ASSOCIATED ESTATES REALTY CORP
Form 10-K
February 23, 2012

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

Form 10-K

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

For the fiscal year ended December 31, 2011

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, Inc. Nasdaq Global Market

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 x

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 x

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 x 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 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 aggregate market value of the voting stock held by non-affiliates of the Registrant was $636.0 million as of June 30, 2011.

The number of Common Shares outstanding as of February 10, 2012 was 42,446,036.

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

Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Shareholders to be held on May 9, 2012 (in Part III).

ASSOCIATED ESTATES REALTY CORPORATION
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FORM 10-K ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

PART I

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

Item 1. Business

GENERAL

We are a fully integrated, self-administered and self-managed equity real estate investment trust ("REIT"). We are publicly traded on the New York Stock Exchange ("NYSE") and the Nasdaq Global Market ("NASDAQ") under the ticker symbol "AEC." Our headquarters is located at 1 AEC Parkway in Richmond Heights, Ohio. The headquarters is comprised 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 we own under a long-term ground lease.

We specialize in multifamily ownership, operation, acquisition, development, construction, disposition and property management activities. We own a taxable REIT subsidiary that performs general contracting and construction services for our own account and for third parties. On October 24, 2011, we announced our intention to exit the third party construction services business. We have since substantially completed performance under all of our remaining third party construction services contracts. We intend to continue to provide general contracting and construction services for our own account in connection with the development of multifamily properties we will own and operate. As of December 31, 2011, our operating property portfolio consisted of 53 owned apartment communities containing 13,908 units in eight states. See Item 2 for a state-by-state listing of our portfolio. Our consolidated financial statements include the accounts of all subsidiaries and qualified REIT subsidiaries, including the taxable REIT subsidiary, which is separately taxed for federal income tax purposes as a Taxable REIT Subsidiary ("TRS") under the REIT Modernization Act ("RMA") implemented in 1999. Our consolidated financial statements also include a partnership in which we hold a 90.0% equity interest and an Operating Partnership structured as a DownREIT that owns one of our apartment communities in Florida and in which we own 97.6% equity interest.

BUSINESS SEGMENTS

All of our properties are multifamily rental communities that have similar economic characteristics. Management evaluates the performance of our properties on an individual basis. Our multifamily properties provided approximately 90.4% of our consolidated revenue for 2011. For 2011, third party construction services provided approximately 9.6% of our consolidated revenue. As a result, we have determined that as of December 31, 2011, we have two reportable segments which are multifamily properties and construction and other services. Our subsidiary, Merit Enterprises, Inc. ("Merit"), is a general contractor that acts as our in-house construction division and has provided general contracting and construction management services to third parties. In 2011, we decided to exit the third party construction services business and we have substantially completed our work under all third party construction contracts. We intend to continue to provide general contracting and construction services for our own account in connection with the development of multifamily properties we will own and operate. We expect that, in 2012, multifamily properties will be our only reportable segment as a result of our exit from the third party construction business.

OPERATING STRATEGY AND BUSINESS OBJECTIVES

See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report on Form 10-K for additional discussion of our 2012 outlook and strategy.

Acquisition/Disposition. Our acquisition/disposition strategy in recent years has been to buy properties outside of the Midwest and to 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, an increase in cash flow or further enhance our strategic objectives. In 2011, we acquired three properties for an approximate total purchase price of $136 million. The first was a 222-unit property located in Southeast Florida, the second was a 250-unit property in the Metro DC area and the third was a 224-unit property located in Dallas, Texas. We sold two central Ohio properties containing 450 units in 2011 for a combined sales price of approximately $31 million.

We are continuing acquisition efforts in Southeast Florida and Dallas, Texas, in submarkets which we have identified as growth opportunities to expand our existing portfolio. We have also identified Southern California as a strategic growth market for acquisition and development and have hired a Regional Vice President of Development for that market. Nevertheless, we will consider opportunistic acquisition opportunities in other markets. We intend to maintain an ownership presence in our Midwest region over the long term as well.

While most of our property sales have been comprised of Midwest and single property locations, we continually monitor the profitability of all of our properties and 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 equity and increased cash flow when invested in other properties or used to reduce debt.

During the last three years, we have acquired seven properties containing a total of 2,190 units for a total cost of approximately $392 million, while we have sold four properties containing 1,014 units for a total of approximately $65 million.

Development. We are near completion of a new development property in Nashville, Tennessee comprising of 242 units. We also intend to continue to execute our strategic growth strategy in part via the development and construction of new properties in our targeted growth markets. During 2011, we acquired two parcels of land in Dallas, Texas upon which we intend to build new apartment communities. One of these two new communities will be located adjacent to our existing San Raphael property in North Dallas. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Development Partnership" and “-Acquisition and Development Activities."

Property Operations. We operate in many different markets and submarkets. Each of these markets may have economic characteristics that differ from other markets, and, as a result, the degree to which we can increase rents varies between markets. However, our goal is to maximize property net operating income in all of our markets through a combination of increasing net rents and by continual efforts to contain controllable operating expenses. Strategies to increase rents include constant monitoring of our markets, providing superior resident service and desirable communities in which to live, leveraging the power of the internet through enhanced property websites and resident portals and the implementation of programs such as utility and refuse reimbursements. In 2011, we implemented a revenue management database that will provide real time market rental information in each of our submarkets. Our AEC Academy for Career Development provides training and support for our employees, which help us to provide better trained, quality personnel at our communities as well as minimizing employee turnover. We attempt to control operating expenses through strategies such as utilizing centralized purchasing contracts benefiting multiple properties and through diligent upkeep and regular maintenance at our apartment communities.

Financing and Capital. Proceeds received from new debt, debt refinancing, property sales or equity issuances are invested based upon the expected return and the impact on our balance sheet. Reducing overall interest costs and increasing 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 by financing, refinancing and prepaying debt. Our weighted average interest rate on our total debt declined 130 basis points from 6.1% at the end of 2008 to 4.8% at December 31, 2011. Our interest coverage ratio and fixed charge coverage ratio were 2.34:1 and 2.34:1, respectively, at December 31, 2011, up from 1.76:1 and 1.56:1, respectively, at December 31, 2008.

In January 2012, we increased our $250.0 million unsecured revolving credit facility, or revolver, to $350.0 million. This facility provides financial flexibility and the opportunity to capitalize on strategic acquisitions without the delays associated with financing contingencies. Our borrowing capacity under the revolver is a function of our unencumbered property pool. As of the date of this filing, the maximum amount of borrowings available to us under this revolver was $329.9 million. In addition, during 2011, we closed on a $125.0 million unsecured, five year term loan.

During 2010, we sold 23,575,000 of our common shares in three separate underwritten public offerings. 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, repay borrowings on our unsecured revolver and for general corporate purposes. Additionally, during 2011, we sold 788,676 common shares under our continuous at-the-market ("ATM") offering program, which generated proceeds of $13.3 million net of sales commissions and other costs. The proceeds were used to reduce borrowings on our unsecured revolver and for general corporate purposes.

General Contractor/Construction. Our subsidiary, Merit Enterprises, is a general contractor that acts as our in-house construction division and provides general contracting and construction management services to third parties. In 2011, we decided to exit the third party construction services business and we have substantially completed our work under all third party construction contracts. We intend to continue to provide general contracting and construction services for our own account in connection with the development of multifamily properties we will own and operate. Among other things, we believe we will realize significant cost savings and improved quality of our building exteriors and interiors as a result of the in-house services performed by Merit.

INCOME TAXES

See Note 1 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 10, 2012, we employed approximately 400 people.

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 are realized.

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 or limitations to federal government support for Fannie Mae and/or Freddie Mac that might 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 that we own;
- competition from other available multifamily units and changes in market rental rates;
- new acquisitions and/or development projects that 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, and unanticipated repairs;
- 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;
- 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, including, without limitation, rapid and unanticipated increases in prices of building materials and commodities.

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 and multifamily rental homes and owner occupied single and multifamily homes. In certain markets, such as Florida, failed condominium conversions or properties originally developed as condominiums are reverting to rentals, creating increasing competition in those markets. Foreclosed single family homes that become rental properties could create additional competition in certain of our markets. Such competition may affect our ability to attract and retain residents and to increase or maintain rental rates.

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 loss. Significant uninsured losses could have a material adverse effect on our business, financial condition and results of operations.

Secured debt financing could adversely affect our performance. At December 31, 2011, 22 of our 53 properties were encumbered by project specific, non-recourse, and except for five properties, non-cross-collateralized mortgage debt. On January 31, 2012, we prepaid two loans, reducing the number of encumbered properties to 20. There is a risk that these properties may not have sufficient cash flow from operations to pay required principal and interest. 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 ourselves, there is no assurance that those mortgage capital sources will remain available or available on competitively favorable terms. Additional sources of secured financing are provided by life insurance companies and commercial banks, which from time to time offer terms competitive with Fannie Mae and Freddie Mac. We believe that 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 facilities contain certain restrictions, requirements and other limitations on our ability to incur additional secured and unsecured debt, acquire additional land or development properties 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. Our unsecured credit facilities are cross-defaulted and also contain cross default provisions with material other debt.

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 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 involving 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 that 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 our leasing offices, 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 Fair Housing Act 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 handicap design laws in connection with certain of our developments.

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. Substantially all of our properties 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 or the property, 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 the 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.

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

- availability of acceptable financing;
- competition with other entities for investment opportunities;
- failure by our properties to achieve anticipated operating results;
- development costs of a property exceeding original estimates;
- delays in construction of developments or expansions due to weather, required governmental approvals and/or unavailability of labor and materials; and
- expenditure of funds on, and the devotion of management time to, transactions that may not come to fruition.

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 and more than 9.8% of the shares of any series of any class of our preferred shares by any person, (the "Ownership Limit"), 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 to 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.

We have a shareholders rights plan which would delay or prevent a change in control. We also have a shareholders rights plan, which 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. We are incorporated in the State of Ohio, where various state statutes place certain restrictions on takeover activity. While our Board of Directors believes that our shareholders rights plan could assist in maximizing value for our shareholders in a change in control transaction, our shareholders rights plan and these restrictions are likely to have the effect of precluding acquisition of control of us without our consent.

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.

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.

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We may be exposed to construction business risk. We intend to perform construction services as a general contractor for our own account on certain of our development projects in the future. Inherent risks of those operations include the following:

- adverse weather conditions;
- continuing difficulties in the development and construction industries;
- continuing difficulties in obtaining financing for development and construction;
- rapid and unanticipated increases in the costs of commodities and building materials;
- failure of subcontractors to perform as anticipated;
- the availability of qualified subcontractors, subcontractors in turn are dependent on the availability of skilled workers; and
- bonding indemnification obligations and standby letters of credit that may be required by our construction lenders.

We plan to continue to perform construction services for our own account in connection with certain of our development properties. All of the foregoing risks could have a material adverse affect upon our ability to complete the construction of those development properties on time and/or within budget.

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, 2011, which consists of properties we owned, directly or indirectly.

	Total Number of Properties	Total Number of Units
Florida	5	1,494
Georgia	4	1,717
Indiana	3	836
Maryland	3	667
Michigan	11	2,888
Ohio	18	3,474
Texas	2	446
Virginia	7	2,386
	53	13,908
Development Projects		
Dwell Turtle Creek (1)	—	—
San Raphael Phase II (2)	—	—
Vista Germantown (3)	—	—
Total	53	13,908

	Location	Acres
Undeveloped Land Parcels		
Westlake	Westlake, OH	39.0
Wyndemere	Franklin, OH	10.0
Total undeveloped acres		49.0

(1) Reflects development in Dallas, Texas of a yet to be determined number of units.

(2) Reflects development of an estimated 104 units in Dallas, Texas.

(3) Reflects partnership development of 242 units in Nashville, Tennessee with a scheduled completion in 2012.

	Total Number of Units	Age[1]
Florida		
Courtney Chase	288	8
Cypress Shores	300	20
Vista Lago	316	8
Waterstone at Wellington	222	13
Windsor Pines	368	13
	1,494	
Georgia		
Cambridge at Buckhead	168	16
Idlewylde	843	10
Morgan Place	186	22
The Falls	520	25
	1,717	
Indiana		
Center Point	344	14
Residence at White River	228	20
Steeplechase	264	13
	836	
Maryland		
Annen Woods	131	24
Hampton Point	352	25
Reflections	184	26
	667	
Michigan		
Arbor Landings	328	12
Aspen Lakes Apartments	144	30
Central Park Place	216	23
Country Place Apartments	144	22
Clinton Place Apartments	202	23
Georgetown Park Apartments	480	12
Oaks at Hampton	544	23
Spring Brook Apartments	168	23
Spring Valley Apartments	224	24
Summer Ridge	248	20
The Landings at the Preserve	190	20
	2,888	

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

	Total Number of Units	Age[1]
Ohio		
Bedford Commons	112	24
Bradford at Easton	324	15
Heathermoor	280	22
Kensington Grove	76	16
Lake Forest	192	17
Mallard's Crossing	192	21
Muirwood Village at Bennell	164	23
Perimeter Lakes	189	19
Residence at Barrington	288	12
Residence at Christopher Wren	264	18
St. Andrews at Little Turtle	102	24
Saw Mill Village	340	24
Sterling Park	128	17
Village at Avon	312	10
Westchester Townhomes	136	22
Western Reserve	108	13
Westlake Townhomes	7	26
Williamsburg Townhomes	260	21
	3,474	
Texas		
San Raphael	222	12
The Brixton	224	14
	446	
Virginia		
Dwell Vienna Metro	250	3
River Forest	300	5
Riverside Station	304	6
The Alexander at Ghent	268	5
The Ashborough	504	7
The Belvedere	296	6
Westwind Farms	464	5
	2,386	
Total	13,908	16

	Location	Acres	Anticipated Completion
Development Projects			
Dwell Turtle Creek	Dallas, TX	2.4	2013
San Raphael Phase II	Dallas, TX	1.5	2013
Vista Germantown	Nashville, TN	2.7	2012

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

Indebtedness Encumbering the Properties. We have financed, and in many cases refinanced, the acquisition, development and rehabilitation of our properties with a variety of sources of mortgage indebtedness. At December 31, 2011, 31 of the 53 wholly owned properties were unencumbered. On January 31, 2012, we prepaid two loans, as such bringing the total of unencumbered properties to 33. The remaining 20 properties were encumbered by conventional mortgages, of which five properties were encumbered by cross-collateralized, cross-defaulted mortgage loans.

Item 3. Legal Proceedings

We are subject to 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. 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.

Item 4. Mine Safety Disclosures

N/A.

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 closing 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	
	2011		2010		2011	2010
	High	Low	High	Low		
First Quarter	$ 16.31	$ 14.43	$ 13.99	$ 11.01	$ 0.17	$ 0.17
Second Quarter	$ 16.89	$ 15.66	$ 14.55	$ 12.06	$ 0.17	$ 0.17
Third Quarter	$ 18.27	$ 14.82	$ 14.80	$ 12.27	$ 0.17	$ 0.17
Fourth Quarter	$ 17.34	$ 14.57	$ 15.41	$ 13.70	$ 0.17	$ 0.17
					$ 0.68	$ 0.68

During the year ended December 31, 2011, net income attributable to AERC was less than the total dividends declared on our common shares. However, cash flow from operations was sufficient to pay cash dividends. See "Liquidity and Capital Resources" in Part II, Item 7 of this report on Form 10-K.

On February 10, 2012, there were approximately 779 holders of record and approximately 12,974 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 make optional purchases of our common shares. The administrator of the plan will purchase shares directly from us at our option (either treasury shares or newly-issued common shares), or in the open market, or in privately negotiated transactions with third parties. All shares purchased by the plan administrator during 2011 and 2010 were open market purchases.

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 shares using this authority during 2011 and we have no present intention to use this authority to repurchase shares. Additionally, we have a policy which 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.

Performance Graph. The following graph compares the cumulative return on our common shares during the five year period ended December 31, 2011, 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.

	Period Ending					
Index	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Associated Estates Realty Corporation	$ 100.00	$ 71.94	$ 74.50	$ 101.88	$ 145.59	$ 158.54
Russell 2000	$ 100.00	$ 98.43	$ 65.18	$ 82.89	$ 105.14	$ 100.75
MSCI US REIT Index	$ 100.00	$ 83.18	$ 51.60	$ 66.36	$ 85.26	$ 92.67

Source: SNL Financial LC, Charlottesville, VA

www.snl.com

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.

(In thousands, except per share, unit count and net collected rent amounts)	Year Ended December 31,				
	2011	2010	2009	2008	2007
Operating Data:					
Revenue					
Property revenue	$159,076	$131,459	$123,617	$123,548	$109,663
Management and service operations:					
Fees, reimbursements and other	—	817	1,287	1,784	10,990
Construction and other services	16,869	17,051	1,160	1,010	2,218
Total revenue	175,945	149,327	126,064	126,342	122,871
Total expenses	(153,733)	(127,705)	(103,581)	(103,718)	(101,609)
Interest expense	(32,113)	(31,053)	(33,547)	(34,886)	(37,721)
(Loss) income before gain on insurance recoveries, equity in net income (loss) of joint ventures, and income from discontinued operations	(9,901)	(9,431)	(11,064)	(12,262)	(16,459)
Gain on insurance recoveries	—	—	531	—	—
Equity in net income (loss) of joint ventures	—	—	—	1,502	(258)
(Loss) income from continuing operations	(9,901)	(9,431)	(10,533)	(10,760)	(16,717)
Income from discontinued operations:					
Operating income	672	601	1,262	238	6,071
Gain on disposition of properties/gain on insurance recoveries	14,597	245	15,534	45,202	20,864
Income from discontinued operations	15,269	846	16,796	45,440	26,935
Net income (loss)	5,368	(8,585)	6,263	34,680	10,218
Net (loss) income attributable to noncontrolling redeemable interest	(40)	(51)	(53)	(53)	(53)
Net income (loss) attributable to AERC	5,328	(8,636)	6,210	34,627	10,165
Preferred share dividends	—	(2,030)	(4,199)	(4,655)	(4,924)
Preferred share redemption/repurchase costs	—	(993)	—	(143)	(58)
Discount/(premium) on preferred share repurchase	—	—	—	2,289	(114)
Allocation to participating securities	—	—	(423)	(730)	(338)
Net income (loss) applicable to common shares	$5,328	$(11,659)	$1,588	$31,388	$4,731
Earnings per common share - Basic and Diluted:					
(Loss) income from continuing operations applicable to common shares	$(0.24)	$(0.41)	$(0.89)	$(0.82)	$(1.30)
Income from discontinued operations	0.37	0.03	0.99	2.75	1.58
Net income (loss) applicable to common shares	$0.13	$(0.38)	$0.10	$1.93	$0.28
	41,657	30,421	16,516	16,262	16,871

Weighted average number of common shares outstanding					
Dividends declared per common share	$0.68	$0.68	$0.68	$0.68	$0.68

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	2011	2010	2009	2008	2007
Cash flow data:					
Cash flow provided by operations	$53,317	$33,511	$31,300	$24,665	$28,962
Cash flow (used for) provided by investing activity	$(146,333)	$(283,432)	$16,450	$41,051	$(38,610)
Cash flow provided by (used for) financing activity	$92,974	$250,691	$(47,701)	$(63,714)	$(18,813)
Balance Sheet Data at December 31:					
Real estate assets, net	$986,834	$875,000	$638,535	$673,848	$659,586
Total assets	$1,018,493	$918,235	$662,505	$699,896	$686,796
Total debt	$664,788	$555,666	$525,836	$557,481	$556,695
Total shareholders' equity attributable to AERC	$308,793	$316,184	$99,440	$105,621	$89,786
Other Data:					
Property net operating income (1) (7)	$94,562	$75,838	$70,741	$71,413	$61,560
Funds from operations (2) (8)	$42,707	$25,908	$19,836	$21,893	$17,659
Funds from operations as adjusted (3) (8)	$42,707	$27,075	$19,273	$21,706	$22,055
Funds available for distribution (4) (8)	$36,417	$22,292	$14,213	$15,636	$15,526
Total properties (at end of period)	53	52	48	50	64
Total multifamily units (at end of period)	13,908	13,662	12,108	12,672	14,450
Average monthly net collected rent per unit (5)	$963	$859	$852	$858	$815
Physical occupancy (6)	95.2 %	94.8 %	93.9 %	93.0 %	94.1 %

(1) We consider property net operating income ("property NOI") to be an important indicator of the overall performance of our 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. Other real estate companies may define property NOI in a different manner. Property NOI has been restated 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 ("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, excludes impairment write-downs of depreciable real estate, 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. See Note 8 below for those items that are used to compute FFO. Other real estate companies may define FFO in a different manner.

(3) Funds from operations as adjusted 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 FFO as adjusted to be a more 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 Note 8 below for those items that are used to compute FFO as adjusted. Other real estate companies may define FFO as adjusted in a different manner.

(4) We define FAD as FFO as adjusted, 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 appropriate supplemental measure of the performance of an equity REIT because, like FFO and FFO as adjusted, it captures real estate performance by excluding gains or losses from the disposition of properties and land and depreciation on real estate assets and amortization of intangible assets. Unlike FFO and FFO as adjusted, FAD also reflects the recurring capital expenditures that are necessary to maintain the associated real estate. See Note 8 below for a reconciliation of FFO as adjusted to FAD.

(5) Average monthly net collected rent per unit is calculated as total market rent for all units less vacancy and concessions, divided by the total number of units available. This does not represent actual rental revenue collected per unit.

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

(7) Reconciliation of property NOI to net income (loss) attributable to AERC:

	Year Ended December 31,				
(In thousands)	2011	2010	2009	2008	2007
Property net operating income	$94,562	$75,838	$70,741	$71,413	$61,560
Fees, reimbursements and other revenue	—	817	1,287	1,784	10,990
Construction and other services revenue	16,869	17,051	1,160	1,010	2,218
Direct property management and service company expense	—	(745)	(1,107)	(1,624)	(12,863)
Construction and other services expenses	(19,297)	(16,415)	(1,745)	(1,338)	(2,164)
Depreciation and amortization	(53,004)	(38,433)	(33,829)	(34,852)	(28,152)
General and administrative expense	(15,944)	(15,684)	(14,024)	(13,769)	(10,327)
Development costs	(435)	(208)	—	—	—
Costs associated with acquisitions	(539)	(599)	—	—	—
Interest expense	(32,113)	(31,053)	(33,547)	(34,886)	(37,721)
Gain on insurance recoveries	—	—	531	—	—
Equity in net income (loss) of joint ventures	—	—	—	1,502	(258)
Income from discontinued operations:					
Operating income	672	601	1,262	238	6,071
Gain on disposition of properties/gain on insurance recoveries	14,597	245	15,534	45,202	20,864
Income from discontinued operations	15,269	846	16,796	45,440	26,935
Net income (loss)	5,368	(8,585)	6,263	34,680	10,218
Net (loss) income attributable to noncontrolling redeemable interest	(40)	(51)	(53)	(53)	(53)
Net income (loss) attributable to AERC	$5,328	$(8,636)	$6,210	$34,627	$10,165

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(8) Reconciliation of net income (loss) attributable to AERC to FFO and FAD:

	Year Ended December 31,				
(In thousands, except per share amounts)	2011	2010	2009	2008	2007
Net income (loss) attributable to AERC	$5,328	$(8,636)	$6,210	$34,627	$10,165
Depreciation - real estate assets	44,006	35,593	32,822	32,560	31,363
Depreciation - real estate assets - joint ventures	—	—	—	91	529
Amortization of joint venture deferred costs	—	—	—	—	17
Amortization of intangible assets	7,970	2,219	1,068	3,929	1,545
Preferred share dividends	—	(2,030)	(4,199)	(4,655)	(4,924)
Preferred share redemption/repurchase costs	—	(993)	—	(143)	(58)
Preferred share repurchase discount/(premium)	—	—	—	2,289	(114)
Gain on disposition of joint venture property	—	—	—	(1,603)	—
Gain on disposition of properties/gain on insurance recoveries	(14,597)	(245)	(16,065)	(45,202)	(20,864)
Funds from operations	42,707	25,908	19,836	21,893	17,659
Defeasance/prepayment and other costs associated with debt repayments	—	—	—	1,959	4,224
Preferred share repurchase costs	—	993	—	143	58
Preferred share repurchase (discount)/premium	—	—	—	(2,289)	114
Trust preferred redemption costs	—	727	—	—	—
Refund of defeasance costs for previously defeased loans	—	(553)	(563)	—	—
Funds from operations as adjusted	42,707	27,075	19,273	21,706	22,055
Depreciation - other assets	1,954	1,827	1,522	1,378	1,255
Depreciation - other assets - joint ventures	—	—	—	3	82
Amortization of deferred financing fees	1,970	1,415	1,225	1,296	1,128
Amortization of deferred financing fees - joint ventures	—	—	—	1	24
Recurring fixed asset additions	(10,214)	(8,026)	(7,807)	(8,739)	(8,819)
Recurring fixed asset additions - joint ventures	—	—	—	(9)	(199)
Funds available for distribution	$36,417	$22,291	$14,213	$15,636	$15,526
Funds from operations per common share - basic and diluted	$1.03	$0.85	$1.20	$1.35	$1.05
Funds from operations as adjusted per common share - basic and diluted	$1.03	$0.89	$1.17	$1.33	$1.31
Weighted average shares outstanding - basic and diluted	41,657	30,421	16,516	16,262	16,871

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 2012 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 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. 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 residential units. Our subsidiary, Merit Enterprises, is a general contractor that acts as our in-house construction division and provides general contracting and construction management services to third parties. On October 24, 2011, we announced our intention to exit the third party construction services business. We have since substantially completed performance under all of our remaining third party construction services contracts. We intend to continue to provide general contracting and construction services for our own account in connection with the development of multifamily properties we will own and operate. During the year ended December 31, 2011, our two primary sources of cash and revenue from operations were rents from the leasing of owned apartment units, which represented 90.4% of our consolidated revenue and construction services, which represented 9.6% of our consolidated revenue for the year.

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 the access to, and cost of, debt and equity.

Rental revenue collections are impacted by rental rates, occupancy levels and rent concessions. We adjust our rental rates and concessions in our continuing efforts to adapt to changing market conditions and maximize rental revenue. We continuously monitor physical occupancy and net collected rent per unit to track our success in maximizing rental revenue. These indicators are more fully described in the Results of Operations comparison. Additionally, we consider property NOI and 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 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 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 and FFO to consolidated net income (loss) income in accordance with accounting principles generally accepted in the United States ("GAAP").

Our Same Community portfolio for the years 2011 and 2010 consists of 46 properties containing 11,658 units and accounted for 73.5% of total revenue in 2011 and 79.7% of our property NOI. Our Same Community portfolio includes properties that we have owned and operated for the entire two-year period ending December 31, 2011. Same Community NOI increased 5.6% in 2011 compared to 2010 primarily as a result of a $3.0 million or 7.7% increase in NOI from our Midwest (Ohio, Michigan and Indiana) portfolio. Our Mid-Atlantic (Maryland, Metro DC and Virginia) portfolio NOI increased $782,000 or 5.7% and our Southeast (Georgia and Florida) portfolio NOI increased $187,000 or 1.0% in 2011.

The following table presents property NOI results for 2011 and 2010:

	Year Ended December 31,	
	2011	2010
(In thousands)	Property NOI	Property NOI
Same Community Properties:		
Midwest	$42,797	$39,753
Mid-Atlantic	14,531	13,749
Southeast	18,026	17,839
Total Same Community	75,354	71,341
Acquired Properties	18,860	4,336
Development	348	161
Total Property NOI	$94,562	$75,838

Our 2012 earnings guidance anticipates the acquisition of approximately zero to $150.0 million of properties and the disposition of approximately $50.0 million to $75.0 million of properties. Additionally, our development spend is expected to be approximately $50.0 million and includes the completion of our Nashville development and the commencement of construction on two sites in Dallas. As of December 31, 2011, we have incurred $27.8 million of costs in connection with the development of Vista Germantown in Nashville, Tennessee and anticipate that an additional $7.5 million of expenditures will be incurred to complete the construction. We anticipate that construction should be completed during the second quarter of 2012. We intend to continue to evaluate potential property acquisitions and development opportunities when our investment criteria are met. 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 significantly greater return on equity, an increase in cash flow or further enhance our strategic objectives. We will continue to focus on the ratio of our total debt to gross real estate assets which was 49.4% at December 31, 2011 compared with 45.9% at December 31, 2010. We will also continue to focus on the reduction of our overall weighted average interest rate on our borrowings, which improved to 4.8% at December 31, 2011 compared with 5.5% at December 31, 2010 and our fixed charge coverage ratio which improved to 2.34 times at December 31, 2011 from 1.85 times at December 31, 2010.

In order to maximize property NOI, we plan to continue to focus our efforts on improving revenue, controlling costs and realizing operational efficiencies at the property level, both regionally and portfolio-wide. In 2012, at the midpoint of our guidance, we expect Same Community NOI to increase 5.5%, driven by a 4.5% increase in property revenue and a 2.5% increase in property operating expenses compared to 2011. The increase in revenue will primarily be due to maintaining physical occupancy levels and from increased rental rates. However, the uncertainties caused by economic and financial conditions complicate our ability to forecast future performance. We believe that the apartment industry is better situated to weather a continuing recessionary environment or delayed recovery 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. However, our 2012 expectations may be adversely impacted if recessionary forces resume or if Congress curtails Fannie Mae or Freddie Mac financing support to the apartment industry. Moreover, unless and until real job growth occurs in our markets, significant rental growth may be limited.

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

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. The amount of intercompany interest and other expenses between a TRS and a REIT are subject to arms length allocations.

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):

	Year Ended December 31,		
(In thousands)	2011	2010	2009
Net cash provided by operations	$53,317	$33,511	$31,300
Fixed assets:			
Acquisitions and development expenditures, net	(165,271)	(266,283)	(4,526)
Net property disposition proceeds	28,961	—	32,746
Recurring, revenue enhancing and non-recurring capital expenditures	(11,561)	(15,012)	(12,629)
Debt:			
Increase (decrease) in mortgage notes	18,623	(24,390)	(22,645)
(Decrease) increase in revolving credit facility borrowings	(34,500)	80,000	(9,000)
Increase in term loan borrowings	125,000	—	—
Redemption of trust preferred securities	—	(25,780)	—
Exercise of stock options	810	5,418	403
Common share issuances	13,300	288,835	—
Preferred share redemption	—	(48,263)	—
Cash dividends and operating partnership distributions paid	(28,139)	(21,902)	(15,529)
Purchase of treasury shares	(857)	(634)	(179)

Our primary sources of liquidity are cash flow provided by operations, short-term borrowings on the unsecured revolver, project specific loans and the sale of debt or equity securities. Our debt repayment obligations are relatively modest.

On January 31, 2012, we prepaid two loans totaling $43.6 million that included prepayment penalties totaling $1.7 million. Both of these loans were scheduled to mature in 2046. We funded this prepayment from borrowings on our $350.0 million unsecured revolving credit facility.

As of the filing date, we had five additional loans totaling $79.8 million maturing in 2012. We intend to prepay at par three of the loans totaling $43.8 million on March 10, 2012, and prepay at par the remaining two loans totaling $36.0 million on or before July 1, 2012, from borrowings on our unsecured revolver and/or other secured or unsecured financings or proceeds of the sale of common shares.

In January 2012, we entered into an Amended and Restated Credit Agreement that among other things increased the maximum amount of borrowings under the revolver to $350.0 million, extended the maturity date to January 11, 2016 and provided for a one year extension option. Additionally, the Amended and Restated Credit Agreement provides for an increase of the total facility to $400.0 million upon request and agreement of the lenders participating in the facility. Our borrowing capacity under the revolver is a function of our unencumbered property pool. As of February 10, 2012, the maximum amount of borrowings available to us under the revolver was $329.9 million and borrowings outstanding totaled $103.0 million.

On June 3, 2011, we closed on a $125.0 million unsecured, five year term loan. This loan currently has a variable interest rate, which was 2.3% at December 31, 2011, and matures June 2, 2016. Proceeds from the term loan were used to pay down borrowings outstanding on our unsecured revolver and for general corporate purposes. On December 19, 2011, we entered into a forward starting swap effective June 7, 2013, which fixes the rate on the term loan until maturity at a rate of 1.26% plus the credit spread which is currently 1.80%, or an all-in rate of 3.06% based upon the credit spread applicable under the term loan as of February 10, 2012 (which is subject to change dependent upon our leverage ratio).

Our ability to access the capital markets affords us additional liquidity as demonstrated by our sale of 23,575,000 of our common shares in 2010 in three separate underwritten offers to the public markets. The net proceeds from these offerings, which totaled approximately $288.8 million, were used to repay maturing debt, redeem all of our outstanding 8.70% Class B Series II Cumulative Redeemable Preferred Shares, redeem all of our Trust Preferred Securities, partially pay for three newly acquired operating properties, acquire the land for our Germantown (Nashville, Tennessee) development, to repay borrowings on our unsecured revolver, and for general corporate purposes. Additionally, during 2011, we sold 788,676 common shares under our continuous at-the-market ("ATM") offering program, which generated proceeds of $13.3 million net of sales commissions and other costs. The proceeds were used to reduce borrowings on our unsecured revolver and for general corporate purposes.

Cash flow provided by operations increased $19.8 million when comparing 2011 to 2010. The increase was primarily due to an increase in property NOI as a result of the addition during 2010 of four properties, the completion of a 60-unit expansion at one of our existing properties and the acquisition, during 2011, of three additional properties.

Cash flow provided by operations increased slightly when comparing 2010 to 2009. The increase was primarily due to the increase in construction receivables net of the increase in construction payables and the increase in share-based compensation. The increase in construction activity was due to our subsidiary, Merit Enterprises, commencing several third party construction projects during 2010. Merit records its revenues and related expenses based on the percentage of completion method and, as such, records receivables and payables as part of the estimate of the amounts completed.

Shelf Availability. We have a shelf registration statement that relates to possible offerings, from time to time, of debt securities (including convertible debt), preferred shares, depositary shares, common shares and common share warrants. This registration statement was for $500.0 million and expires in June 2013. Securities and/or debt offerings up to $361.2 million are currently available under this shelf registration statement. Additionally, effective August 4, 2010, we registered an ATM program, where we can sell up to $25.0 million of our common shares in open market transactions at the then market price per share. During 2011, we sold 788,676 common shares under this program for total gross proceeds of $13.7 million or $13.3 million net of sales commissions and other costs, leaving $11.3 million available under this program.

Liquidity: Normal Business Operations. We anticipate that we will meet our normal business operations and liquidity requirements for the upcoming year generally through net cash provided by operations. We believe that if net cash provided by operations is below projections, other sources such as the 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.

Liquidity: Non-Operational Activities. Sources of cash available for repayment of debt, any property acquisitions and funding other capital expenditures are expected to be provided primarily by proceeds from the refinancing of debt borrowings, our unsecured revolver, the sale of properties and possibly the sale of common shares. We anticipate financing the estimated $7.5 million balance of the construction costs for our 242-unit Germantown (Nashville, Tennessee) development through borrowings remaining available under the construction loan we have arranged for that project. Additionally, we anticipate that the development of the 104-unit expansion of San Raphael Apartments will be financed from our unsecured revolver. Also, we anticipate that the development of our planned Dwell Turtle Creek apartment community in Dallas will be financed by a construction loan and funding from our unsecured revolver.

Long-Term Contractual Obligations. The following table summarizes our long-term contractual obligations at December 31, 2011, as defined by Item 303(a) 5 of Regulation S-K of the Securities and Exchange Act of 1934.

	Payments Due In				
(In thousands)					2017 and
Contractual Obligations	Total	2012	2013-2014	2015-2016	Later Years
Debt payable - principal	$664,788	$87,966	$266,710	$209,385	$100,727
Debt payable - interest	140,153	29,128	37,370	21,257	52,398
Operating leases	358	113	171	74	—
Purchase obligations	12,381	11,857	415	109	—
Total	$817,680	$129,064	$304,666	$230,825	$153,125

Debt Payable - Principal. Debt payable - principal includes principal payments on all property specific mortgages, the unsecured term loan, construction loan and the unsecured revolving credit facility based on amounts and terms of debt in existence at December 31, 2011. For detailed information about our debt, see Note 5 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, 2011, and interest payments as required based upon the terms of the debt in existence at December 31, 2011. Interest related to floating rate debt included in the above table was calculated based on applicable rates as of December 31, 2011.

Operating Leases. We lease certain equipment and facilities under operating leases. For detailed information about our lease obligations, see Note 7 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Purchase Obligations. Purchase obligations represent agreements to purchase goods or services and contracts for the acquisition of properties that are legally binding and enforceable and that specify all significant terms of the agreement. Our purchase obligations include, but are not limited to, 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. Obligations included in the above table represent agreements dated December 31, 2011, or earlier.

Dividends. On December 8, 2011, we declared a dividend of $0.17 per common share, which was paid in cash on February 1, 2012, to shareholders of record on January 13, 2012. We anticipate that we will continue paying regular quarterly dividends in cash. Effective beginning with the dividend scheduled to be paid in May, 2012, we have increased the quarterly dividend to $0.18 per share from $0.17 per share. 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 ratio of the current common dividend distribution to the Company's FFO and FAD per share, the relationship of dividend distributions to taxable income, distribution requirements under rules governing real estate investment trusts, and expected growth in taxable income.

Capital Expenditures. We anticipate incurring approximately $12.2 million in capital expenditures for 2012. 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 investment/revenue enhancing and non-recurring expenditures. We expect to use cash provided by operating activities to pay for these expenditures.

Financing and Other Commitments. The following table identifies our total debt outstanding as of December 31, 2011 (dollar amounts in thousands):

	Balance Outstanding December 31, 2011	Percentage of Total Debt		Weighted Average Interest Rate	
Fixed Rate Debt					
Mortgages payable - CMBS	$43,843	6.6	%	7.9	%
Mortgages payable - other	389,900	58.6	%	5.6	%
Total fixed rate debt	433,743	65.2	%	5.8	%
Variable Rate Debt					
Mortgages payable (1)	33,728	5.1	%	4.7	%
Construction loan	14,317	2.2	%	3.6	%
Unsecured revolving credit facility	58,000	8.7	%	2.9	%
Unsecured term loan (2)	125,000	18.8	%	2.3	%
Total variable rate debt	231,045	34.8	%	2.9	%
Total Debt	$664,788	100.0	%	4.8	%

(1) Subject to an interest rate cap of 6.9% for the life of the loan.

(2) We entered into a forward starting swap in December 2011 fixing the rate beginning in June 2013 for the duration of its maturity at a rate of 1.26% plus the credit spread under our revolver (which is currently 1.80%), or an all-in rate of 3.06%.

The following table provides information on fixed rate mortgage loans repaid at par as well as loans obtained/assumed during 2011:

(Dollar amounts in thousands)	Loans Repaid			Loans Obtained/Assumed				
Property	Amount	Interest Rate		Amount		Interest Rate		Maturity
Central Park Place	$6,170	7.6%		$—		N/A		N/A
Perimeter Lakes	5,485	7.6%		—		N/A		N/A
Residence at Turnberry	7,756	7.6%		—		N/A		N/A
Residence at Christopher Wren	9,052	7.6%		—		N/A		N/A
Clinton Place Apartments	8,145	7.6%		—		N/A		N/A
Heathermoor	8,232	7.6%		—		N/A		N/A
Summer Ridge	8,477	7.6%		—		N/A		N/A
The Ashborough	—	N/A		47,591	(1)	4.6%		May 2018
Vista Germantown	—	N/A		14,317	(2)	3.5%	(3)	November 2013
The Brixton	—	N/A		12,892	(4)	5.3%		June 2019
Total / weighted average rate	$53,317	7.6%	(5)	$74,800		4.5%	(5)	

(1) Debt procurement costs related to this loan were $450,000.

(2) Debt procurement costs totaling $317,000 related to this loan were paid during 2010.

(3) Denotes variable rate construction loan.

(4) Fair value amount of loan assumed at time of acquisition. The principal balance at time of acquisition was $12.3 million. Fair value was determined based on an interest rate of 4.5%.

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

On January 31, 2012, we prepaid two loans totaling $43.6 million that included prepayment penalties totaling $1.7 million. Both of these loans were scheduled to mature in 2046. We funded this prepayment from borrowings on our unsecured revolver.

As of February 10, 2012, we had five additional loans totaling $79.8 million maturing in 2012. We intend to prepay at par three of the loans totaling $43.8 million on March 10, 2012, and prepay at par the remaining two loans totaling $36.0 million on or before July 1, 2012, from borrowings on our unsecured revolver and/or other secured or unsecured financings or the proceeds of sale of common shares.

At December 31, 2011, we had 31 unencumbered properties. These properties had net income of $12.6 million for the year ended December 31, 2011, and a net book value of $456.1 million at December 31, 2011.

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 table of contractual obligations.

Operating Partnership. As provided in the AERC HP Investors Limited Partnership Agreement ("DownREIT Partnership"), we, as general partner, have guaranteed the obligation of the DownREIT Partnership to redeem OP units held by the limited partners. The DownREIT Partnership was formed in 1998 and owns and operates Windsor Pines, a 368-unit property in Pembroke Pines, Florida. Under the terms of the DownREIT Partnership Agreement, the DownREIT Partnership is obligated to redeem OP units for our common shares or cash, at our discretion, at a price per OP unit equal to the average closing price of our common shares for the 20-day period preceding a limited partner's redemption notice. As of December 31, 2011, there were 74,083 OP units remaining having a carrying value of $1.7 million, and 447,949 of the original 522,032 OP units had been redeemed. These transactions had the effect of increasing our interest in the DownREIT Partnership from 85.0% to 97.6%. For additional information regarding the OP units, see Note 1 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Development 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 90.0% equity interest. 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 non-controlling interest in this entity meets the criterion to be classified as a component of permanent equity. The partnership has engaged Merit Enterprises to act as general contractor in the construction of this property. Construction commenced during the fourth quarter of 2010 and is anticipated to be completed in the second quarter of 2012. We have arranged for a $23.4 million construction loan and have guaranteed the partnership's repayment of the loan. As of December 31, 2011, borrowings totaling $14.3 million have been made from this loan.

Acquisition and Development Activities. During 2011, we acquired three properties for a total purchase price of approximately $136 million, which includes a $12.3 million Fannie Mae loan that we assumed. For additional information regarding the assumed loan, see Note 5 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K. During 2010, we acquired four properties for a total purchase price of approximately $255 million and, during the second quarter of 2010, we completed the construction of a 60-unit expansion of our existing 240-unit River Forest apartment community located in the Richmond, Virginia metropolitan market area. Total cost of this development was approximately $6.8 million, which included $311,000 of capitalized interest and $173,000 of capitalized payroll costs.

We intend to continue to evaluate land 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, the exchange of properties, undistributed earnings, secured or unsecured debt financings, or the issuance of shares or units exchangeable into common shares.

Dispositions. During 2011, we sold two properties for net cash proceeds of approximately $31 million. The operating results of these properties, along with the gains of $14.6 million that we recognized, are included in "Income from discontinued operations."

General Contractor/Construction. Our subsidiary, Merit Enterprises, is engaged as a general contractor and construction manager which acts as our in-house construction division as well as provides general contracting and construction management services to third parties. During 2011 and 2010, Merit worked on ten projects for third parties. In 2011, we decided to exit the third party construction services business and we have substantially completed our work under all third party construction contracts. We intend to continue to provide general contracting and construction services for our own account in connection with the development of multifamily properties we will own and operate. Additionally, Merit completed the rehabilitation of one of our properties in 2010 and is currently completing construction of a 242-unit property for a partnership in which we are a 90.0% partner, as previously described.

RESULTS OF OPERATIONS

In the following discussion of the comparison of the year ended December 31, 2011 to the year ended December 31, 2010 and the year ended December 31, 2010 to the year ended December 31, 2009, Same Community properties represent 46 wholly owned properties that were owned during all of 2011, 2010 and 2009. Acquired/Development properties represent three properties acquired in 2011, four properties acquired in 2010 and a 60-unit expansion of a Virginia property, which was completed in June 2010.

The net loss from continuing operations increased $470,000 during 2011 compared to 2010 primarily as a result of an increase in total revenues of $26.6 million net of an increase of $26.0 million in expenses and $1.1 million in interest expense. The net loss from continuing operations decreased $1.1 million during 2010 compared to 2009 primarily as a result of an increase in total revenues of $23.3 million net of an increase of $21.8 in total expenses during 2010.

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

	Increase (decrease) when comparing the years ended December 31,			
(In thousands)	2011 to 2010		2010 to 2009	
Property revenue	$27,617	21.0 %	$7,842	6.3 %
Fees, reimbursements and other	(817)	(100.0)%	(470)	(36.5)%
Construction and other services revenue	(182)	(1.1)%	15,891	1,369.9 %
Property operating and maintenance expenses	8,893	16.0 %	2,745	5.2 %
Depreciation and amortization	14,571	37.9 %	4,604	13.6 %
Direct property management and service company expenses	(745)	(100.0)%	(362)	(32.7)%
Constructionand other services expense	2,882	17.6 %	14,670	840.7 %
General and administrative expenses	260	1.7 %	1,660	11.8 %
Interest expense	1,060	3.4 %	(2,494)	(7.4)%
Income from discontinued operations	14,423	1,704.8 %	(15,950)	(95.0)%

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 (1) For the year ended December 31, 2011		2010		2009	
Same Community Properties:						
Midwest	96.6	%	95.7	%	94.9	%
Mid-Atlantic	95.3	%	95.1	%	94.9	%
Southeast	91.3	%	92.1	%	91.0	%
Total Same Community	95.1	%	94.7	%	93.9	%
Acquired Properties	95.8	%	95.6	%	N/A	
Development (2)	100.0	%	93.3	%	N/A	

(1) Physical occupancy represents the actual number of units leased divided by the total number of units available at the end of the period.
(2) Reflects construction of 60 units placed in service June 30, 2010.

	Average Monthly Net Collected Rent Per Unit (1) For the year ended December 31, 2011	2010	2009
Same Community Properties:			
Midwest	$824	$786	$783
Mid-Atlantic	$1,204	$1,163	$1,161
Southeast	$907	$894	$876
Total Same Community	$894	$861	$852
Acquired Properties	$1,331	$1,329	N/A
Development	$925	$688	N/A

(1) Average monthly net collected rent per unit is calculated as total market rent for all units less vacancy and concessions, divided by the total number of units available. This does not represent actual rental revenue collected per unit.

Property revenue increased in 2011 compared to 2010 primarily as a result of an increase of $22.8 million contributed by the acquired and development properties. Property revenue for the Same Community properties increased $4.8 million primarily due to an increase in net rents (potential rent less concessions). The majority of the improvement was in the Midwest portfolio. Property revenue increased in 2010 compared to 2009 primarily as a result of an increase of $6.9 million contributed by the acquired and development properties. Property revenue for the Same Community properties increased $1.0 million primarily due to an increase in net rents and a decline in the amount of vacancy losses. The majority of the improvement was in the Southeast portfolio.

Fees, Reimbursements and Other. The management and service company revenues - fees, reimbursements and others declined $470,000 when comparing 2010 to 2009. Effective during 2010, we terminated our remaining property and asset management contracts and exited the third party management business. Therefore, we will no longer be reporting management fee revenue.

Property Operating and Maintenance Expenses. Property operating and maintenance expenses increased $8.9 million when comparing 2011 to 2010. This increase was primarily due to property operating and maintenance expenses for the acquired and development properties increasing $8.1 million when comparing the two years. Property operating and maintenance expenses increased $2.8 million when comparing 2010 to 2009. This increase was primarily due to property operating and maintenance expenses of $2.4 million for the properties acquired or developed in 2010.

Depreciation and Amortization. Depreciation and amortization expenses increased $14.6 million when comparing 2011 to 2010. This increase was primarily due to an increase of approximately $7.8 million in depreciation due to the acquired and development properties and an increase of $5.8 million in amortization of intangible assets recorded in connection with the acquired properties. The intangible assets, consisting primarily of relationships with residents under 12 month leases, are being amortized over a 12 month period.

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Depreciation and amortization expenses increased $4.7 million when comparing 2010 to 2009. This increase was primarily due to an increase of approximately $3.6 million in depreciation due to the acquired and development properties and an increase of $1.1 million in amortization of intangible assets recorded in connection with the acquired properties. The intangible assets are being amortized over a 12 to 16 month period.

Direct Property Management and Service Company Expenses. Direct property management and service company expenses decreased in 2010 compared to 2009 due to our terminating all property and asset management contracts and exiting the third party management business, as referenced above.

Construction and Other Services. Our subsidiary, Merit Enterprises, is engaged as a general contractor and construction manager that acts as our in-house construction division as well as provides general contracting and construction management services to third parties. During 2011 and 2010, Merit worked on ten projects for third parties. In 2011, we decided to exit the third party construction services business and we have substantially completed our work under all third party construction contracts. We intend to continue to provide general contracting and construction services for our own account in connection with the development of multifamily properties we will own and operate. Revenues for 2011 were in line with revenues earned in 2010 while 2011 expenses increased by approximately $2.9 million primarily as a result of additional construction costs incurred for certain rehabilitation projects subject to guaranteed maximum price contracts. The revenue and expenses shown for 2010 represent construction services for third parties, while the revenue and expenses shown for 2009 were from third party painting services that Merit provided at that time but has since ceased providing.

General and Administrative Expenses. There were no significant variances when comparing 2011 to 2010. General and administrative expenses increased $1.7 million when comparing 2010 to 2009. This increase was primarily due to an increase in adjustments to various payroll and incentive compensation accruals, including a one-time charge of approximately $400,000 related to the resignation of our former Vice President and General Counsel, net of a decline in directors' deferred compensation expense. 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.

Interest Expense. Interest expense increased $1.1 million when comparing 2011 to 2010. The increase was primarily due to the net of the following: Interest on mortgage loans secured by Same Community properties declined $4.3 million due to the prepayment of seven loans in 2011 totaling $53.3 million and five loans in 2010 totaling $57.3 million. Interest expense on mortgage loans secured by acquired properties increased $3.2 million due to the addition of two loans totaling $60.5 million in 2011 and a $36.0 million loan in 2010. Additionally, interest expense in connection with our unsecured revolver and unsecured term loan increased $2.1 million due to increased borrowings on the unsecured revolver throughout 2011 when compared to 2010 and the closing of the unsecured term loan in June 2011. Furthermore, our weighted average interest rate declined to 4.8% at December 31, 2011. Interest expense decreased $2.5 million when comparing 2010 to 2009. The decrease was primarily due to mortgage loan interest expense declining $2.3 million due to a reduction in mortgage loans of $21.3 million during 2010. Additionally, on June 30, 2010, we redeemed all of our 7.92% Trust Preferred Securities, which resulted in a reduction in interest expense of $1.0 million. In connection with the original issuance of the Trust Preferred Securities, we incurred issuance costs that were recorded as other assets and subsequently charged to interest expense each period over the life of the securities. We recognized the remaining balance of $727,000 of issuance costs as a one-time non-cash charge to interest expense in 2010. Furthermore, the average interest rate dropped to 5.5% at December 31, 2010 from 6.2% at December 31, 2009.

Income from Discontinued Operations. Included in discontinued operations for the years ended December 31, 2011 and 2010, are the operating results and the gains related to two wholly owned properties that were sold in 2011. Also included in 2010 is a gain on insurance recoveries, which resulted from the settlement of wind storm damage at one of the properties sold in 2011 for the aggregate sum of $245,000, which is net of our deductible. Included in discontinued operations for the year ended December 31, 2009 are the operating results of the two properties sold in 2011 and the operating results and the gains related to two wholly owned properties that were sold in 2009. For further details on "Income from discontinued operations," see Note 2 of the Notes to the Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Preferred Share Repurchase Costs. 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 the 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. We recognized the $1.0 million of issuance costs as a reduction in net earnings in computing our net loss applicable to common shares for the year ended December 31, 2010.

Inflation. We believe that 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 two taxable REIT subsidiaries, the Operating Partnership structured as a DownREIT that owns one of our operating properties in Florida and the partnership in which we are a 90.0% partner that owns our development property in Nashville, Tennessee. 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. 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.

The Company has identified five critical accounting policies. 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 that 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 five critical accounting policies are:

Construction Services. 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. Because we are exiting the third party construction services business and have substantially completed all third party construction contracts at December 31, 2011, our construction services accounting policy will no longer be a critical accounting policy for 2012 and future years.

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Impairment of Long-Lived Assets. 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. Should the estimates used change, impairment may result which could materially impact our results of operations.

We review goodwill annually and whenever there is an impairment indicator. In performing this analysis, we use a multiple of revenues to the range of potential alternatives and assign a probability to the various alternatives we consider. Should estimates used to determine the alternatives considered or the probabilities of the occurrence thereof change, impairment may result which could materially impact our results of operations.

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.

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

Acquisitions of Investment Properties. We allocate the purchase price of properties to net tangible and identified intangible assets acquired 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 respective property, our own analysis of recently acquired and existing comparable properties in our portfolio and other market data. We amortize intangible assets over 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, 2011. Phase I environmental audits were obtained at the time of the our initial public offering in 1993, property acquisition and/or property refinancing, as applicable, on all of our wholly 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. For a discussion of pending litigation, see Note 7 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Based on our variable rate debt outstanding at December 31, 2011 and 2010, an interest rate change of 100 basis points would impact interest expense by approximately $2.3 million and $1.3 million, respectively, on an annual basis. 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 1 of the Notes to Consolidated Financial Statements presented in Part II, Item 8 of this report on Form 10-K. The table below provides information about our financial instruments that are sensitive to change in interest rates. For debt obligations, the table below presents principal cash flows and related weighted average interest rates based on expected maturity dates.

(Dollar amounts in thousands)	December 31, 2011								December 31, 20	
Long Term Debt	2012	2013	2014	2015	2016	Thereafter	Total	Fair Market Value	Total	Fair Market Value
Fixed:										
Fixed rate mortgage debt (1)	$79,843	$131,972	$44,538	$20,664	$16,668	$140,058	$433,743	$496,910	$428,860	$444,0
Weighted average interest rate	6.9 %	6.1 %	5.5 %	4.6 %	6.0 %	5.1 %	5.8 %			
Variable:										
Variable rate mortgage debt	—	14,317	—	—	33,728	—	48,045	51,258	34,306	36,302
Weighted average interest rate	—	2.9 %	—	—	4.7 %	—	4.4 %			
Variable rate unsecured term loan (2)	—	—	—	—	125,000	—	125,000	126,885		
LIBOR based revolving credit facility (3)	—	58,000	—	—	—	—	58,000	58,994	92,500	89,866
	—	72,317	—	—	158,728	—	231,045	237,137	126,806	126,16

Total variable rate debt										
Total long term debt	$79,843	$204,289	$44,538	$20,664	$175,396	$140,058	$664,788	$734,047	$555,666	$570,1

(1) It is our intention to prepay three of the five loans maturing in 2012, which total $43.8 million on March 10, 2012 and the remaining two loans totaling $36.0 million on or before July 1, 2012.

(2) Our unsecured term loan had a weighted average interest rate of 2.3% at December 31, 2011. The term loan has a maturity date of June 2, 2016. We entered into a forward starting swap in December 2011 fixing the rate on the term loan beginning in June 2013 through its maturity at a rate of 1.26% plus the credit spread (which is currently 1.80%), or an all-in rate of 3.06%.

(3) Our unsecured revolving credit facility had a weighted average interest rate of 2.9% at December 31, 2011. This facility was amended and restated January 12, 2012, which amongst other modifications, reduces the credit spread and extends the maturity to January 2016.

Item 8. Consolidated Financial Statements and Supplementary Data

The response to this item is included in 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 that 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 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 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), 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 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." Based on that assessment and those criteria, we concluded that our internal control over financial reporting is effective as of December 31, 2011. 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 2011 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.

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 Annual Meeting of Shareholders to be held on May 9, 2012, is incorporated by reference in this report on Form 10-K. Such information will be filed with the SEC no later than April 30, 2012.

We adopted a formal Code of Ethics for Senior Financial Officers that applies to our Chief Executive Officer, Chief Financial Officer and Director of Financial Reporting. 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 also. More information concerning our Code of Ethics for Senior Financial Officers as well as other Corporate Governance Matters will be included in our Proxy Statement and is incorporated by reference in this report on Form 10-K.

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	60	Chairman of the Board, President and Chief Executive Officer
Lou Fatica	45	Vice President, Treasurer and Chief Financial Officer
Jason A. Friedman	37	Vice President, Construction and Development
John T. Shannon	50	Senior Vice President, Operations
Bradley A. Van Auken	54	Vice President, General Counsel and Secretary

Jeffrey I. Friedman has served as our Chairman of the Board and Chief Executive Officer since the Company was organized in 1993 and served as our President from the Company's organization until February 24, 2000. In August 2002, Mr. Friedman reassumed the role of President. Mr. Friedman joined the Company's predecessor, Associated Estates Group ("AEG"), in 1974 and later became Chief Executive Officer and President of Associated Estates Corporation, a company in the AEG group.

Lou Fatica joined the Company in 1999 as Controller, and was promoted to Vice President-Controller during 2000. On March 15, 2001, Mr. Fatica became Vice President, Treasurer and Chief Financial Officer of the Company. Mr. Fatica is a Certified Public Accountant (CPA), a member of the American Institute of Certified Public Accountants (AICPA) and the Ohio Society of CPA's.

Jason A. Friedman joined the Company in 2009 as Vice President, Construction and Development and as President of Merit Enterprises, Inc. Mr. Friedman previously was the President of JAS Construction, Inc., a general contractor specializing in multifamily renovations. During his tenure at JAS, he was involved in approximately $100 million of multifamily renovation projects in various states. Mr. Friedman has also worked for PricewaterhouseCoopers where he provided valuation and advisory services to real estate clients. He graduated from Auburn University with a major in Communications and Business. Mr. Friedman is an active member of the Young Presidents Organization and the Urban Land Institute. Mr. Friedman has over 11 years of real estate experience.

John T. Shannon joined the Company in 2004 as Senior Vice President, Operations. Mr. Shannon had previously held the position of Vice President of Operations at The Shelter Group. He has a degree in Business Administration with a concentration in real estate finance and construction management from the University of Denver. Mr. Shannon has 22 years of property management experience.

Bradley A. Van Auken joined the Company in 2010 and has been serving as Vice President, General Counsel and Secretary since January 1, 2011. Prior to that time, he was engaged in the private practice of law, served as First Vice President-Legal for Equity Residential, and worked as Senior Vice President, General Counsel and Secretary of Lexford Residential Trust. Mr. Van Auken received both his undergraduate and law degrees from Notre Dame.

In addition to the officers named in the table above, the following persons have been appointed as officers of the Company and hold positions in senior management as indicated:

Greg Anderson joined the Company in 2011 as Regional Vice President of Development. Mr. Anderson is responsible for identifying multifamily development opportunities, and it is anticipated that he will manage pre-development processes and provide oversight of construction activities in Southern California. Mr. Anderson previously worked at The Picerne Group, Crown Pacific Properties, JPI, Forest City Enterprises, and was the head of Urban West Advisors, LLC. He graduated from Vanderbilt University and holds a Bachelor's Degree in Engineering. Mr. Anderson has more than 30 years experience in land development and management and is 55 years old.

Michelle B. Creger joined the Company in 2009 as Vice President, Associate General Counsel. Ms. Creger was previously the Vice President of Human Resources at U-Store-It Trust, and has also worked for American Greetings Corporation and McDonald Hopkins, a major Cleveland law firm. She earned her law degree from Case Western Reserve University School of Law and a Bachelor's degree in Economics from Creighton University. Ms. Creger has over 29 years of legal experience and is 56 years old.

Patrick Duffy joined the Company in 2005 as Vice President of Strategic Marketing. Mr. Duffy plays a key role in our diversification plan by assisting in identifying markets for asset acquisitions and dispositions. In addition, he is responsible for developing property-specific marketing plans and strategies to assist in maximizing top line revenue growth for our properties, while also assisting with pricing and positioning strategies. Mr. Duffy previously held the position of Senior Vice President of Marketing at The Shelter Group. He graduated from Loyola College and holds a Master's Degree in Administrative Sciences from Johns Hopkins University. Mr. Duffy has over 25 years of experience in the real estate industry and is 50 years old.

Daniel E. Gold joined the Company in 2009 as Vice President of Human Resources. Mr. Gold previously served as the Director of Corporate Human Resources for Falcon Transport and has also worked for Rockwell Automation, Cap Gemini and Bailey Controls. Mr. Gold is responsible for the oversight of all Human Resource functions, including employee development, compensation, benefits, recruiting and payroll. Mr. Gold has a Bachelor's of Science degree in Communications from Ohio University, and is a member of both the Ohio Human Resource Planning Society and the Society for Human Resource Management. Mr. Gold has over 18 years of Human Resources experience and is 43 years old.

Jeremy S. Goldberg joined Associated Estates in 2010, and is currently serving as the Vice President of Corporate Finance and Investor Relations. Mr. Goldberg's responsibilities include developing and implementing financial and capital markets strategies, facilitating the underwriting and analysis for acquisitions and dispositions and establishing and maintaining investor and sell-side analyst contacts and relationships. Prior to joining Associated Estates, Mr. Goldberg was in commercial and retail banking for 15 years, at Bank of America and Ohio Savings Bank. He received his Bachelor Degree from the University of Michigan and his Master of Business Administration from Case Western Reserve University. Mr. Goldberg is 38 years old.

John P. Hinkle joined the Company in 2010 as Vice President of Acquisitions. Mr. Hinkle most recently served as a consultant for Federal Capital Partners. His previous acquisitions experience also includes Fairfield Residential, Van Metre Companies and Archstone-Smith Trust. Mr. Hinkle has responsibility for identifying and generating acquisition opportunities that are consistent with the Company's long-term investment and growth strategy. He received his Bachelor of Science in Finance from Lehigh University and is a member of the Urban Land Institute. Mr. Hinkle has over 14 years of experience in the acquisition, development, management and valuation of investment properties and is 40 years old.

Allen Ingram joined the Company in 2012 as the Chief Technology Officer. Mr. Ingram is responsible for managing the central IT services, including voice and data telecommunications, application development, and technical computing functions. Mr. Ingram's prior IT experience includes the Home Shopping Network and PricewaterhouseCoopers. He most recently served as Director of Technology at Max-Wellness. He earned his Bachelor's Degree in Business from Florida Metropolitan University. Mr. Ingram has 25 years of IT experience and is 45 years old.

Miria C. Rabideau joined the Company in 1994 as a Property Manager, and was promoted to Regional Manager in 2003. During 2006, she was promoted to Regional Vice President and during 2009 she was promoted to Vice President of Operations. Ms. Rabideau is responsible for properties in Indiana, Michigan, Northeast Ohio, Tennessee, Georgia and Florida. Ms. Rabideau has 19 years of asset and property management experience. She has a Bachelor's degree from Michigan State University and is 42 years old.

Beth L. Stoll joined the Company in 2004 as a Regional Vice President, and was promoted to Vice President of Operations during 2006. She is responsible for properties in Maryland, Virginia, Central Ohio and Texas. Ms. Stoll is also responsible for the AEC Academy for Career Development, which provides training and support for our employees. Ms. Stoll previously held the position of Regional Vice President at The Shelter Group. Ms. Stoll has over 24 years of property management experience and is 56 years old.

Matthew Toussaint joined the Company in 2011 as a Regional Vice President of Development. Mr. Toussaint is responsible for identifying multifamily development opportunities, managing pre-development processes and providing oversight of construction activities for the Dallas, Texas market. His multifamily industry and development experience includes Inland American Communities/First Worthing and Archon Group/Goldman Sachs in Dallas and he most recently served as President of Toussaint Investments. He earned his Bachelor's Degree in Finance from Southern Methodist University. Mr. Toussaint has over 15 years of land development and acquisition experience and is 37 years old.

Item 11. Executive Compensation

The information on Executive Compensation contained in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Shareholders to be held on May 9, 2012, is incorporated by reference in this report on Form 10-K. Such information will be filed with the SEC no later than April 30, 2012.

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

On May 4, 2011, our shareholders approved the 2011 Equity-Based Award 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. Our 2001 and 2008 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 14 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, 2011:

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	689,184	$9.93	1,708,302
Equity compensation plans not approved by security holders	-	-	-
	689,184		1,708,302

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 Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - General and Administrative Expenses:”

Additionally, the information on Security Ownership of Certain Beneficial Owners and Management contained in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Shareholders to be held on May 9, 2012, is incorporated by reference in this report on Form 10-K. Such information will be filed with the SEC no later April 30, 2012.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information on Certain Relationships and Related Transactions contained in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Shareholders to be held on May 9, 2012, is incorporated by reference in this report on Form 10-K. Such information will be filed with the SEC no later April 30, 2012.

Additionally, the information on Security Ownership of Certain Beneficial Owners and Management contained in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Shareholders to be held on May 9, 2012, is incorporated by reference in this report on Form 10-K. Such information will be filed with the SEC no later April 30, 2012.

Item 14. Principal Accountant Fees and Services

The information on Principal Accountant Fees and Services contained in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Shareholders to be held on May 9, 2012, is incorporated by reference in this report on Form 10-K. Such information will be filed with the SEC no later than April 30, 2012.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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, 2011 and 2010.

   Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009.

   Consolidated Statements of Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009.

   Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009.

   Notes to Consolidated Financial Statements.

2. 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.

   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.

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 2011, 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 23rd day of February, 2012.

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 23rd day of February, 2012.

Signature	Title	Date
/s/ Jeffrey I. Friedman Jeffrey I. Friedman	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 23, 2012
/s/ Lou Fatica Lou Fatica	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 23, 2012
/s/ Albert T. Adams Albert T. Adams	Director	February 23, 2012
/s/ James M. Delaney James M. Delaney	Director	February 23, 2012
/s/ Michael E. Gibbons Michael E. Gibbons	Director	February 23, 2012
/s/ Mark L. Milstein Mark L. Milstein	Director	February 23, 2012
/s/ James A. Schoff James A. Schoff	Director	February 23, 2012
/s/ Richard T. Schwarz Richard T. Schwarz	Director	February 23, 2012

INDEX TO EXHIBITS

Number	Title	Filed herewith or incorporated herein by reference
1.1	Equity Distribution Agreement.	Exhibit 1.1 to Form 8-K filed August 10, 2010.
1.1a	Amendment to Equity Distribution Agreement.	Exhibit 1.1a to Form 10-K filed herewith.
1.2	Underwriting Agreement dated September 28, 2010.	Exhibit 1.1 to Form 8-K filed October 4, 2010.
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.