

ASSOCIATED ESTATES REALTY CORP

Form 424B5

September 27, 2010

**The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.**

Filed Pursuant to Rule 424(b)(5)

Registration No. 333-167472

**SUBJECT TO COMPLETION, DATED SEPTEMBER 27, 2010**

**PRELIMINARY PROSPECTUS SUPPLEMENT**

**(To Prospectus dated June 23, 2010)**

**8,000,000 Shares**

**Associated Estates Realty Corporation**

**Common Shares**

**\$ per share**

We are offering 8,000,000 of our common shares, without par value. We have granted the underwriters an option to purchase up to 1,200,000 additional common shares to cover over-allotments.

Our common shares are listed on the New York Stock Exchange and the Nasdaq Global Market under the symbol AEC. On September 24, 2010, the last reported sale price of our common shares on the New York Stock Exchange was \$14.67 per share and on the Nasdaq Global Market, \$14.67 per share.

Subject to certain exceptions, our Second Amended and Restated Articles of Incorporation restrict ownership of more than 4% of our common shares in order to protect our status as a real estate investment trust, or REIT, for federal income tax purposes. See **Description of Common Shares Restrictions on Ownership** in the accompanying prospectus.

**Investing in our common shares involves certain risks. See Risk Factors beginning on page S-6 of this prospectus supplement and in the reports we file with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, incorporated by reference in this prospectus supplement and the accompanying prospectus, to read about factors you should consider before buying our common shares.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete.

Any representation to the contrary is a criminal offense.

	<b>Per Share</b>	<b>Total</b>
Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds, Before Expenses, to Us	\$	\$

The underwriters expect that the common shares will be ready for delivery on or about October , 2010.

*Joint Book-Running Managers*

**Citi** **Raymond James**

September , 2010

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**You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus required to be filed with the Securities and Exchange Commission, or the SEC. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any such free writing prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.**

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## **ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to or updates the information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information about our common shares and other securities that do not pertain to this offering of common shares. To the extent that the information contained in this prospectus supplement conflicts with any information in the accompanying prospectus or any document incorporated by reference, the information in this prospectus supplement shall control. The information in this prospectus supplement may not contain all of the information that is important to you. You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully before deciding whether to invest in our common shares.

References to we, us, our and our company in this prospectus supplement and the accompanying prospectus are to Associated Estates Realty Corporation and its consolidated subsidiaries, unless the context otherwise requires.

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus contain or incorporate by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by the use of forward-looking words, such as expects, projects, believes, plans, anticipates, estimates, may, will or intends or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. For a discussion of factors that could cause actual results to differ from those contemplated in the forward-looking statements, please see the discussion under Risk Factors contained in this prospectus supplement and the reports we file under the Exchange Act, incorporated by reference in this prospectus supplement and the accompanying prospectus. We do not undertake any responsibility to update any of these factors or to announce publicly any revisions to forward-looking statements, whether as a result of new information, future events or otherwise.

## SUMMARY

*The following summary may not contain all of the information that is important to you. You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully before deciding whether to invest in our common shares. In this prospectus supplement, when we refer to our same community portfolio for any particular year, we mean the portfolio of properties that we own during such year that are stabilized (i.e., properties that we have owned for at least one year and that have achieved 93% physical occupancy, but excluding Affordable Housing Properties and properties that are held for sale). References to our same community portfolio with regard to different years should not be interpreted to mean a comparison of the same group of properties during such different years, but rather a comparison of the group of properties in our portfolio that were stabilized in one year compared to the group of properties in our portfolio that were stabilized in such other year. Other real estate companies may define same community portfolio in a different manner.*

### The Company

We are a fully-integrated, self-administered and self-managed REIT specializing in multifamily property management, development, acquisition, disposition, construction, operation and ownership activities. As of June 30, 2010, our owned and non-owned portfolio consisted of 50 apartment communities containing 12,730 units primarily located in the Midwest, Mid-Atlantic and Southeast. We operate as a REIT for federal income tax purposes and own two taxable REIT subsidiaries that provide asset management and construction services to us and to third parties.

As of June 30, 2010, our portfolio consisted of: (i) 49 apartment communities containing 12,472 units in seven states that are wholly owned, either directly or indirectly through subsidiaries; (ii) one apartment community that we manage for a third party owner consisting of 258 units; and (iii) a 186-unit apartment community and a commercial property containing approximately 145,000 square feet that we asset manage for a government sponsored pension fund. (The contract for the asset management of the 186-unit apartment community was terminated effective August 31, 2010.)

Our corporate headquarters is located at 1 AEC Parkway, Richmond Heights, Ohio 44143 and our telephone number is (216) 261-5000.

### **Recent Developments**

In September 2010, we completed the acquisition of The Ashborough, a 504-unit apartment community located in Ashburn, Virginia, for a purchase price of approximately \$90 million. The property was built in 2004 and is located in the Eastern Loudoun County submarket.

We also entered into an agreement to purchase an apartment community located in Dallas, Texas, for a purchase price of approximately \$21 million. The due diligence period with regards to this agreement has expired, although the acquisition is subject to satisfaction of customary closing conditions. We expect that the closing will occur in October 2010. There can be no assurance that this acquisition will be consummated.

In addition, in July 2010, we entered into an agreement to purchase a 2.74 acre land parcel and the development rights for the purpose of developing a 242-unit apartment community in Nashville, Tennessee. The development will be owned by a joint venture in which we will have a 90% ownership interest, and Merit Enterprises, Inc., or Merit, our wholly owned subsidiary, will act as general contractor for construction of the development. The acquisition was completed on September 24, 2010.

***Our Competitive Strengths***

*Quality Portfolio of Assets in Attractive Markets.* We own a quality portfolio primarily located in attractive submarkets in major metropolitan areas in the Midwest, Mid-Atlantic and Southeast. Many of our apartment communities are located in close proximity to major employment centers and strong school systems. As of June 30, 2010, our wholly owned apartment communities had an average age of 16 years. A key focus

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of our acquisition/disposition strategy has been to maintain a younger portfolio, which generally results in assets requiring less capital maintenance.

*Positive Trends in Operating Performance.* From 2005 to June 2010, our same community portfolio (as defined above) has averaged 94.4% physical occupancy and generated 4.1% average annual net collected rent growth. Despite the protracted economic downturn, our physical occupancy for our overall portfolio remained strong at 96.0% as of June 30, 2010.

Since 2005, we have executed on our strategic plan to dispose of low margin legacy properties and pursued what we believed to be a disciplined approach to capital allocation. We used a portion of the sale proceeds of these dispositions to acquire assets in the Mid-Atlantic and Southeast markets and to repay in excess of \$200 million of high coupon commercial mortgage backed securities debt. As of June 30, 2010, 23 of our properties, with a gross book value before depreciation of approximately \$387.2 million, are unencumbered by mortgages. Those unencumbered properties generated 33.8% of our property net operating income for the six months ended June 30, 2010.

*Multifamily Operating Platform Focused on Value Creation.* We have developed a leasing and management platform that is focused on the support of property level operations and maximizing property net operating income at each of our apartment communities. Resident-centric programs include customized, user-friendly property web pages and portals, credit approval, rent payment, and utility connection set-up and a 24/7 call center for leasing and property information. Management systems include web-based property management software that provides live financial, unit availability, leasing, procurement and expense data and a utility management program that bills residents for trash and water/sewer reimbursements, monitors rates and tariffs, and serves as a centralized utility payment processing center.

We believe our operating platform and extensive infrastructure of personnel, policies and procedures and corporate resources all focused on site level operations will allow us to efficiently manage a larger portfolio as we grow.

*Experienced Management Team with Aligned Interests.* Our senior management team has over 165 years of collective multifamily experience and an average of nearly eleven years with our company. We believe that our senior management team's extensive knowledge of multifamily operations provides us with a key competitive advantage. As of June 30, 2010, our senior management team, directors and members of their respective families collectively owned approximately 9% of our common shares outstanding, which we believe better aligns management's interest with those of our shareholders.

### ***Operating Strategy and Business Objectives***

*Acquisition/Disposition.* Our acquisition/disposition strategy has been to purchase properties outside the Midwest, sell older, low margin legacy properties located in the Midwest and sell properties in markets where we only owned a single or few properties. 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 or repurchase our shares.

Since 2005, we have sold 31 properties containing a total of 6,923 units including 12 Affordable Housing properties. Consistent with our strategy to diversify outside the Midwest, since 2005, we acquired eight properties consisting of 2,939 units in Florida, Georgia and Virginia. We are aggressively seeking acquisition opportunities.

*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 collected 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

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internet through enhanced property websites, resident portals and the implementation of programs such as utility and refuse reimbursements. Our AEC Academy for Career Development provides training and support for our employees, which helps us to provide better trained, quality personnel at our communities as well as minimizes or reduces 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 2007, 2008, 2009 and 2010, we continued to focus on lowering our cost of debt by financing, refinancing and defeasing/prepaying debt. Our weighted average interest rate on our total debt declined 140 basis points from 7.2% at the end of 2006 to 5.8% at June 30, 2010. Our interest coverage ratio and fixed charge coverage ratio were 1.75:1 and 1.55:1, respectively, at June 30, 2010, up from 1.54:1 and 1.38:1, respectively, at December 31, 2006.

During 2008, we increased our \$100.0 million unsecured revolving credit facility to \$150.0 million. This facility provides financial flexibility and the opportunity to capitalize on strategic acquisitions without the delays associated with financing contingencies. As of June 30, 2010, approximately \$35.0 million was outstanding under our unsecured revolving credit facility, leaving approximately \$115.0 million of availability under this facility. In addition, we have a credit facility agreement with Wells Fargo Multifamily Capital, on behalf of the Federal Home Loan Mortgage Corporation, or Freddie Mac. Pursuant to the terms of the facility, we have the potential to borrow up to \$100 million over a two-year period with obligations being secured by nonrecourse, non cross-collateralized fixed or variable rate mortgages having terms of five, seven or ten years. In August 2010, we used this facility to borrow \$36.0 million at a fixed rate of 5.1% for a term of 10 years, leaving \$64.0 million of availability under the terms of this facility.

*General Contractor/Construction.* Our subsidiary, Merit, is a general contractor that acts as our in-house construction division and provides general contracting and construction management services to third parties.

**Our Portfolio**

The following table presents property operating data for our portfolio by market and region as of and for the six months ended June 30, 2010:

	<b>No. of Units</b>	<b>Average Age<sup>(1)</sup></b>	<b>Physical Occupancy<sup>(2)</sup></b>	<b>Property Revenue</b>
	<b>(Dollar amounts in thousands)</b>			
<b>Midwest Properties</b>				
Indiana	836	14	97.8%	\$ 4,177
Michigan	2,888	19	97.3%	12,935
Ohio Central Ohio	2,621	19	96.4%	12,586
Ohio Northeastern Ohio	1,303	15	98.9%	7,459
Total/Average Midwest Properties	7,648	18	97.3%	37,157
<b>Mid-Atlantic Properties</b>				
Baltimore/Washington	667	24	95.7%	5,114
Virginia	804	4	96.4%	5,348
Total/Average Mid-Atlantic Properties	1,471	13	96.1%	10,462
<b>Southeast Properties</b>				
Florida	1,272	11	95.9%	8,779
Georgia	1,717	15	94.5%	7,584
Total/Average Southeast Properties	2,989	14	95.1%	16,363
<b>Total/Average Same Community Acquisition Properties<sup>(3)</sup></b>	12,108	16	96.6%	63,982
Virginia	304	5	90.8%	625
<b>Development Properties</b>				
Virginia <sup>(4)</sup>	60	N/A	N/A	N/A
<b>Total/Average Portfolio</b>	12,472	16	96.0%	\$ 64,607

(1) Weighted average age shown in years.

(2) Weighted average physical occupancy is as of June 30, 2010.

(3) We define acquisition properties as properties which we have owned for less than one year.

(4) Reflects construction of 60 units on land adjacent to River Forest Apartments in Richmond, Virginia placed in service on June 30, 2010.

### The Offering

Issuer	Associated Estates Realty Corporation
Common shares offered by us	8,000,000 common shares, without par value (9,200,000 if the underwriters' over-allotment option is exercised in full)
Common shares to be outstanding after this offering	40,169,761 common shares (41,369,761 common shares if the underwriters' over-allotment option is exercised in full)
Use of proceeds	We expect that the net proceeds from this offering will be approximately \$ million after deducting the underwriting discount and our estimated expenses (or approximately \$ million if the underwriters' over-allotment option is exercised in full). We intend to use the net proceeds from this offering to fund property acquisitions, to repay indebtedness and for general corporate purposes. Pending application for the foregoing purposes, we intend to use the net proceeds from this offering to temporarily repay borrowings outstanding under our unsecured revolving credit facility.
Ownership limit	Subject to certain exceptions, our Second Amended and Restated Articles of Incorporation restrict ownership of more than 4% of our common shares in order to protect our status as a REIT for federal income tax purposes. See Description of Common Shares Restrictions on Ownership in the accompanying prospectus.
Listing	Our common shares are listed on the New York Stock Exchange and the Nasdaq Global Market under the symbol AEC.
Risk factors	An investment in our common shares involves risks, and prospective investors should carefully consider the matters discussed under Risk Factors beginning on page S-6 of this prospectus supplement and the reports we file with the SEC pursuant to the Exchange Act, incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment in our common shares.

- (1) The number of common shares to be outstanding after this offering is based on 32,169,761 common shares outstanding as of September 24, 2010 and excludes 751,640 common shares issuable upon the exercise of outstanding options.

## RISK FACTORS

*You should carefully consider the risks described below and the reports we file with the SEC pursuant to the Exchange Act, incorporated by reference herein, before making an investment in our common shares. The risks and uncertainties described below are not the only ones facing our company 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. As a result, our ability to pay dividends on, and the market price of, our common shares may be adversely affected if any of such risks are realized.*

### **Risks Related to This Offering**

***The Market Price of Our Common Shares may Fluctuate or Decline Significantly.*** The market price of our common shares may fluctuate or decline significantly in response to many factors, including those set forth under Cautionary Statement Regarding Forward-Looking Statements as well as:

actual or anticipated changes in operating results or business prospects;

changes in earnings estimates by securities analysts;

an inability to meet or exceed securities analysts' estimates or expectations;

difficulties or inability to access capital or extend or refinance existing debt;

decreasing (or uncertainty in) real estate valuations;

publication of research reports about us or the real estate industry;

changes in analyst ratings or our credit ratings;

conditions or trends in our industry or sector;

the performance of other multifamily residential REITs and related market valuations;

announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;

we impose shareholder ownership limitations that may discourage a takeover otherwise considered favorable by shareholders;

hedging or arbitrage trading activity in our common shares;

actions by institutional shareholders;

changes in interest rates;

capital commitments;

additions or departures of key personnel;

future sales of our common shares or securities convertible into, or exchangeable or exercisable for, our common shares;

the realization of any of the other risk factors included or incorporated by reference in this prospectus supplement and the accompanying prospectus; and

general market and economic conditions.

***This Offering may have a Dilutive Effect on Our Earnings per Share and Our Funds from Operations per Share.*** The issuance of common shares in this offering may have a dilutive effect on our 2010 earnings per share and our funds from operations, as adjusted, per share and could cause the market price of our common shares to decline significantly.

***There may be Future Dilution of Our Common Shares.*** Our board of directors is authorized under our Second Amended and Restated Articles of Incorporation, as amended, to, among other things, authorize the issuance of additional common shares or preferred shares or securities convertible or exchangeable into equity securities, without shareholder approval. We may issue such additional equity or convertible securities to raise additional capital. Holders of our common shares have no preemptive rights that entitle them to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders. We cannot predict the size of future issuances or sales of our common shares or other related equity securities into the public market or the effect, if any, that such issuances or sales may have on the market price of our common shares.

***We may Issue Debt and Equity Securities or Securities Convertible into Equity Securities, Any of Which may be Senior to Our Common Shares as to Distributions and in Liquidation.*** In the future, we may issue additional debt or equity securities or securities convertible into or exchangeable for equity securities, or we may enter into debt-like financing that is unsecured or secured by up to all of our multifamily apartment communities. Such securities may be senior to our common shares as to distributions. In addition, in the event of our liquidation, our lenders and holders of our debt and preferred securities would receive distributions of our available assets before distributions to the holders of our common shares.

#### **Risks Related to Our Business.**

***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;

our ability to refinance debt on favorable terms at maturity;

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

competition from other available multifamily units and changes in market rental rates;

new acquisitions and/or development projects may fail to perform in accordance with our expectations;

increases in property and liability insurance costs;

unanticipated increases in real estate taxes and other operating expenses;

weather conditions that adversely affect operating expenses;

expenditures that cannot be anticipated such as utility rate and usage increases, unanticipated repairs and real estate tax valuation reassessments or millage rate increases;

our inability to control operating expenses or achieve increases in revenue;

shareholder ownership limitations that may discourage a takeover otherwise considered favorable 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;

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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.

***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 apartment 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.

***The Properties We Own are Concentrated in Ohio, Michigan, Georgia, Florida, Virginia, Indiana and Maryland.*** As of June 30, 2010, approximately 32%, 23%, 14%, 10%, 9%, 7% and 5% of the units in properties we own were located in Ohio, Michigan, Georgia, Florida, Virginia, Indiana and Maryland, respectively. Our performance, therefore, is linked to economic conditions and the market for available rental housing in the sub-markets in which we operate. The decline in the market for apartment housing in the various sub-markets in Ohio and Michigan, where 55% of our units are located, or to a lesser extent the sub-markets in the other states, may adversely affect our financial condition, results of operations and ability to make distributions to our shareholders.

***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, generally are not covered by our insurance. Other risks are subject to various limits, sublimits, deductibles and self insurance retentions, which help to control insurance costs, but which may result in increased exposures to uninsured loss. Any such uninsured loss could have a material adverse effect on our business, financial condition and results of operations.

***Secured Debt Financing could Adversely Affect Our Performance.*** At June 30, 2010, 26 of our 49 properties were encumbered by project specific, non-recourse, and except for five properties, non-cross-collateralized mortgage debt. There is a risk that these properties may not have sufficient cash flow from operations to pay required principal and interest. 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 and refinancing credit facilities to qualified borrowers, such as ourselves, there is no assurance that those

facilities will remain available.

***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, or the Code, limit the ability of a

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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.

***Unsecured Debt Risks.*** Our \$150.0 million unsecured revolving credit facility will mature in March 2011. We are currently in discussion with our lenders to renew that credit facility. Although current indications suggest that we will be able to renew the facility on acceptable terms, no assurance can be given that we will renew that facility. Moreover, our lack of an investment grade rating on our debt may hinder or make more costly our access to the public debt markets.

***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 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, or 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 that are open to the public. In addition, the Fair Housing Amendments Act of 1988 requires apartment communities first occupied after March 13, 1990 to be accessible to the handicapped. Other laws also require apartment communities to be handicap accessible. 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. We are not aware of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental matters in connection with any of our properties. Nonetheless, 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.

***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 of such projects, acquisitions or expansions to achieve anticipated operating results;

development construction costs exceeding original estimates;

construction delays; and

expenditure of funds on, and the devotion of management time and effort 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 and supplemented to date, prohibit the ownership of more than 4% of our outstanding common shares and more than 9.8% of the shares of any series of any class of preferred shares by any person, unless we grant a waiver. Absent such a waiver, any shares owned in excess of such ownership limit are subject to repurchase by us and to other consequences as set forth in our Second Amended and

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Restated Articles of Incorporation, as amended. All common shares issued by our company are subject to the following restrictions, whether such shares are in certificated or uncertificated form:

The Common Shares represented by this certificate are subject to restrictions on transfer for the purpose of preserving the Corporation's status as a Real Estate Investment Trust under the Internal Revenue Code of 1986, as amended. Subject to certain provisions of the Corporation's Second Amended and Restated Articles of Incorporation, as amended, no Person may Beneficially Own Common Shares in excess of 4% of the outstanding Common Shares of the Corporation (unless such Person is an Existing Holder) and no Person (other than an Existing Holder who Constructively Owns in excess of 9.8% of the Common Shares immediately following the consummation of the Initial Public Offering) may Constructively Own Common Shares in excess of 9.8% of the outstanding Common Shares of the Corporation. Any Person who attempts to Beneficially Own or Constructively Own Common Shares in excess of the above limitations must immediately notify the Corporation. All capitalized terms in this legend have the meanings defined in the Corporation's Second Amended and Restated Articles of Incorporation, a copy of which, including the restrictions of transfer, will be sent without charge to each shareholder who so requests. If the restrictions on transfer are violated, certain of the Common Shares represented may be subject to repurchase by the Corporation on the terms and conditions set forth in the Corporation's Second Amended and Restated Articles of Incorporation, as amended.

Any preferred shares we would issue would be subject to the same restrictions except for the ownership limit, which instead would be 9.8%.

***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% or more of our common shares. We are domiciled in the State of Ohio, where various state statutes place certain restrictions on takeover activity. Our shareholders rights plan and these restrictions are likely to have the effect of precluding acquisition of control of us without our consent even if a change in control is in the interests of shareholders. All common shares issued by our company include the following reference to such shareholders rights agreement whether such shares are in certificated or uncertificated form:

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in an Second Amended and Restated Shareholder Rights Agreement between Associated Estates Realty Corporation, an Ohio corporation (the Company), and Wells Fargo Shareowner Services, a division of Wells Fargo Bank, N.A. as rights agent (the Rights Agent), dated as of December 30, 2008 (as amended, supplemented or otherwise modified from time to time, the Rights Agreement), the terms of which are incorporated by reference herein and a copy of which is on file at the principal offices of the Company and the stock transfer administration office of the Rights Agent. The Company will mail a copy of the Rights Agreement without charge to the holder of this certificate within five days after the receipt of a written request therefor. Under certain circumstances, as set forth in the Rights Agreement, the Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. The Company may redeem the Rights at a redemption price of \$0.01 per Right, subject to adjustment, under the terms of the Rights Agreement. Under certain circumstances, Rights issued to or held by Acquiring Persons or by any Affiliates or Associates thereof (as defined in the Rights Agreement), and any subsequent holder of such Rights, may become null and void. The Rights are not exercisable, and are void so long as held, by a holder in any jurisdiction where the requisite qualification to the issuance to such holder, or the exercise by such holder, of the Rights in such jurisdiction has not been obtained.

***We may Fail to Qualify as a REIT and Our Shareholders may Incur Tax Liability as a Result.*** 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. Although we believe that we will continue to operate as a REIT, no assurance can be given that we will remain qualified as a REIT. 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

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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 are Subject to Control by*