Global Markets Inc.	Exhibit 1.2 to Form 8-K filed April 12, 2013.
1.3	Equity Distribution Agreement between Associated Estates Realty Corporation and Jefferies LLC.	Exhibit 1.3 to Form 8-K filed April 12, 2013.
1.4	Equity Distribution Agreement between Associated Estates Realty Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated.	Exhibit 1.4 to Form 8-K filed April 12, 2013.
1.5	Equity Distribution Agreement between Associated Estates Realty Corporation and Raymond James & Associates, Inc.	Exhibit 1.5 to Form 8-K filed April 12, 2013.
2.1	Purchase and Sale Agreement dated September 12, 2013 between Associated Estates Realty Corporation and Northwood Ravin, LLC.	Exhibit 2.1 to Form 8-K filed September 26, 2013.
2.2	Second Amendment to Agreement of Purchase and Sale Agreement dated September 20, 2013 between Associated Estates Realty Corporation and Northwood Ravin, LLC.	Exhibit 2.2 to Form 8-K filed September 26, 2013.
3.1	Second Amended and Restated Articles of Incorporation, as amended.	Exhibit 3.1 to Form 10-Q filed August 3, 2010.
3.2	Amended and Restated Code of Regulations of the Company.	Exhibit 3.3 to Form 10-Q filed August 1, 2006.
4.1	Specimen Common Share Certificate.	Exhibit 4.1 to Form 10-Q filed November 3, 2009.
4.2	Amended and Restated Shareholders Rights Agreement dated December 30, 2008.	Exhibit 4.1 to Form 8-K filed December 30, 2008.
4.3	Note Purchase Agreement dated January 22, 2013 between Associated Estates Realty Corporation and the purchasers of the Notes party thereto (including the forms of 4.02% Senior Notes, Series A, due January 22, 2021 and 4.45% Senior Notes, Series B, due January 22, 2023).	Exhibit 4.1 to Form 8-K filed January 25, 2013.
4.4	Second Amendment to Second Amended and Restated Credit Agreement dated June 19, 2013 between Associated Estates Realty Corporation and	Exhibit 4.1 to Form 8-K filed June 19, 2013.

PNC Bank, National Association and the several lenders, financial institutions and other entities who are parties thereto.

- 4.5 Note Purchase Agreement dated October 21, 2013 between Associated Estates Realty Corporation and the purchasers of the Notes party thereto (including the forms of 4.29% Senior Notes, Series A, due October 21, 2020 and 4.94% Senior Notes, Series B, due January 8, 2024). Exhibit 4.1 to Form 8-K filed October 25, 2013.

- 4.6 Second Amended and Restated Credit Agreement Dated January 12, 2012 among the Company, as Borrower and PNC Bank, National Association as Administrative Agent and PNC Capital Markets, LLC, as Co-Lead Arranger and Book Manager and Wells Fargo Bank, N.A., as Syndication Agent and Wells Fargo Securities, LLC, as Co-Lead Arranger and Bank of America, N.A., as Co-Documentation Agent and CitiBank, N.A., as Co-Documentation Agent and RBS Citizens Bank, N.A., as Co-Documentation Agent and the several Lenders party thereto. Exhibit 4.1 to Form 8-K filed January 17, 2012.

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Number	Title	Filed herewith or incorporated herein by reference
4.7	First Amendment to Second Amended and Restated Credit Agreement dated October 19, 2012 between Associated Estates Realty Corporation and PNC Bank, National Association and the several banks, financial institutions and other entities.	Exhibit 4.2 to Form 8-K filed October 24, 2012.
4.8	Amended and Restated Term Loan Agreement dated as of July 25, 2014, among Associated Estates Realty Corporation and PNC Bank, National Association and other entities who are parties thereto.	Exhibit 4.1 to Form 8-K filed July 31, 2014.
4.9	Third Amendment to Second Amended and Restated Credit Agreement dated as of July 25, 2014, among Associated Estates Realty Corporation and PNC Bank, National Association and other entities who are parties thereto.	Exhibit 4.2 to Form 8-K filed July 31, 2014.
	Certain of the Company's assets are subject to mortgage obligations each of which individually relates to indebtedness totaling less than 10.0% of the total assets of the Registrant. The Registrant hereby agrees to furnish a copy of such agreements to the Commission upon its request.	
10.1	Second Amended and Restated Employment Agreement between Associated Estates Realty Corporation and Jeffrey I. Friedman.	Exhibit 10.1 to Form 8-K filed January 2, 2013.
10.2	Associated Estates Realty Corporation 2011 Equity-Based Award Plan.	Exhibit 10.1 to Form 8-K filed May 4, 2011.
10.3	Associated Estates Realty Corporation Amended and Restated 2011 Equity-Based Award Plan.	Appendix A to Proxy Statement on Schedule 14A filed March 28, 2014.
10.4	Notice of Voluntary Surrender of Vested Stock Options.	Filed herewith.
10.5	Form of Equity Award Agreement.	Exhibit 10.11 to Form 10-Q filed August 2, 2005.
10.6	Form of Indemnification Agreement.	Exhibit 4.2 to Form S-11 filed September 2, 1993 (File No. 33-68276 as amended).
10.7	Amended 2008 Equity-Based Award Plan.	Exhibit 10.1 to Form 8-K filed May 13, 2008.
10.8	Amendment to Associated Estates Realty Corporation 2008 Equity-Based Award Plan.	Exhibit 10.7 to Form 10-K filed February 25, 2009.

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10.9	Associated Estates Realty Corporation Supplemental Executive Retirement Plan (Restated).	Exhibit 10.7b to Form 10-K filed February 25, 2009.
10.10	Long Term Incentive Compensation Plan.	Exhibit 10.12 to Form 10-Q filed November 1, 2005.
10.11	Associated Estates Realty Corporation Directors' Deferred Compensation Plan.	Exhibit 10 to Form 10-K filed February 25, 2010.
10.12	Associated Estates Realty Corporation Elective Deferred Compensation Plan.	Exhibit 10.13 to Form 10-Q filed July 31, 2007.
21.1	List of Subsidiaries.	Filed herewith.
23.1	Consent of PricewaterhouseCoopers LLP.	Filed herewith.
24	Power of Attorney.	See the signature page to this report.

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Number	Title	Filed herewith or incorporated herein by reference
31	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act.	Filed herewith.
31.1	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act.	Filed herewith.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act.	Filed herewith.
101	XRBL (eXtensible Business Reporting Language). The following materials from Associated Estates Realty Corporation's Annual Report on Form 10-K for the year ended December 31, 2014, tagged in XBRL: (i) consolidated balance sheets, (ii) consolidated statements of operations and other comprehensive income, (iii) consolidated statements of cash flows, (v) notes to consolidated financial statements.	

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ASSOCIATED ESTATES REALTY CORPORATION

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Associated Estates Realty Corporation and its subsidiaries (the "Company") at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company adopted accounting standards update ("ASU") No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which changed the criteria for reporting discontinued operations in 2014.

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

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

/s/PricewaterhouseCoopers LLP
Cleveland, Ohio
February 18, 2015

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IndexASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
(In thousands, except share and per share amounts)		
ASSETS		
Real estate assets		
Land	\$261,777	\$298,441
Buildings and improvements	1,346,870	1,370,560
Furniture and fixtures	41,609	39,725
Construction in progress	73,581	42,793
Gross real estate	1,723,837	1,751,519
Less: accumulated depreciation	(397,210	) (386,841
Net real estate owned	1,326,627	1,364,678
Investment in unconsolidated entities	54,800	9,321
Total net real estate	1,381,427	1,373,999
Cash and cash equivalents	4,692	4,586
Restricted cash	46,361	3,465
Accounts receivable, net		
Rents	1,093	1,230
Other	2,977	1,258
Other assets, net	29,147	37,959
Total assets	\$1,465,697	\$1,422,497
LIABILITIES AND EQUITY		
Mortgage notes payable	\$272,613	\$279,474
Unsecured notes	250,000	250,000
Unsecured revolving credit facility	76,500	133,500
Unsecured term loan	150,000	150,000
Total debt	749,113	812,974
Accounts payable and other liabilities	47,070	42,882
Dividends payable	12,886	12,178
Resident security deposits	3,860	4,112
Accrued interest	5,192	5,551
Total liabilities	818,121	877,697
Equity		
Common shares, without par value, \$.10 stated value; 91,000,000 authorized; 57,708,675 issued and 57,649,609 outstanding at December 31, 2014 and 57,595,479 issued and 57,476,192 outstanding at December 31, 2013, respectively	5,771	5,760
Paid-in capital	758,079	754,582
Accumulated distributions in excess of accumulated net income	(114,551	) (213,275
Accumulated other comprehensive loss	(1,093	) (702
Less: Treasury shares, at cost, 56,066 and 119,287 shares at December 31, 2014 and December 31, 2013, respectively	(980	) (1,915
Total shareholders' equity attributable to AERC	647,226	544,450
Noncontrolling interest	350	350
Total equity	647,576	544,800

Total liabilities and equity	\$1,465,697	\$1,422,497
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The accompanying notes are an integral part of these consolidated financial statements.

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ASSOCIATED ESTATES REALTY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)	Year Ended December 31,		
	2014	2013	2012
REVENUE			
Property revenue	\$ 191,306	\$ 179,982	\$ 157,507
Office revenue	1,883	1,497	1,046
Property management and construction services revenue	891	—	—
Total revenue	194,080	181,479	158,553
EXPENSES			
Property operating and maintenance	73,001	67,879	60,628
Depreciation and amortization	63,557	58,053	49,938
General and administrative	18,729	19,481	16,995
Development costs	779	912	864
Construction services	396	—	176
Costs associated with acquisitions	185	524	798
Total expenses	156,647	146,849	129,399
Operating income	37,433	34,630	29,154
Interest expense	(25,976)	(29,342)	(29,273)
Gain on disposition of properties	133,254	—	—
Income (loss) from continuing operations	144,711	5,288	(119)
Income from discontinued operations:			
Operating income, net of interest expense	—	3,179	3,881
Gain on disposition of properties	—	52,828	26,849
Income from discontinued operations	—	56,007	30,730
Net income	144,711	61,295	30,611
Net income attributable to noncontrolling interests	—	(45)	(19)
Net income attributable to AERC	144,711	61,250	30,592
Allocation to participating securities	(473)	(228)	—
Net income applicable to common shares	\$ 144,238	\$ 61,022	\$ 30,592
Earnings per common share - basic:			
Income from continuing operations applicable to common shares	\$ 2.51	\$ 0.10	\$—
Income from discontinued operations	—	1.08	0.66
Net income applicable to common shares - basic	\$ 2.51	\$ 1.18	\$ 0.66
Earnings per common share - diluted:			
Income from continuing operations applicable to common shares	\$ 2.49	\$ 0.10	\$—
Income from discontinued operations	—	1.07	0.66
Net income applicable to common shares - diluted	\$ 2.49	\$ 1.17	\$ 0.66
Comprehensive income:			
Net income	\$ 144,711	\$ 61,295	\$ 30,611
Other comprehensive income:			
Change in fair value and reclassification of hedge instruments	(391)	2,232	(2,529)
Total comprehensive income	144,320	63,527	28,082
Comprehensive income attributable to noncontrolling interests	—	(45)	(19)
Total comprehensive income attributable to AERC	\$ 144,320	\$ 63,482	\$ 28,063

Weighted average shares outstanding - basic	57,478	51,622	46,063
Weighted average shares outstanding - diluted	57,975	52,184	46,063

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

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IndexASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except share amounts)	Common Shares		Paid-in Capital	Accumulated	Accumulated	Treasury Shares	Noncontrolling Interest	Total
	Shares	Amount		Distributions in Excess of Accumulated	Other Comprehensive Loss			
	Outstanding			Net Income	Loss	(at Cost)		
Balance, December 31, 2011	42,330,899	\$4,657	\$583,172	\$ (228,545)	\$ (405)	\$(50,086)	\$ 1,029	\$309,822
Net income attributable to AERC	—	—	—	30,592	—	—	—	30,592
Other comprehensive income:								
Change in fair value of hedge instruments	—	—	—	—	(2,529)	—	—	(2,529)
Noncontrolling interest cash contribution	—	—	—	—	—	—	350	350
Net (loss) income from noncontrolling interest	—	—	—	—	—	—	—	—