ASSOCIATED ESTATES REALTY CORP
Form 10-Q
November 02, 2010

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

Form 10-Q

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

For the quarterly period ended September 30, 2010

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	**34-1747603**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

1 AEC Parkway, Richmond Hts., Ohio 44143-1467
(Address of principal executive offices)

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

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

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 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 [x] Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

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

The number of shares outstanding as of October 26, 2010 was 41,368,595 shares.

ASSOCIATED ESTATES REALTY CORPORATION

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PART 1. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands, except share amounts)	September 30, 2010	December 31, 2009
ASSETS		
Real estate assets		
Land	$ 149,048	$ 107,815
Buildings and improvements	917,924	798,321
Furniture and fixtures	32,342	29,710
Construction in progress	476	4,797
Gross real estate	1,099,790	940,643
Less: accumulated depreciation	(326,788)	(302,108)
Real estate, net	773,002	638,535
Cash and cash equivalents	3,294	3,600
Restricted cash	8,648	7,093
Accounts and notes receivable, net		
Rents	1,179	1,115
Affiliates	39	135
Other	6,883	1,910
Goodwill	1,725	1,725
Other assets, net	13,519	8,392
Total assets	$ 808,289	$ 662,505
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgage notes payable	$ 463,963	$ 487,556
Unsecured revolving credit facility	96,200	12,500
Unsecured debt	-	25,780
Total debt	560,163	525,836
Accounts payable, accrued expenses and other liabilities	28,475	27,307
Dividends payable	5,611	2,849
Resident security deposits	3,078	2,956
Accrued interest	2,298	2,288
Total liabilities	599,625	561,236
Noncontrolling redeemable interest	1,734	1,829
Shareholders' equity		
Preferred shares, without par value; 9,000,000 shares authorized; 8.70% Class B Series II cumulative redeemable, $250 per share liquidation preference, 232,000 issued and 193,050 outstanding at December 31, 2009	-	48,263
Common shares, without par value, $.10 stated value; 91,000,000 authorized, 37,370,763 issued and 32,169,761 outstanding at September 30, 2010 and 41,000,000 authorized, 22,995,763 issued and 16,675,826 outstanding at December 31, 2009	3,737	2,300
Paid-in capital	455,745	283,090
Accumulated distributions in excess of accumulated net income	(194,980)	(168,822)
Accumulated other comprehensive loss	(130)	(1,420)
Less: Treasury shares, at cost, 5,201,002 and 6,319,937 shares at September 30, 2010 and December 31, 2009, respectively	(58,482)	(63,971)
Total shareholders' equity attributable to AERC	205,890	99,440
Noncontrolling interest	1,040	-
Total equity	206,930	99,440
Total liabilities and equity	$ 808,289	$ 662,505

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

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Revenue				
Property revenue	$34,356	$32,255	$98,963	$96,217
Management and service company revenue:				
Fees, reimbursements and other	217	232	715	1,057
Construction and other services	5,717	379	8,448	730
Total revenue	40,290	32,866	108,126	98,004
Expenses				
Property operating and maintenance	14,934	13,999	43,120	41,566
Depreciation and amortization	10,126	8,502	27,716	26,297
Direct property management and service company expense	192	210	602	918
Construction and other services	5,384	465	8,685	999
General and administrative	3,560	3,831	10,957	10,136
Costs associated with acquisitions	368	-	429	-
Total expenses	34,564	27,007	91,509	79,916
Operating income	5,726	5,859	16,617	18,088
Interest income	6	6	27	41
Interest expense	(7,516)	(8,665)	(23,882)	(25,586)
(Loss) income before gain on insurance recoveries and (loss) income from discontinued operations	(1,784)	(2,800)	(7,238)	(7,457)
Gain on insurance recoveries	-	-	-	544
(Loss) income from continuing operations	(1,784)	(2,800)	(7,238)	(6,913)
Income from discontinued operations:				
Operating income	-	-	-	568
(Loss) gain on disposition of properties	-	(2)	-	15,411
(Loss) income from discontinued operations	-	(2)	-	15,979
Net (loss) income	(1,784)	(2,802)	(7,238)	9,066
Net income attributable to noncontrolling redeemable interest	(13)	(14)	(39)	(40)
Net (loss) income attributable to AERC	(1,797)	(2,816)	(7,277)	9,026
Preferred share dividends	-	(1,049)	(2,030)	(3,149)
Preferred share redemption costs	-	-	(993)	-
Allocation to participating securities	-	-	-	(457)
Net (loss) income applicable to common shares	$(1,797)	$(3,865)	$(10,300)	$5,420
Earnings per common share - basic and diluted:				
(Loss) income from continuing operations applicable to common shares	$(0.06)	$(0.23)	$(0.38)	$(0.61)

Income from discontinued operations	-	-	-	0.94
Net (loss) income applicable to common shares	$(0.06)	$(0.23)	$(0.38)	$0.33
Weighted average number of common shares				
outstanding - basic and diluted	31,906	16,539	26,846	16,500

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

ASSOCIATED ESTATES REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
(In thousands)	2010	2009
Cash flow from operations:		
Net (loss) income	$ (7,238)	$ 9,066
Adjustments to reconcile net (loss) income to net cash provided by operations:		
Depreciation and amortization (including discontinued operations)	27,716	26,771
Loss on fixed asset replacements write-off	39	16
Gain on disposition of properties	-	(15,411)
Gain on insurance recoveries	-	(544)
Amortization of deferred financing costs and other	1,003	925
Write-off of unamortized debt procurement costs	727	-
Share-based compensation	2,153	1,479
Net change in assets and liabilities:		
Accounts and notes receivable	(5,389)	1,108
Accounts payable and accrued expenses	4,666	2,038
Other operating assets and liabilities	(1,725)	(1,915)
Restricted cash	(1,351)	(656)
Total adjustments	27,839	13,811
Net cash flow provided by operations	20,601	22,877
Cash flow from investing activities:		
Recurring fixed asset additions	(6,672)	(6,240)
Revenue enhancing/non-recurring fixed asset additions	(5,716)	(3,065)
Acquisition/development fixed asset additions	(154,533)	(1,939)
Net proceeds from disposition of operating properties	-	32,714
Other investing activity	(594)	-
Net cash flow (used for) provided by investing activities	(167,515)	21,470
Cash flow from financing activities:		
Principal amortization payments on mortgage notes payable	(2,325)	(2,186)
Principal repayments of mortgage notes payable	(57,268)	(72,096)
Payment of debt procurement costs	(457)	(686)
Proceeds from mortgage notes obtained	36,000	52,450
Revolving credit facility borrowings	189,650	131,900
Revolving credit facility repayments	(105,950)	(141,400)
Principal repayments of unsecured trust preferred securities	(25,780)	-
Common share dividends paid	(11,921)	(8,452)
Preferred share dividends paid	(2,029)	(3,149)
Operating partnership distributions paid	(39)	(40)
Purchase of operating partnership units	(59)	-
Exercise of stock options	5,405	-

Issuance of common shares	169,199	-
Purchase of treasury shares	(595)	(178)
Redemption of preferred shares	(48,263)	-
Noncontrolling interest investment in partnership	1,040	-
Net cash flow provided by (used for) financing activities	146,608	(43,837)
(Decrease) increase in cash and cash equivalents	(306)	510
Cash and cash equivalents, beginning of period	3,600	3,551
Cash and cash equivalents, end of period	$ 3,294	$ 4,061
Supplemental disclosure of cash flow information:		
Dividends declared but not paid	$ 5,611	$ 2,995
Net change in accounts payable related to fixed asset additions	505	739
Reclassification of deferred directors' compensation	2,233	-

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

ASSOCIATED ESTATES REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

Business

We are a fully-integrated, self-administered and self-managed equity real estate investment trust ("REIT") specializing in multifamily ownership, operation, acquisition, development, construction, disposition, and property management activities. Our primary source of income is rental revenue. Additional income is derived primarily from construction services.

As of September 30, 2010, our operating property portfolio consisted of: (i) 50 apartment communities containing 12,976 units in seven states that are wholly owned, either directly or indirectly through subsidiaries; (ii) one apartment community that we manage for a third party owner consisting of 258 units; and (iii) and a commercial property containing approximately 145,000 square feet that we asset manage for a government sponsored pension fund. Effective November 1, 2010, we no longer manage the 258-unit apartment community or the commercial property.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and applicable rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal and recurring adjustments considered necessary for a fair statement, have been included. The reported results of operations are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the audited financial statements and accompanying notes in our Annual Report on Form 10-K for the year ended December 31, 2009. We have evaluated all subsequent events through November 2, 2010, which is the date the financial statements were issued.

Segment Reporting

All of our owned properties are multifamily communities that have similar economic characteristics. Management evaluates the performance of our properties on an individual basis. Our multifamily properties provided approximately 91.5% of our consolidated revenue for the nine months ended September 30, 2010; we have only one reportable segment, which is multifamily properties.

Share-Based Compensation

During the three and nine months ended September 30, 2010, we recognized total share-based compensation cost of $654,000 and $2.2 million, respectively, in "General and administrative expense" in the Consolidated Statements of Operations. During the three and nine months ended September 30, 2009, we recognized total share based compensation cost of $432,000 and $1.5 million, respectively, in "General and administrative expense."

Stock Options. During the nine months ended September 30, 2010, there were no stock options awarded and 613,724 options exercised. During the nine months ended September 30, 2009, there were 58,000 stock options awarded and no stock options were exercised. We use the Black-Scholes option pricing model to estimate the fair value of share-based awards. The weighted average Black-Scholes assumptions and fair value for options awarded during the nine months ended September 30, 2010, were as follows:

Expected volatility	36.5%
Risk-free interest rate	2.0%
Expected life of options (in years)	7.2
Dividend yield	12.2%
Grant-date fair value	$ 0.44

The expected volatility was based upon the historical volatility of our weekly share closing prices over a period equal to the expected life of the options granted. The risk-free interest rate used was the yield from U.S. Treasury bonds on the date of grant with a maturity approximating the expected life of the options. The expected life of the options was derived using our historical experience for similar awards. The dividend yield was derived using our annual dividend rate as a percentage of the price of our shares on the date of grant.

Restricted Shares. The following table represents restricted share activity for the nine months ended September 30, 2010:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at beginning of period	184,339	$ 7.15
Granted	557,975	$ 7.23
Vested	146,555	$ 8.02
Forfeited	3,866	$ 8.57
Nonvested at end of period	591,893	$ 6.84

At September 30, 2010, there was $2.8 million of unrecognized compensation cost related to non-vested restricted share awards that we expect to recognize over a weighted average period of 2.1 years.

Effective January 1, 2010, our Directors' Deferred Compensation Plan will be paid with common shares instead of cash (see Note 11 for additional information regarding the Directors' Deferred Compensation Plan).

A portion of the restricted shares granted during 2010 were awards in which the number of shares that will ultimately vest are subject to satisfaction of certain market conditions, which include total shareholder return on an absolute basis and on a relative basis against a peer group consisting of other multifamily apartment companies. The total estimated grant-date fair value of these awards was $1.1 million. We used the Monte Carlo method to estimate the fair value of these awards. The Monte Carlo method, which is similar to the binomial analysis, evaluates the award for changing stock prices over the term of vesting and uses random situations that are averaged based on past stock characteristics. There were one million simulation paths used to estimate the fair value of these awards. The risk-free interest rate used was based on a yield curve derived from U.S. Treasury zero-coupon bonds on the date of grant with a maturity equal to the market condition performance periods. The expected life used was the market condition performance period. The expected volatility used for AERC was based upon the historical volatility of our daily share closing prices over a period equal to the market condition performance periods. The expected volatility used for the peer group was a 50%/50% blend of historical volatility and implied volatility. Implied volatility was calculated using each company's stock call option contracts.

The following represents the assumption ranges used in the Monte Carlo method during 2010:

Expected volatility - AERC	39.5% to 63.1%
Expected volatility - peer group	29.0% to 65.4%
Risk-free interest rate	0.1% to 1.5%
Expected life (performance period)	3 years

Derivative Instruments and Hedging Activities

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows or other types of forecasted transactions are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item relating to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. Hedge ineffectiveness is measured by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

We do not use derivatives for trading or speculative purposes. Further, we have a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, we have not sustained a material loss from these hedges.

We have utilized interest rate swaps and caps to add stability to interest expense and to manage our exposure to interest rate movements. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts if interest rates rise above a certain level in exchange for an upfront premium.

Interest Rate Hedge Activity: During 2007, we executed two interest rate swaps to hedge the cash flows of two existing variable rate loans. In January 2010, we prepaid one of these loans but we did not terminate the corresponding interest rate swap and as a result reclassified the fair value of the related interest rate swap of $777,000 from other comprehensive income to earnings during the three months ended March 31, 2010. This derivative matured in June 2010, and the change in fair value was recorded in earnings. No hedge ineffectiveness on the remaining cash flow hedge was recognized during the nine months ended September 30, 2010. Amounts reported in

"Accumulated other comprehensive loss" related to the cash flow hedge will be reclassified to "Interest expense" as interest payments are made on the related variable-rate loan. During the next twelve months, we estimate that approximately $130,000 will be reclassified from "Accumulated other comprehensive loss" as an increase to "Interest expense." The following table presents the notional amounts of the swaps as of September 30, 2010:

(Dollar amount in thousands) Interest Rate Derivative	Number of Instruments	Notional Amounts
Interest rate swaps	1	$ 21,000

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The following table presents the fair value of our derivative financial instruments as well as their classification on the Consolidated Balance Sheets (see Note 9 for additional information regarding the fair value of these derivative instruments):

Fair Value of Derivative Instruments

	Liability Derivatives			
	As of September 30, 2010		As of December 31, 2009	
(In thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Accounts payable, accrued expenses and other liabilities	$ 130	Accounts payable, accrued expenses and other liabilities	$ 1,420

The following tables present the effect of our derivative financial instruments on the Consolidated Statements of Operations (see Note 6 for additional information regarding the effect of these derivative instruments on total comprehensive income):

The Effect of Derivative Instruments on the Consolidated Statements of Operations

(In thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
Derivatives in Cash Flow Hedging Relationships	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010		Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010		Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Interest rate swaps	$ (20)	$ (59)	Interest expense	$ (187)	$ (571)	Interest expense	$ -	$ (777)

The Effect of Derivative Instruments on the Consolidated Statements of Operations

(In thousands) Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Interest rate swaps	$ (440)	$ (655)	Interest expense	$ 625	$ 1,589	Interest expense	$ -	$ -

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We have an agreement with our derivative counterparty that contains a provision where if we either default or are capable of being declared in default on any of our indebtedness, then such counterparty can declare us to be in default on our derivative obligations.

We have an agreement with a derivative counterparty that incorporates the loan covenant provisions of our indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with the loan covenant provisions would result in our being in default on any derivative instrument obligations covered by the agreement.

As of September 30, 2010, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $193,000. As of September 30, 2010, we have not posted any collateral related to these agreements. If we had breached any of these provisions at September 30, 2010, we would have been required to settle our obligations under the agreements at their termination value of $193,000.

Classification of Fixed Asset Additions

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

2. ACQUISITION, DEVELOPMENT AND DISPOSITION ACTIVITY

Acquisition Activity

On September 15, 2010, we acquired The Ashborough, a 504-unit apartment community located in Ashburn, Virginia for a purchase price of approximately $90 million. We used cash on hand and borrowings on the Company's unsecured line of credit to fund the acquisition. We determined that the fair value of the property was the same as the purchase price.

On May 18, 2010, we acquired Riverside Station, a 304-unit apartment community located in Woodbridge, Virginia for a purchase price of approximately $54 million. We paid cash for this acquisition, a portion of which was funded with proceeds from our May 12, 2010 equity offering. We determined that the fair value of the property was the same as the purchase price. See Note 12 for additional information related to acquisitions.

For the acquisitions mentioned above during the three months and nine months ended September 30, 2010, we recorded property revenue of $1.7 million and $2.3 million respectively and reported net (loss) income of $(51,000) and $13,000, respectively. In connection with these acquisitions for the three and nine months ended September 30, 2010, we incurred $368,000 and $429,000 of costs, which are included in "Costs associated with acquisitions in the Consolidated Statements of Operations.

The following pro forma financial information is presented as if the 2010 acquisition had occurred at the beginning of each period presented. This information is presented for informational purposes only and is not necessarily indicative of what the Company s actual results of operations would have been had the acquisition occurred at such times:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited; in thousands, except per share data)	2010	2009	2010	2009
Pro forma revenue	$ 41,840	$ 35,995	$ 115,482	$ 107,491
Pro forma net (loss) income applicable to common shares	(1,909)	(4,144)	(12,098)	3,109
Earnings per common share - basic and diluted:				
Proforma net (loss) income applicable to common shares	$ (0.06)	$ (0.25)	$ (0.45)	$ 0.19

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The purchase price allocations for the operating properties acquired during 2010 were as follows:

(in thousands)	2010
Land	$ 33,815
Buildings and improvements	104,594
Furniture and fixtures	1,491
Existing leases and tenant relationships (Other Assets) (1)	4,950
	$ 144,850

(1)	See Note 4 for additional information related to intangible assets identified as existing leases and tenant relationships.

Development Activity

During the quarter ended June 30, 2010, we completed a 60-unit expansion of the existing 240-unit River Forest apartment community located in the Richmond, Virginia metropolitan market area. Total cost of development was approximately $6.8 million, which included $311,000 of capitalized interest. Also see discussion under Investment in Partnership in Note 5 for additional development activity.

Construction Activity

Our subsidiary, Merit Enterprises, Inc., (Merit) is engaged as a general contractor and construction manager that acts as our in-house construction division and also provides general contracting and construction management services to third parties. Merit concentrates its efforts on rehabilitation and ground-up construction projects. We account for construction contracts using the percentage-of-completion method. We compute the percentage of completion for each project as the ratio of costs incurred (excluding costs that do not represent progress as of the end of the reporting period, such as certain material purchases) to total estimated costs based on the most recent information. This percentage is applied to the revenue expected to be received by each project. Any changes in estimates are recognized in the period in which they are known on a prospective basis. We recognized $5.7 million and $8.4 million in revenue and $5.0 million and $7.5 million in expense under this method during the three and nine months ended September 30, 2010, respectively. The remaining costs included in construction and other services expenses include overhead costs, such as payroll and other fixed costs related to Merit. The total costs incurred in excess of amounts recognized as expense are included in "Other assets, net," and totaled $327,000 and $72,000 at September 30, 2010 and December 31, 2009, respectively. Accounts receivable related to construction activity are included in Other accounts and notes receivable, net and were $5.6 million at September 30, 2010 and immaterial at December 31, 2009. Funds received on uncompleted contracts in excess of revenue recognized, if any, are included in "Accounts payable, accrued expenses and other liabilities," and were immaterial at September 30, 2010 and December 31, 2009.

Disposition Activity

We report the results of operations and gain/loss related to the sale of real estate assets as discontinued operations. Real estate assets that are classified as held for sale are also reported as discontinued operations. We classify properties as held for sale when all significant contingencies surrounding the closing have been resolved. In most transactions, these contingencies are not satisfied until the actual closing of the transaction. Interest expense included in discontinued operations is limited to interest on mortgage debt specifically associated with properties sold or classified as held for sale.

"Income from discontinued operations" in the accompanying Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009, includes the operating results for the properties sold in 2009, as well as the gains recognized on properties sold during each reporting period. The following table summarizes "Income from discontinued operations:"

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2010	2009	2010	2009
REVENUE				
Property revenue	$ -	$ -	$ -	$ 2,021
EXPENSES				
Property operating and maintenance	-		- -	948
Depreciation and amortization	-		- -	474
Total expenses	-		- -	1,422
Operating income	-		- -	599
Interest expense	-		- -	(31)
(Loss) gain on disposition of properties	-	(2)	-	15,411
Income from discontinued operations	$ -	$ (2)	$ -	$ 15,979

3. DEBT

The following table identifies our total debt outstanding and weighted average interest rates:

	September 30, 2010		December 31, 2009	
(Dollar amounts in thousands)	Balance Outstanding	Weighted Average Interest Rate	Balance Outstanding	Weighted Average Interest Rate
FIXED RATE DEBT				
Mortgages payable - CMBS	$ 98,717	7.7%	$ 115,464	7.7%
Mortgages payable - other [(1)]	330,800	5.7%	337,241	5.8%
Unsecured borrowings	-	-	25,780	7.9%
Total fixed rate debt	429,517	6.2%	478,485	6.4%
VARIABLE RATE DEBT				
Mortgages payable	34,446	4.7%	34,851	4.7%
Unsecured revolving credit facility	96,200	1.8%	12,500	2.6%
Total variable rate debt	130,646	2.6%	47,351	4.1%

Total debt	$ 560,163	5.4%	$ 525,836	6.2%

(1)	Includes $21.0 million of variable rate debt swapped to fixed as of September 30, 2010 and $63.0 million of variable rate debt swapped to fixed as of December 31, 2009.

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Mortgage Notes Payable

The following table provides information on mortgage loans repaid and obtained during 2010:

(Dollar amounts in thousands)	Loans Repaid		Loans Obtained		
Property	Amount	Interest Rate	Amount	Rate	Maturity
Idlewylde	$ 42,000	5.9%	$ -	N/A	N/A
Sterling Park	2,910	7.9%	-	N/A	N/A
Kensington Grove	3,172	7.9%	-	N/A	N/A
Spring Brook	4,351	7.9%	-	N/A	N/A
Western Reserve	4,835	7.9%	-	N/A	N/A
Riverside Station	-	N/A	36,000	5.1%	September 2020
Total / weighted average rate	$ 57,268	6.4%	$ 36,000	5.1%	

During 2008, 2007 and 2006, we defeased 21 CMBS loans. These loans were defeased pursuant to the terms of the underlying loan documents. In accordance with GAAP, we removed those financial assets and the mortgage loans from our financial records. All risk of loss associated with these defeasances have been transferred from us to the successor borrower and any ongoing relationship between the successor borrower and us was deemed inconsequential at the time of completion of the respective transfers. However, we subsequently learned that for certain defeasance transactions completed prior to June 2007, the successor borrower may be able to prepay the loans thus enabling us to receive a refund of a portion of the costs incurred in connection with the transaction. We received defeasance refunds of $553,000 and $563,000 for the nine months ended September 30, 2010 and 2009, respectively, which were included as a reduction to interest expense. It is possible that we may receive additional refunds in the future, however such amounts cannot be estimated due to the uncertainty of future payments, and we believe that any amounts we may receive would not be material to our consolidated financial position, cash flow or results of operations.

Cash paid for interest, excluding $192,000 and $66,000 of capitalized interest, was $22.6 million and $24.9 million for the nine months ended September 30, 2010 and 2009, respectively. Included in cash paid for interest are the defeasance refunds received of $553,000 and $563,000 for the nine months ended September 30, 2010 and 2009, respectively, as discussed above. Additionally excluded in the cash paid for interest is a one-time non cash charge to interest expense of $727,000 related to the redemption of the 7.92% Trust Preferred Securities for the nine months ended September 30, 2010, as discussed below.

Unsecured Debt

On June 30, 2010, we redeemed all of our 7.92% Trust Preferred Securities at a cost of $26.3 million, which included accrued and unpaid interest up to but excluding the redemption date. In connection with the issuance of those 7.92% Trust Preferred Securities in March 2005, we incurred issuance costs that were recorded as other assets and subsequently charged to interest expense each period over the life of the securities. In accordance with GAAP, we recognized the remaining balance of $727,000 of issuance costs as a one-time non cash charge to interest expense for the nine months ended September 30, 2010.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

In June 1998, we recorded goodwill in connection with the MIG Realty Advisors, Inc. merger. We have a policy of completing our annual review of goodwill during the first quarter of each year and more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. The review that was completed during the three months ended March 31, 2010, determined that goodwill was not impaired and no other events have occurred which would require that goodwill be reevaluated, as such there were no changes to the carrying value of goodwill as of September 30, 2010. In performing this analysis, we use a multiple of revenues to the range of potential alternatives and assign a probability of the various alternatives under consideration by management. Should the estimates used to determine alternatives or the probabilities of the occurrence thereof change, impairment may result which could materially impact our results of operations for the period in which it is recorded**.**

Intangible Assets

We allocate a portion of the total purchase price of a property acquisition to any intangible assets identified, such as existing leases and tenant relationships. The intangible assets are amortized over the remaining lease terms or estimated life of the tenant relationship, which is approximately 12 to 16 months. Due to the short term nature of residential leases, we believe that existing lease rates approximate market rates; therefore, no allocation is made for above/below market leases.

In connection with our property acquisition completed on May 18, 2010, as discussed in Note 2, we recorded total intangible assets in the amount of $1.4 million related to existing leases, which are being amortized over 12 months, and $300,000 related to tenant relationships, which are being amortized over 16 months.

In connection with our property acquisition completed on September 15, 2010, as discussed in Note 2, we recorded total intangible assets in the amount of $3.2 million related to existing leases and tenant relationships, which are being amortized over 12 months.

5. INVESTMENT IN PARTNERSHIP

On September 24, 2010, we entered into a partnership agreement with Bristol Development Group, an unrelated third-party for the development of Vista Germantown, a 242-unit apartment community located in downtown Nashville, Tennessee. We contributed $9.4 million to the partnership and hold a 90% equity interest. In accordance with GAAP, we have determined that this entity is not a variable interest entity and that we hold a controlling financial interest in the entity. As such, this entity is included in our consolidated financial statements. We have also determined that the noncontrolling interest in this entity meets the criterion to be classified as a component of permanent equity.

6. SHAREHOLDERS' EQUITY

The following table provides a reconciliation of activity in Shareholders' equity accounts:

(In thousands)	Nine Months Ended September 30, 2010 Common Shares (at $.10 stated value)	Paid-In Capital	Accumulated Distributions In Excess of Accumulated Net Income	Accumulated Other Comprehensive Income	Treasury Shares (at Cost)	Non Inte
Balance, December 31, 2009	$2,300	$283,090	$(168,822)	$(1,420)	$(63,971)	$-
Total comprehensive (loss) income	-	-	(7,277)	1,290	-	-
Noncontrolling interest	-	-	-	-	-	1,04
Share-based compensation	-	1,400	7	-	1,097	-
Reclassification of deferred directors' compensation	-	2,233	-	-	-	-
Purchase of common shares	-	-	-	-	(595)	-
Issuance of common shares	1,437	167,611	-	-	-	-
Option exercises from treasury shares	-	418	-	-	4,987	-
Redemption of class B cumulative redeemable preferred shares	-	993	(993)	-	-	-
Common share dividends declared	-	-	(15,865)	-	-	-
Preferred share dividends declared	-	-	(2,030)	-	-	-
Balance, September 30, 2010	$3,737	$455,745	$(194,980)	$(130)	$(58,482)	$1,

On September 24, 2010, we entered into a partnership in which we have a controlling financial interest. We have determined that the noncontrolling interest in this entity meets the criterion to be classified as a component of permanent equity. See Note 5 for additional information related to this partnership.

The following table identifies total comprehensive (loss) income:

(In thousands)	Nine Months Ended September 30, 2010	2009
Comprehensive (loss) income:		
Net (loss) income attributable to AERC	$ (7,277)	$ 9,026
Other comprehensive income:		
Change in fair value and reclassification of hedge instruments	1,290	934
Total comprehensive (loss) income	$ (5,987)	$ 9,960

7. COMMON AND PREFERRED SHARES

Common Shares

On January 15, 2010, we sold 5,175,000 of our common shares in a public offering at a price of $11.10 per share, which resulted in total net proceeds of approximately $54.9 million.

On May 12, 2010, we sold 9,200,000 common shares in a public offering at a price of $13.00 per share, which resulted in total net proceeds of approximately $114.3 million.

See Note 12 for additional information related to common shares.

Preferred Shares

On June 7, 2010, we redeemed all of our 8.70% Class B Series II Cumulative Redeemable Preferred Shares at a cost of approximately $48.3 million, plus accrued and unpaid dividends through the redemption date. In connection with the issuance of those 8.70% Class B preferred shares in December 2004, we incurred approximately $1.0 million in issuance costs and recorded such costs as a reduction to shareholders equity. In accordance with GAAP, we recognized the $1.0 million of issuance costs as a reduction in net earnings to arrive at net (loss) income applicable to common shares for the nine months ended September 30, 2010.

8. EARNINGS PER SHARE

There were approximately 750,000 and 1.4 million options to purchase common shares outstanding at September 30, 2010 and 2009, respectively. The dilutive effect of these options were not included in the calculation of diluted earnings per share for the periods presented as their inclusion would be anti-dilutive to the net loss applicable to common shares from continuing operations.

The exchange of operating partnership non-controlling interests into common shares was also not included in the computation of diluted EPS because we intend to settle these OP units in cash.

The following table presents a reconciliation of basic and diluted earnings per common share:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(In thousands)	2010	2009	2010	2009
Numerator - basic and diluted:				
(Loss) income from continuing operations	$(1,784)	$(2,800)	$(7,238)	$(6,913)
Net income attributable to noncontrolling redeemable interest	(13)	(14)	(39)	(40)
Preferred share dividends	-	(1,049)	(2,030)	(3,149)
Preferred share redemption costs	-	-	(993)	-
(Loss) income from continuing operations applicable to common shares	$(1,797)	$(3,863)	$(10,300)	$(10,102)
(Loss) income from discontinued operations	$-	$(2)	$-	$15,979
Allocation to participating securities	-	-	-	(457)
(Loss) income from discontinued operations applicable to common shares	$-	$(2)	$-	$15,522
Denominator - basic and diluted:	31,906	16,539	26,846	16,500
Net (loss) income applicable to common shares - basic and diluted:				
(Loss) income from continuing operations applicable to common shares	$(0.06)	$(0.23)	$(0.38)	$(0.61)
Income from discontinued operations	-	-	-	0.94
Net (loss) income applicable to common shares - basic and diluted	$(0.06)	$(0.23)	$(0.38)	$0.33

9. FAIR VALUE

Fair value determined in accordance with GAAP should be based on the assumptions that market participants would use when pricing certain assets or liabilities. Inputs used in determining fair value should be from the highest level available in the following hierarchy:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access;
Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity s own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the financial liabilities that we measured at fair value on a recurring basis as of September 30, 2010:

(In thousands)	Level 1	Level 2	Level 3	Total
Interest rate swaps	$ -	$ 130	$ -	$ 130

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and that of the respective counterparty in the fair value measurements. The credit valuation adjustments utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by either the respective counterparty or us. However, we determined that as of September 30, 2010, the impact of the credit valuation adjustments were not significant to the overall valuation of the swaps. See "Derivative Instruments and Hedging Activities" in Note 1 for additional information regarding the swaps.

Rents, accounts and notes receivable, other assets, accounts payable, accrued expenses and other liabilities are carried at amounts that reasonably approximate corresponding fair values.

Mortgage notes payable, revolving debt and other unsecured debt with an aggregate carrying value of $560.2 million and $525.8 million at September 30, 2010, and December 31, 2009, respectively, have an estimated aggregate fair value of $595.9 million and $520.1 million, respectively. Estimated fair value is based on interest rates available to us as of the dates reported for issuance of debt with similar terms and remaining maturities. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

10. CONTINGENCIES

Legal Proceedings

We are subject to legal proceedings, lawsuits and other claims, including proceedings by government authorities (collectively "Litigation"). Litigation is subject to uncertainties and outcomes are difficult to predict. We believe any current Litigation will not have a material adverse impact on us after final disposition. However, because of the uncertainties of Litigation, one or more lawsuits could ultimately result in a material obligation.

11. DIRECTOR COMPENSATION

Directors' Deferred Compensation Plan

Effective January 1, 2010, the Directors' Deferred Compensation Plan was modified such that all future distributions from the plan will be in the form of our common shares instead of cash, except for the scheduled distributions which were to commence on or before December 31, 2010, which will be made in cash. As a result, deferred compensation totaling $2.2 million that will be paid in shares was reclassified from "Accounts payable, accrued expenses and other liabilities" to "Paid-in Capital" in the Consolidated Balance Sheets during the nine months ended September 30, 2010. Prior to the modification the fair value of the directors' deferred compensation accounts was adjusted at the end of each reporting period based on the closing price of our common shares. However, as a result of the modification, no further adjustment to fair value will be required.

12. SUBSEQUENT EVENTS

Common Shares

On October 1, 2010, we sold 9,200,000 common shares in a public offering at a price of $13.60 per share, which resulted in total net proceeds of approximately $119.6 million.

Acquisition Activity

On October 12, 2010, we acquired San Raphael Apartments, a 222-unit apartment community located in Dallas, Texas for a purchase price of approximately $21 million. We paid cash for this acquisition, which was funded with proceeds from our October 1, 2010 equity offering.

Unsecured Revolving Credit Facility

On October 18, 2010, the Company closed on a $250.0 million senior unsecured revolving credit facility. This credit facility replaces the Company's current $150.0 million line of credit. This new facility has a three-year term with a one-year extension at the Company's option.

Dividends

On November 1, 2010, we paid a dividend of $0.17 per common share to shareholders of record on October 15, 2010, which was declared on September 13, 2010.

ITEM 2. 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 I, Item 1 of this report on Form 10-Q. 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 2010 performance which are based on certain assumptions. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements that speak only as of the date of the document. These forward-looking statements are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "expects," "projects," "believes," "plans," "anticipates" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that 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, including without limitation the following:

- 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;
- our ability to refinance debt on favorable terms at maturity;
- risks of a lessening of demand for the multifamily units that we own or manage;
- competition from other available multifamily units and changes in market rental rates;
- new acquisitions and/or development projects may fail to perform in accordance with our expectations;
- 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, unanticipated repairs and real estate tax valuation reassessments or millage rate increases;
- our inability to control operating expenses or achieve increases in revenue;
- shareholder ownership limitations that may discourage a takeover otherwise considered favorably by shareholders;
- the results of litigation filed or to be filed against us;
- changes in tax legislation;
- risks of personal injury claims and property damage related to mold claims that are not covered by our insurance;
- catastrophic property damage losses that are not covered by our insurance;
- our ability to acquire properties at prices consistent with our investment criteria;
- risks associated with property acquisitions such as failure to achieve expected results or matters not discovered in due diligence, among others;
- 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
- construction and construction business risks.

Overview.

We are engaged primarily in the ownership and operation of multifamily residential units. Our primary source of cash and revenue from operations is rents from the leasing of owned apartment units, which represented 91.5% of our consolidated revenue for the nine months ended September 30, 2010.

The operating performance of our properties is affected by general economic trends including, but not limited to, factors such as household formation, job growth, unemployment rates, population growth, immigration, the supply of new multifamily rental communities and in certain markets the supply of other housing alternatives, such as condominiums, single and multifamily rental homes and owner occupied single and multifamily homes. Additionally, our performance may be affected by access to and cost of debt and equity.

Rental revenue collections are a combination of rental rates, occupancy levels and rent concessions. We attempt to adjust these factors to adapt to changing market conditions, thus allowing us to maximize rental revenue. Indicators that we use in measuring these factors include physical occupancy and net collected rent per unit. These indicators are more fully described in the Results of Operations comparison. Additionally, we consider property Net Operating Income ("NOI") and Funds from Operations ("FFO") to be important indicators of our overall performance. Property NOI (property operating 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 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. Additionally, gains and losses from the sale of most real estate assets and certain other items are also excluded from FFO.

NOI is determined by deducting property operating and maintenance expenses from property revenue (excluding amounts classified as discontinued operations) for our properties, deducting direct property management and service company expenses from management and service company revenue for the management and service operations and deducting construction and other services expenses from construction and other services revenue. We consider NOI to be an appropriate supplemental measure of our performance because it reflects the operating performance of our real estate portfolio, management and service companies and construction services at the property, management and service company and construction services level and is used to assess regional property level performance. NOI should not be considered (i) as an alternative to net income (determined in accordance with GAAP), (ii) as an indicator of financial performance, (iii) as an alternative to cash flow from operating activities (determined in accordance with GAAP) or (iv) as a measure of liquidity; nor is it necessarily indicative of sufficient cash flow to fund all of our needs. Other real estate companies may define NOI in a different manner.

A reconciliation of NOI to total consolidated net (loss) income attributable to AERC is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2010	2009	2010	2009
Property NOI	$ 19,422	$ 18,256	$ 55,843	$ 54,651
Service company NOI	25	22	113	139
Construction and other services NOI	333	(86)	(237)	(269)
Depreciation and amortization	(10,126)	(8,502)	(27,716)	(26,297)
General and administrative expense	(3,560)	(3,831)	(10,957)	(10,136)
Costs associated with acquisitions	(368)	-	(429)	-
Interest income	6	6	27	41
Interest expense	(7,516)	(8,665)	(23,882)	(25,586)
Gain on insurance recoveries	-	-	-	544
(Loss) income from discontinued operations:				
Operating income	-	-	-	568
(Loss) gain on disposition of properties	-	(2)	-	15,411
(Loss) income from discontinued operations	-	(2)	-	15,979
Net (loss) income	(1,784)	(2,802)	(7,238)	9,066
Net income attributable to noncontrolling redeemable interest	(13)	(14)	(39)	(40)
Consolidated net (loss) income attributable to AERC	$ (1,797)	$ (2,816)	$ (7,277)	$ 9,026

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 ("NAREIT"). 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 and amortization of intangible assets, gains on insurance recoveries, and gains and losses from the disposition of properties and land. 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 and 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. Other real estate companies may define FFO in a different manner.

We calculate FFO as adjusted as FFO, as defined above, plus the add back of refunds on previously defeased loans of $(553,000) and $(563,000) for the nine months ended September 30, 2010 and September 30, 2009, respectively. In accordance with GAAP, these refunds on previously defeased loans are included as interest expense in the Consolidated Statement of Operations. Additionally, the nine months ended September 30, 2010, includes add backs of non-cash charges of approximately $1.0 million and $727,000, respectively, associated with the redemption of our Series B Preferred Shares and Trust Preferred Securities. We provide this calculation as an alternative FFO calculation as we consider it a more appropriate measure of comparing the operating performance of a company's real estate between periods or as compared to different REITs.

A reconciliation of net (loss) income attributable to AERC to FFO and FFO as adjusted is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2010	2009	2010	2009
Net (loss) income attributable to AERC	$(1,797)	$(2,816)	$(7,277)	$9,026
Depreciation - real estate assets	9,032	8,071	25,622	24,571
Amortization of intangible assets	566	57	757	1,068
Preferred share dividends	-	(1,049)	(2,030)	(3,149)
Preferred share redemption costs	-	-	(993)	-
Loss (gain) on disposition of properties/gain on insurance recoveries	-	2	-	(15,955)
Funds from Operations	7,801	4,265	16,079	15,561
Preferred share redemption costs	-	-	993	-
Trust preferred redemption costs	-	-	727	-
Refund of defeasance costs for previously defeased loans	-	-	(553)	(563)
Funds from Operations as adjusted	$7,801	$4,265	$17,246	$14,998
Funds from Operations per common share - basic and diluted	$0.24	$0.26	$0.60	$0.94
Funds from Operations as adjusted per common share - basic and diluted	$0.24	$0.26	$0.64	$0.91
Weighted average shares outstanding - basic and diluted	31,906	16,539	26,846	16,500

Updated 2010 Expectations.

Portfolio performance Our full-year 2010 updated guidance reflects Same Community property NOI decreasing in the range of (0.75)% to (0.25)% as compared to 2009.

Property acquisitions, sales and development We have completed the acquisition of three operating properties totaling 1,030 units for a total cost of approximately $165 million. We expect total acquisitions during 2010 to total between $250 million and $300 million. In addition, we anticipate investing approximately $7.5 million in our Nashville, Tennessee, Germantown partnership. Moreover, during the first half of 2010, we completed the development of a 60-unit expansion of our River Forest apartment community, which is located in the Richmond, Virginia metropolitan area. The cost of this expansion project was approximately $6.8 million, of which approximately $5.0 million in costs related to this development were recorded during 2009, with the balance of the costs being incurred in 2010. We have not and do not expect to dispose of any assets in 2010.

Debt repayment We have repaid five mortgage loans totaling $57.3 million that matured in 2010 and redeemed unsecured trust preferred debt of $25.8 million. We have one additional mortgage loan maturing in 2010 in the amount of $21.0 million that we expect to repay with the proceeds from a new mortgage loan.

Forecast Qualification. The uncertainties caused by the current economic conditions and the unprecedented financial crisis complicate our ability to forecast future performance. We believe that the apartment industry is better situated to weather the recession than other real estate sectors because people will normally choose shelter over discretionary spending such as going to the mall or hotel stays and because government sponsored agencies such as Fannie Mae and Freddie Mac continue to provide attractive apartment financing, which may be unavailable to other commercial real estate sectors. Our 2010 expectations may be adversely impacted if recessionary forces accelerate or Congress curtails Fannie Mae or Freddie Mac financing support to the apartment industry.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Liquidity. Significant sources and uses of cash during the nine months ended September 30, 2010 and 2009 are summarized as follows:

	Nine Months Ended September 30,	
(In thousands)	2010	2009
Net cash provided by operations	$ 20,601	$ 22,877
Fixed assets:		
Acquisition and development expenditures, net	(154,533)	(1,939)
Net property disposition proceeds	-	32,714
Recurring, revenue enhancing and non-recurring capital expenditures	(12,388)	(9,305)
Debt:		
Decrease in mortgage notes	(23,593)	(21,832)
Increase (decrease) in revolving credit facility borrowings	83,700	(9,500)
Redemption of trust preferred securities	(25,780)	-
Common share issuance proceeds	169,199	-
Preferred share redemption	(48,263)	-
Cash dividends and operating partnership distributions paid	(13,989)	(11,641)

Our primary sources of liquidity are cash flow provided by operations, short-term borrowings on the unsecured revolver, our secured credit facility, project specific loans and the sale of debt or equity securities. We believe that we are well positioned to weather the recent turmoil in the financial markets. Six mortgage loans totaling approximately $78.3 million were scheduled to mature in 2010. We have repaid five of those debt obligations totaling $57.3 million and expect to repay the remaining $21.0 million obligation with proceeds from a project specific secured loan.

In December 2009, we entered into a credit facility agreement with Wells Fargo Multifamily Corporation on behalf of Freddie Mac. Pursuant to the terms of the facility, we have the potential to borrow up to $100.0 million over a two-year period ending in December 2011 with obligations being secured by nonrecourse, non cross-collateralized fixed or variable rate mortgages having terms of five, seven or ten years. In August 2010, we used this facility to borrow $36.0 million at a fixed rate of 5.1% for a term of 10 years leaving $64.0 million of availability under this facility. Our unsecured revolver provides us additional financial flexibility. On October 1, 2010, we used proceeds from our common share issuance to repay the $96.2 million outstanding balance on our unsecured revolver. On October 18, 2010, we entered into an Amended and Restated Credit Agreement that among other things increases the maximum amount of loans available under the revolver to $250.0 million, extends the maturity date to October 18, 2013 and provides for a one year extension option.

Our ability to access the capital markets affords us additional liquidity as demonstrated by our year-to-date sales of 23,575,000 of our common shares in three separate underwritten offerings to the public markets. The net proceeds from these offerings, which totaled $288.8 million, were used to repay maturing debt, redeem all our outstanding

8.70% Class B Series II Preferred Shares, redeem all of our Trust Preferred Securities, partially pay for three operating properties, acquire a parcel of land that we are developing in a partnership, to repay borrowings on our unsecured revolver, and for general corporate purposes.

We anticipate that cash flow provided by operations for the remainder of the year will continue to meet normal business operations and liquidity requirements for the upcoming year. We believe that if net cash provided by operations is below projections, other sources such as the unsecured revolver, secured and unsecured borrowings are or can be made available and should be sufficient to meet our normal business operations and liquidity requirements. We anticipate that we will continue paying our regular quarterly dividends in cash. Funds to be used for the repayment of debt, property acquisitions, development or other capital expenditures are expected to be provided primarily by proceeds from the refinancing of debt borrowings, our unsecured revolver and possibly the sale of common shares.

Cash flow provided by operations decreased during the nine months ended September 30, 2010, compared to the nine months ended September 30, 2009, primarily due to an increase in accounts receivable during the nine months ended September 30, 2010. Additionally, general and administrative expenses increased approximately $821,000. See the discussion under General and administrative expense under Results of Operations regarding increases in general and administrative costs.

During the remainder of 2010, we anticipate incurring an additional $4.0 million in capital expenditures. This includes replacement of worn carpet and appliances, parking lots and similar items in accordance with our current property expenditure plan, as well as commitments for revenue enhancing and non-recurring expenditures. These capital expenditures are expected to be funded with cash provided by operating activities and borrowings on our unsecured revolver.

RESULTS OF OPERATIONS

Comparison of the three and nine months ended September 30, 2010 to the three and nine months ended September 30, 2009:

Our Same Community portfolio represents operating properties that we have owned for all of the comparison periods. For the nine months ended September 30, 2010 and 2009, the Same Community portfolio consisted of 48 owned properties containing 12,108 units. Acquired properties represent the operating properties that we acquired in May and September 2010, while the development property represents 60 newly-constructed units on the land adjacent to River Forest Apartments which are in the lease-up process.

The net loss from continuing operations decreased $1.0 million for the three month comparison period and increased $325,000 during the nine month comparison period. The decrease in the three month comparison period was primarily due to the net of the following: an increase in property revenue, an increase in property operating and maintenance expense, an increase in depreciation and amortization expense and a decrease in interest expense and general and administrative expense. The increase in the nine month comparison period was primarily due to an increase in property revenue, an increase in property operating and maintenance expense, an increase in depreciation and amortization expense, a decrease in interest expense and an increase in general and administrative expense. See the following discussion for a detailed description of the changes in these line items.

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

(In thousands)	Increase (decrease) when comparing the three months ended September 30, 2010 to September 30, 2009		Increase (decrease) when comparing the nine months ended September 30, 2010 to September 30, 2009	
Property revenue	$ 2,101	6.5%	$ 2,746	2.9%
Property operating and maintenance expense	935	6.7%	1,554	3.7%
Depreciation and amortization	1,624	19.1%	1,419	5.4%

Interest expense	(1,149)	(13.3)%	(1,704)	(6.7)%
General and administrative	(271)	(7.1)%	821	8.1%
Construction and other services				
Revenue	5,338	1408.4%	7,718	1057.3%
Expenses	4,919	1057.8%	7,686	769.4%
Income from discontinued operations	2	(100.0)%	(15,979)	(100.0)%

Property NOI increased for both the three month and nine month comparison periods primarily due to the contributions by the acquired properties. Property NOI for the Same Community properties during the three month comparison period increased slightly primarily due to increased revenues at the Southeast properties. During the nine month comparison period, Same Community Property NOI decreased primarily due to a decrease in revenue and an increase in expenses at the Mid-Atlantic properties.

The following table presents property NOI results by region:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009		2010	2009	
(In thousands)	Property NOI	Property NOI	Increase/ (Decrease)	Property NOI	Property NOI	Increase/ (Decrease)
Same Community Properties:						
Midwest	$ 10,452	$ 10,506	$ (54)	$ 31,080	$ 31,221	$ (141)
Mid-Atlantic	3,485	3,462	23	10,240	10,503	(263)
Southeast	4,361	4,288	73	12,994	12,927	67
Total Same Community	18,298	18,256	42	54,314	54,651	(337)
Acquired Properties	1,096	-	1,096	1,507	-	1,507
Development	28	-	28	22	-	22
Total Property NOI	$ 19,422	$ 18,256	$ 1,166	$ 55,843	$ 54,651	$ 1,192

Property revenue. Property revenue is impacted by a combination of rental rates, rent concessions and occupancy levels, i.e., net collected rent per unit. Physical occupancy at the end of each period and net collected rent per unit are presented in the following tables:

	Physical Occupancy at September 30,	
	2010	2009
Same Community Properties:		
Midwest	96.8%	96.0%
Mid-Atlantic	95.9%	94.0%
Southeast	93.8%	91.3%
Total Same Community	96.0%	94.6%
Acquired Properties	97.4%	N/A
Development	78.3%	N/A

	Average Monthly Net Collected Rent Per Unit			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Same Community Properties:				
Midwest	$ 794	$ 790	$ 783	$ 785
Mid-Atlantic	$ 1,167	$ 1,165	$ 1,162	$ 1,161
Southeast	$ 901	$ 880	$ 893	$ 876

Total Same Community	$ 866	$ 858	$ 856	$ 853
Acquired Properties	$ 1,512	N/A	$ 1,493	N/A
Development	N/A	N/A	N/A	N/A

The following table presents property revenue results:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009		2010	2009	
(In thousands)	Property Revenue	Property Revenue	Increase/ (Decrease)	Property Revenue	Property Revenue	Increase/ (Decrease)
Same Community Properties:						
Midwest	$ 19,006	$ 18,860	$ 146	$ 56,162	$ 56,181	$ (19)
Mid-Atlantic	5,273	5,288	(15)	15,735	15,840	(105)
Southeast	8,316	8,107	209	24,679	24,196	483
Total Same Community	32,595	32,255	340	96,576	96,217	359
Acquired Properties	1,677	-	1,677	2,300	-	2,300
Development	84	-	84	87	-	87
Total Property Revenue	$ 34,356	$ 32,255	$ 2,101	$ 98,963	$ 96,217	$ 2,746

For the three and nine month comparison periods, the increase in property revenue was primarily due to an increase in the revenue in the Southeast region and the acquisition properties.

Property operating and maintenance expenses. Property operating and maintenance expenses increased in both the three month and nine month comparison periods. For both comparison periods, the increase was primarily due to the acquisition properties.

Depreciation and amortization. Depreciation and amortization expense increased for the three and nine month comparison periods. For both comparison periods, the increase was primarily due to the commencement of depreciation for the May and September 2010 acquisitions and the amortization of intangible assets recorded in connection with these acquisitions.

General and administrative expense. General and administrative expenses for the three month comparison period decreased primarily due to the result of valuation adjustments in 2009 that increased directors' deferred compensation expense which was offset by expenses related to our due diligence investigations of possible acquisitions that were never consummated and adjustments to various payroll related accruals. For the nine month comparison period, the increase was primarily due to an increase in expenses related to proposed acquisitions that were not consummated and adjustments to various payroll related accruals. Prior to January 1, 2010, the fair value of the directors' deferred compensation was adjusted based upon the closing price of our common shares at the end of each period. Effective January 1, 2010, this plan was modified to provide that all distributions under the plan will be in the form of our common shares instead of cash. As a result, the fair value of the deferred compensation is no longer adjusted based upon the closing price of our common shares. Additionally, we anticipate recording a one time charge to general and administrative expense of approximately $400,000 during the fourth quarter of 2010 related to the transition of our Vice President and General Counsel to a senior advisory role.

Construction and other services. Effective October 2009, Merit Enterprises, Inc. (Merit), our wholly owned subsidiary, changed its concentration from a subcontractor and painting company to a general contractor that acts as our in-house construction division and also provides general contracting and construction management services to third parties. Merit s 2010 revenues and expenses, which represent construction supervision for third parties and are recorded on the percentage of completion method, exceed Merit s painting and subcontracting revenues and expenses recorded during both periods in 2009.

Income from Discontinued Operations. Discontinued operations include the operating results of two properties sold in 2009 and the gain related to those sales. For further details on "Income from discontinued operations," see Note 2 of the Notes to Consolidated Financial Statements presented in Part I, Item 1 of this report on Form 10-Q.

Critical Accounting Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the consolidated financial statements and related notes. In preparing these consolidated financial statements, we have utilized information available including industry practice and our own past history in forming estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome that we anticipated in formulating the estimates inherent in these consolidated financial statements may not materialize. However, application of the accounting policies below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses. Our critical accounting estimates are discussed in detail in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009. In addition to these critical accounting estimates, we believe that our contracting and construction management services required us to make estimates that could have a material impact on our results of operations and financial statements.

We account for general contracting and construction management services that we provide to third parties using the percentage completion method. Under this method, the amount of revenue and expense to be recognized for each project that we are engaged in at the end of each reporting period is estimated based on the percentage of work completed on that date. The use of judgment and/or estimates is required in determining the percentage of work completed, the expected total cost of a project in process, and in certain circumstances the total amount of revenue for a project in process. If we had used different estimates, different amounts would have been recognized in revenue and expense which may have resulted in a material impact to our results of operations. If actual costs or revenue differ from estimates, it may require us to make a material adjustment to our results of operations.

CONTINGENCIES

For a discussion of contingencies, see Note 10 of the Notes to Consolidated Financial Statements presented in Part I, Item 1 of this report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate changes associated with variable rate debt and the refinancing risk on our fixed-rate debt. Based on our variable rate debt outstanding at September 30, 2010 and 2009, an interest rate change of 100 basis points would impact interest expense approximately $1.3 million and $470,000 on an annual basis, respectively. We occasionally use derivative instruments to manage our exposure to interest rates. See Note 1 of the Notes to Consolidated Financial Statements presented in Part I, Item 1 of this report on Form 10-Q for additional information regarding derivative instruments and "Item 7A Qualitative and Quantitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the year ended December 31, 2009, for a more complete discussion of interest rate sensitive assets and liabilities.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. We have evaluated the design and operations of our disclosure controls and procedures to determine whether they are effective in ensuring that the disclosure of required information is timely made in accordance with the Securities Exchange Act of 1934 ("Exchange Act") and the rules and forms of the Securities and Exchange Commission. 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 report on Form 10-Q. 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), are 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 Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to management, including the principal executive and principal financial officers, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting during the third quarter of 2010 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

We believe that because of its inherent limitations, internal control over financial reporting may not always 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information related to legal proceedings, see Note 10 of the Notes to Consolidated Financial Statements presented in Part I, Item 1 of this report on Form 10-Q.

ITEM 1A. RISK FACTORS

See "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities for the Three Months Ended September 30, 2010

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)
July 1 through July 31	-	$ -	-	$ 26,288
August 1 through August 31	53	13.27	-	26,288
September 1 through September 30	-	-	-	26,288
Total	53	$ 13.27	-	

There is a total of $26.3 million remaining on our Board of Director authorizations to repurchase our common shares. Additionally, we have a policy which allows employees to pay their portion of the income taxes related to restricted share 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 minimum statutory withholding amount.

ITEM 6. EXHIBITS

Number	Title	Filed herewith or incorporated herein by reference
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.
4.1a	Amended and Restated Shareholders Rights Agreement dated December 30, 2008.	Exhibit 4.1 to Form 8-K filed December 30, 2008.
4.2	Specimen 8.70% Class B Series II Cumulative Redeemable Preferred Shares.	Exhibit 4.2 to Form 10-Q filed November 3, 2009.
4.2a	Specimen Depositary Share representing 1/10 of one share of 8.70% Class B Series II Cumulative Redeemable Preferred Shares.	Exhibit 4.2a to Form 10-Q filed November 3, 2009.
4.3	Deposit Agreement by and among Associated Estates Realty Corporation and National City Bank and Depositary Receipts.	Exhibit 4.5 to Form 8-A filed December 8, 2004.
4.5	Form of Promissory Note and Form of Mortgage and Security Agreement dated May 10, 1999 from AERC to The Chase Manhattan Bank.	Exhibit 4.5 to Form 10-Q filed August 13, 1999.
4.5a	Form of Promissory Note and Form of Mortgage and Security Agreement dated September 10, 1999 from AERC to The Chase	Exhibit 4.5a to Form 10-Q filed November

	Manhattan Bank.	12, 1999.
4.5b	Form of Promissory Note and Form of Mortgage and Security Agreement dated November 18, 1999 from AERC to The Chase Manhattan Bank.	Exhibit 4.5b to Form 10-K filed March 15, 2000.
4.12	Amended and Restated Credit Agreement Dated October 18, 2010 among Associated Estates Realty Corporation, 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 U.S. Bank National Association, as Documentation Agent and The Several Lenders From Time To Time Parties Hereto, as Lenders.	Exhibit 4.12 to Form 10-Q filed herewith.
4.13	Credit Agreement Dated April 24, 2007 among Associated Estates Realty Corporation, as Borrower and National City Bank as Administrative Agent, Lead Arranger, and Book Manager and The Several Lenders From Time To Time Parties Hereto, as Lenders.	Exhibit 4.13 to Form 10-Q filed July 31, 2007.
4.15	First Amendment to Credit Agreement dated March 20, 2008, by and among Associated Estates Realty Corporation (the Borrower), National City Bank and other banks and financial institutions (the Lenders) and National City Bank (the Administrative Agent).	Exhibit 4.15 to Form 10-Q filed May 6, 2008.

Number	Title	Filed herewith or incorporated herein by reference
4.16	Joinder to Subsidiary Guaranty dated March 20, 2008, for the benefit of National City Bank, as Agent for itself and certain other lenders, with respect to a loan from the Lenders to Associated Estates Realty Corporation.	Exhibit 4.16 to Form 10-Q filed May 6, 2008.
4.17	Agreement regarding Master Financing Agreement dated December 22, 2009 by and between Wells Fargo Bank, National Association and Associated Estates Realty Corporation and Master Financing Agreement dated December 22, 2009 by and between Wells Fargo Bank, National Association and Federal Home Loan Mortgage Corporation.	Exhibit 4.17 to Form 10-Q filed May 4, 2010.
	Certain of the Registrant'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.	
	The Registrant issued unsecured debt in the form of Trust Preferred Securities on March 15, 2005 in a private placement in an amount less than 10.0% of the total assets of the Registrant. The Registrant hereby agrees to furnish a copy of the Purchase Agreement dated March 15, 2005 between Associated Estates Realty Corporation, AERC Delaware Trust and Taberna Preferred Funding 1, Ltd. and a specimen Preferred Securities Certificate to the Commission upon its request.	
10	Associated Estates Realty Corporation Directors' Deferred Compensation Plan.	Exhibit 10 to Form 10-K filed February 25, 2010.
10.1	Stock Option Plan.	Exhibit 10.2 to Form S-11 filed September 2, 1993 (File No. 33-68276 as amended).
10.2	Amended and Restated Employment Agreement between the Company and Jeffrey I. Friedman.	Exhibit 10.1 to Form 10-Q filed May 13, 1996.
10.2a	Employment Agreement between Associated Estates Realty Corporation and Martin A. Fishman dated October 25, 2010.	Exhibit 10.1 to Form 8-K filed October 25, 2010.
10.3	Equity-Based Incentive Compensation Plan.	Exhibit 10.4 to Form 10-K filed March 29, 1995.

10.4	Form of Restricted Stock Agreement dated by and among the Company and its Non-Management Directors.	Exhibit 10.9 to Form 10-K filed March 28, 1996.
10.5	Form of Indemnification Agreement.	Exhibit 4.2 to Form S-11 filed September 2, 1993 (File No. 33-68276 as amended).
10.6	Amended 2008 Equity-Based Award Plan.	Exhibit 10.1 to Form 8-K filed May 13, 2008.
10.7	Amendment to Associated Estates Realty Corporation 2008 Equity-Based Award Plan.	Exhibit 10.7 to Form 10-K filed February 25, 2009.
10.7a	Amendment to Associated Estates Realty Corporation Amended and Restated Equity-Based Award Plan.	Exhibit 10.7a to Form 10-K filed February 25, 2009.
10.7b	Associated Estates Realty Corporation Supplemental Executive Retirement Plan (Restated).	Exhibit 10.7b to Form 10-K filed February 25, 2009.
10.8	Form of Share Option Agreement by and among the Company and its Non-Management Directors.	Exhibit 10.14 to Form 10-K filed March 30, 1993.
10.10	Associated Estates Realty Corporation Amended and Restated 2001 Equity-Based Plan (as amended on May 4, 2005). Incorporated by reference to Appendix 1 to the Definitive Proxy Statement filed March 28, 2005.	Exhibit 99.01 to Form S-8 filed May 26, 2005.

Number	Title	Filed herewith or incorporated herein by reference
10.11	Form of Equity Award Agreement.	Exhibit 10.11 to Form 10-Q filed August 2, 2005.
10.12	Long Term Incentive Compensation Plan.	Exhibit 10.12 to Form 10-Q filed November 1, 2005.
10.13	Associated Estates Realty Corporation Elective Deferred Compensation Plan.	Exhibit 10.13 to Form 10-Q filed July 31, 2007.
31	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act.	Exhibit 31 to Form 10-Q filed herewith.
31.1	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act.	Exhibit 31.1 to Form 10-Q filed herewith.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act.	Exhibit 32 to Form 10-Q filed herewith.

SIGNATURES

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

ASSOCIATED ESTATES REALTY CORPORATION

November 2, 2010	/s/ Lou Fatica
(Date)	Lou Fatica, Vice President
	Chief Financial Officer and Treasurer