HOME PROPERTIES OF NEW YORK INC
Form DEF 14A
March 28, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant |X|
Filed by a party other than the Registrant |_|

Check the appropriate box:

|_| Preliminary Proxy Statement

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

|X| Definitive Proxy Statement

|_| Definitive Additional Materials

|_| Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

Home Properties of New York, Inc.

(Name of Registrant as Specified in Its Charter)

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|X| No fee required.

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(1) Amount Previously Paid: ________________________________

(2) Form, Schedule or Registration Statement No.:____________________

(3) Filing Party: ____

(4) Date Filed: ___________________________

March 31, 2003

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Home Properties of New York, Inc. The Annual Meeting will be held on Tuesday, May 6, 2003, at 2:30 p.m. at the Dryden Theatre of the International Museum of Photography at George Eastman House, 900 East Avenue, Rochester, New York 14607.

A Notice of Annual Meeting and a Proxy Statement are attached. They describe the matters to be acted upon at the Annual Meeting. Your vote on these matters is very important. Please sign, date and return the enclosed proxy card in the envelope provided. Alternatively, you may choose to vote by telephone or internet. Voting by any of these methods before the meeting will insure that your shares are represented at the meeting, whether or not you plan to attend in person.

We look forward to seeing you at the meeting.

/s/ Norman P. Leenhouts
Norman P. Leenhouts
CHAIRMAN AND CO-CHIEF EXECUTIVE
OFFICER

/s/ Nelson B. Leenhouts
Nelson B. Leenhouts
PRESIDENT AND CO-CHIEF EXECUTIVE
OFFICER

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 6, 2003

NOTICE IS HEREBY GIVEN that the 2003 Annual Meeting of Stockholders of Home Properties of New York, Inc. (the Company) will be held on Tuesday, May 6, 2003 at 2:30 p.m. at the Dryden Theatre of the International Museum of Photography at George Eastman House, 900 East Avenue, Rochester, New York 14607 for the following purposes:

1. To elect twelve directors of the Company to serve until the 2004 Annual Meeting of Stockholders and until their respective successors are elected;
2. To approve the Company s 2003 Stock Benefit Plan;
3. To ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent auditors for 2003; and
4. To consider and act upon any other matters that are properly brought before the Annual Meeting and at any adjournments or postponements thereof.

The Board of Directors set the close of business on March 10, 2003 as the record date. Only stockholders whose names appear on the stock register of the Company at the close of business on the record date will be entitled to notice of and to vote at the Annual Meeting and at any adjournments or postponements. (If you hold your stock in the name of a brokerage firm, bank or other nominee, only that entity can vote your shares. Please give instructions for your shares to be voted to the person responsible for your account.)

There are four ways to vote:

- by completing the enclosed proxy card and returning it in the enclosed postage prepaid envelope;
- by internet at eproxy.com/hme;
- by toll-free telephone at 1-800-435-6710; or
- by written ballot at the meeting.

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

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

Rochester, New York
March 31, 2003

By Order of the Board of Directors

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

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

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

PROXY STATEMENT

FOR 2003 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 6, 2003

March 31, 2003

General Information

This Proxy Statement is delivered to you in connection with the solicitation of proxies by the Board of Directors of Home Properties of New York, Inc. (the Company) for use at the 2003 Annual Meeting of Stockholders of the Company (the Annual Meeting). The Annual Meeting will be held on Tuesday, May 6, 2003 at 2:30 p.m. at the Dryden Theatre of the International Museum of Photography at George Eastman House, 900 East Avenue, Rochester, New York 14607. The approximate date on which the enclosed form of proxy and this Proxy Statement are first being sent to stockholders is March 31, 2003.

Who may vote

Stockholders of the Company as of the Company s record date, March 10, 2003, may vote.

Outstanding shares

On March 10, 2003, 27,810,859 shares of the Company s Common Stock were outstanding. Each share of Common Stock has one vote.

How to vote

There are four ways to vote:

1. internet at eproxy.com/hme;
2. toll-free telephone at (800) 435-6710;
3. completing and mailing your proxy card; or
4. written ballot at the Annual Meeting.

How proxies work

The Company s Board of Directors is asking for your proxy. By giving us your proxy, you authorize the proxy holders (Nelson B. Leenhouts and Norman P. Leenhouts, the Company s Co-Chief Executive Officers) to vote your shares at the Annual Meeting in the manner you direct.

If you vote by any of the above methods but do not specify how you wish to vote your shares, your shares will be voted for all director candidates, for the 2003 Stock Benefit Plan, and for the ratification of the appointment of PricewaterhouseCoopers LLP as independent accountants for the Company for 2003.

Proxy holders will also vote shares according to their discretion on any other matter properly brought before the meeting.

You may receive more than one proxy card depending on how you hold your shares. For example, if you hold shares through someone else, such as a stockbroker, you may get proxy material from them.

Quorum

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

Votes needed

A majority of the votes cast at the Annual Meeting is necessary to elect each of the nominees for directors named in this Proxy Statement, to approve the 2003 Stock Benefit Plan, and to ratify the appointment of PricewaterhouseCoopers LLP as independent accountants for 2003. Any other matter properly brought before the meeting also requires the favorable vote of a majority of the votes cast. Under Maryland law, if a stockholder abstains on a vote, the abstention does not constitute a vote for or against a matter. Thus, abstentions are disregarded in determining the votes cast .

Changing your vote

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

PROPOSAL 1

ELECTION OF DIRECTORS

At the Annual Meeting, twelve individuals will be elected to serve as directors until the 2004 Annual Meeting and until their successors are elected.

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

The favorable vote of the holders of a majority of the shares of Common Stock cast at the Annual Meeting is required for the election of the Nominees as directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES.

Information Regarding Nominees for Director

Brief biographical descriptions of the Nominees follow. The information was furnished to the Company by the Nominees. The information is up to date through March 10, 2003.

Norman P. Leenhouts, 67, has served as Chairman of the Board of Directors, Co-Chief Executive Officer and a director of the Company since its inception in 1993. He has also served as Chairman of the Board of Home Properties Management, Inc. (HP Management) since its formation. He has been a director of Home Properties Resident Services, Inc. (HPRS) since its formation and Chairman since 2000. Norman Leenhouts is a co-owner, together with Nelson Leenhouts, of Home Leasing Corporation, the Company s predecessor (Home Leasing), and served as Chairman of Home Leasing since 1971. He is a director of Hauser Corporation, Rochester Downtown Development Corporation and the Free Methodist Foundation. Mr. Leenhouts is also a member of the Board of Trustees of Roberts Wesleyan College and a Life Trustee of the University of Rochester. He is a graduate of the University of Rochester and is a certified public accountant. He is the twin brother of Nelson Leenhouts and the father of Amy Tait.

Nelson B. Leenhouts, 67, has served as President, Co-Chief Executive Officer and a director of the Company since its inception in 1993. He has also served as President and Chief Executive Officer and as a director of HP Management since its formation. He has been a director of HPRS since its formation, President since 2000 and a Vice President since 1998. Nelson Leenhouts was the founder, and a co-owner, together with Norman Leenhouts, of Home Leasing, and served as President of Home Leasing since 1967. He is a director of Hauser Corporation and a member of the Board of Directors of the National Multi Housing Council. Nelson Leenhouts is a graduate of the University of Rochester. He is the twin brother of Norman Leenhouts and the uncle of Amy Tait.

Edward J. Pettinella, 51, has served as Executive Vice President and a director of the Company since February, 2001 when he joined the Company. From 1997 until February, 2001, Mr. Pettinella served as President, Charter One Bank (N.Y. Division) and Executive Vice President of Charter One Financial, Inc. From 1980 through 1997, Mr. Pettinella served in several managerial capacities for Rochester Community Savings Bank, Rochester, NY, including the positions of Chief Operating Officer and Chief Financial Officer. Mr. Pettinella serves on the Boards of Directors of the United Way of Greater Rochester, State University at Geneseo, Geneseo Foundation, Syracuse University School of Business, and the YMCA of Greater Rochester. Mr. Pettinella is a graduate of the State University at Geneseo and holds an MBA from Syracuse University.

Burton S. August, Sr., 87, has been a director of the Company since August 1994. Mr. August was a director from 1979 until August, 2002 of Monro Muffler Brake, Inc., a publicly traded company where he also served as Vice President from 1969 until he retired in 1980. Mr. August is Honorary Chairman of the Board of Trustees of Rochester Institute of Technology, a member of the Executive Committee of the United Way of New York State, a director of Hillside Children s Center Foundation, a cabinet member of the Al Sigl Center, a member of the Finance Committee of the United Way of Greater Rochester and the Investment Committee of the Strong Museum, and a Trustee of the Otetiana Council Boy Scouts of America.

William Balderston, III, 75, has been a director of the Company since August 1994. From 1991 to the end of 1992, he was an Executive Vice President of The Chase Manhattan Bank, N.A. From 1986 to 1991, he was President and Chief Executive Officer of Chase Lincoln First Bank, N.A., which was merged into The Chase Manhattan Bank, N.A. He is a Senior Trustee of the University of Rochester and a member of the Board of Governors of the University of Rochester Medical Center. Mr. Balderston is also a Trustee of the Genesee Country Village Museum, as well as a member of the Board of the Genesee Valley Conservancy. Mr. Balderston is a graduate of Dartmouth College.

Alan L. Gosule, 62, has been a director of the Company since December 1996. Mr. Gosule has been a partner in the law firm of Clifford Chance US LLP, New York, New York, since August 1991 and prior to that time was a partner in the law firm of Gaston & Snow. He serves as Chairman of the Clifford

Chance US LLP Real Estate Department. Mr. Gosule is a graduate of Boston University and its Law School and received an LL.M. from Georgetown University. Mr. Gosule also serves on the Boards of Directors of the Simpson Housing Limited Partnership, F.L. Putnam Investment Management Company, Colonnade Partners, and MFA Mortgage Investments, Inc. Clifford Chance US LLP acted as counsel to PricewaterhouseCoopers LLP in its capacity as advisor to the State Treasurer of the State of Michigan in connection with its investment of retirement funds in Home Properties of New York, L.P. (Home Properties). Mr. Gosule was the nominee of the State Treasurer under the terms of the investment agreements relating to that transaction. Those retirement funds divested their interest in Home Properties in 2001 and no longer have the right to nominate a board member. Mr. Gosule is expected to continue to serve as a nominee of the Board of Directors.

Leonard F. Helbig, III, 57, has been a director of the Company since August 1994. Since September 2002 he has served as a Director of Integra Realty Advisors in Philadelphia. Between 1980 and 2002 he was employed with Cushman & Wakefield, Inc. From 1999 until 2002 Mr. Helbig served as President, Financial Services for Cushman & Wakefield, Inc. Prior to that and since 1984, Mr. Helbig was the Executive Managing Director of the Asset Services and Financial Services Groups. He was a member of that firm s Board of Directors and Executive Committee. Mr. Helbig is a member of the Urban Land Institute, the Pension Real Estate Association and the International Council of Shopping Centers. Mr. Helbig is a graduate of LaSalle University and holds the MAI designation of the American Institute of Real Estate Appraisers.

Roger W. Kober, 69, has been a director of the Company since August 1994. Mr. Kober is currently a member of the Advisory Board of Rochester Gas and Electric Corporation, an Energy East Company. He was employed by Rochester Gas and Electric Corporation from 1965 until his retirement on January 1, 1998. From March 1996 until January 1, 1998, Mr. Kober served as Chairman and Chief Executive Officer of Rochester Gas and Electric Corporation. He is also a member of the Board of Trustees of Rochester Institute of Technology. Mr. Kober is a graduate of Clarkson College and holds a Masters Degree in Engineering from Rochester Institute of Technology.

Albert H. Small, 77, has been a director of the Company since July 1999. Mr. Small, who has been active in the construction industry for 50 years, is President of Southern Engineering Corporation. He is a member of the Urban Land Institute, National Association of Home Builders and currently serves on the Board of Directors of the National Symphony Orchestra, National Advisory Board Music Associates of Aspen, Department of State Diplomatic Rooms Endowment Fund, James Madison Council of the Library of Congress, Tudor Place Foundation, The Life Guard of Mount Vernon, Historical Society of Washington, DC and the National Archives Foundation. Mr. Small is a graduate of the University of Virginia. In connection with the acquisition of a portfolio of properties located in the suburban markets surrounding Washington, D.C., Mr. Small and others received approximately 4,086,000 of operating partnership units in Home Properties (Units) . Mr. Small was the nominee of the former owners of that portfolio under the terms of the acquisition documents. Those former owners no longer have the right to nominate a board member. Mr. Small is expected to continue to serve as a nominee of the Board of Directors.

Clifford W. Smith, Jr., 56, has been a director of the Company since August 1994. Mr. Smith is the Epstein Professor of Finance of the William E. Simon Graduate School of Business Administration of the University of Rochester, where he has been on the faculty since 1974. He has written numerous books and articles on a variety of financial, capital markets and risk management topics and has held editorial positions for a variety of journals. Mr. Smith is a graduate of Emory University and has a PhD from the University of North Carolina at Chapel Hill.

Paul L. Smith, 67, has been a director of the Company since August 1994. Mr. Smith was a director, Senior Vice President and the Chief Financial Officer of the Eastman Kodak Company from 1983 until he retired in 1993. He is currently a director of Performance Technologies, Inc. and Constellation Brands, Inc. He is also a member of the Board of Trustees of the George Eastman House and Ohio Wesleyan University. Mr. Smith is a graduate of Ohio Wesleyan University and holds an MBA Degree in finance from Northwestern University.

Amy L. Tait, 44, has served as a director of the Company since its inception in 1993. Effective February 15, 2001, Mrs. Tait resigned her full-time position as Executive Vice President of the Company and as a director of HP Management. She is currently the principal of Tait Realty Advisors, LLC, and continued as a consultant to the Company pursuant to a consulting agreement that terminated on February 15, 2002. Mrs. Tait joined Home Leasing in 1983 and held several positions with the Company, including Senior and Executive Vice President and Chief Operating Officer. She currently serves on the M & T Bank Advisory Board and the boards of the United Way of Greater Rochester, Princeton Club of Rochester, the Al Sigl Center, and The Commission Project. Mrs. Tait is a graduate of Princeton University and holds an MBA from the William E. Simon Graduate School of Business Administration of the University of Rochester. She is the daughter of Norman Leenhouts.

The Board of Directors and its Committees

Board of Directors. The Company is managed by a Board of Directors composed of twelve members, nine of whom are not employed by the Company (the Non-Management Directors). The Board of Directors met six times in 2002. Albert H. Small attended fewer than 75% of the meetings held in 2002.

The Board of Directors has determined that each of the following Non-Management Directors is an independent director as defined in the proposed listing standards of the New York Stock Exchange (an Independent Director): Burton August, William Balderston, Alan Gosule, Leonard Helbig, Roger Kober, Albert Small, Clifford Smith and Paul Smith. This represents two-thirds of the members of the Board of Directors. Amy Tait was determined not to be an Independent Director because of her prior employment by the Company and familial relationship with Norman Leenhouts.

In 2002, the Board of Directors formalized its practice of holding an executive session of the Independent Directors at each quarterly Board meeting. The Chairman of the Corporate Governance/Nominating Committee, currently William Balderston, has been appointed to preside at these executive sessions.

Pursuant to the Company s retirement age policy, the retirement age for directors is 75, subject to exceptions if a determination is made, after confidential discussion among other Board members, that a specific director over age 75 is expected to make a significant contribution to the Company during the following year. Such a determination was made with respect to Burton. August, and Albert Small, both of whom are nominated herein to serve as directors.

During 2002, the Board of Directors approved several new corporate governance initiatives that exceed the requirements contained within the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and the recommendations of the New York Stock Exchange. The following additional policies were approved:

· With respect to stock options issued on or after August 5, 2002, the officers of the Company who are subject to the reporting provisions and trading restrictions of Section 16 of the Exchange Act of 1934 (the Executive Officers) and Non-Management Directors are prohibited, in connection with a stock option exercise, from selling more than the number of shares as shall be necessary to pay the exercise price and any related taxes and commissions. In addition, Executive Officers and Non-Management Directors are required to hold for a one-year period the equivalent number of shares that they receive upon the exercise of a stock option. These provisions are included in the 2003 Stock Benefit Plan proposed for stockholder approval in this proxy statement.

· All Executive Officers and Non-Management Directors must file a binding trading plan with the Company at least 30 days prior to selling any Company shares.

· In the event of the downward re-statement of earnings resulting from material non-compliance caused by misconduct, all Executive Officers plus the Controller (not just the Chief Executive Officer(s) and Chief Financial Officer as required by Sarbanes-Oxley) must repay the portion of their bonus that constitutes the overpayment.

· Beginning in 2003, the Company will account for all stock option awards utilizing the fair value method.

Audit Committee. Alan Gosule, Leonard Helbig, Roger Kober and Paul Smith currently form the Audit Committee of the Board of Directors. Paul Smith chairs this Committee. The Audit Committee selects the Company s independent public accountants, reviews and, subsequent to August, 2002, pre-approves all audit and non-audit services provided by the independent public accountants, reviews the scope of the audit engagement and any other services, reviews the independent public accountants recommendations and management s responses to those recommendations, reviews the independence of the independent public accountants, reviews any major accounting changes made or contemplated and reviews the adequacy of the Company s internal accounting controls. The Audit Committee met four times during 2002. All of the members attended each of the Audit Committee meetings held in 2002.

The Board of Directors has determined that each member of the Audit Committee is independent as required by Sarbanes-Oxley and the regulations promulgated thereunder and by the listing standards of the New York Stock Exchange. The Board of Directors has also determined that the Audit Committee has at least one audit committee financial expert (as defined under applicable securities laws) and has identified that expert as Paul Smith.

Management and Directors Committee. Burton August, William Balderston, and Clifford Smith currently form the Management and Directors Committee of the Board of Directors. Clifford Smith chairs this Committee. Among its other responsibilities, the Management and Directors Committee performs the traditional functions of a compensation committee, including establishing remuneration levels for officers and directors of the Company, reviewing significant employee benefit programs and establishing and administering executive compensation programs, including bonus plans, stock option and other equity-based programs, deferred compensation plans and any other cash or stock incentive programs. It also oversees matters pertaining to succession planning. The Board of Directors has determined that each member of the Management and Directors Committee is an Independent Director. The Management and Directors Committee met formally three times during 2002 and there was 100% attendance at the meetings.

Corporate Governance/Nominating Committee. In 2002, the Board established the Corporate Governance/Nominating Committee to supercede the Nominating Committee that it had established in 2001. William Balderston, Clifford Smith and Paul Smith form the Corporate Governance/Nominating Committee. William Balderston chairs this Committee. In addition to fulfilling the traditional nominating committee functions of considering and making proposals to the full Board regarding Board composition as well as nominees to the Board when openings occur and otherwise, this Committee also evaluates and oversees the Company s governance structure and procedures. The Board of Directors has determined that each member of this Committee is an Independent Director. The Corporate Governance/Nominating Committee met once in 2002 and all of the Committee members attended.

The Corporate Governance/Nominating Committee will consider director candidates proposed by stockholders. Such stockholder submissions should include certain biographical information concerning the recommended individual, including address, employment and educational history, age and board memberships, if any, as well as the candidate s written consent to the nomination and to serve if elected. To be considered for nomination at the 2004 Annual Meeting, stockholder submissions for nomination must be received at the office of the Company to the attention of Ann M. McCormick, Secretary, 850 Clinton Square, Rochester, New York, 14604 on or prior to February 15, 2004.

Real Estate Investment Committee. In 2002, the Board established the Real Estate Investment Committee. Burton August, Leonard Helbig, Albert Small and Amy Tait are the members of this Committee. Burton August chairs the Real Estate Investment Committee. The purpose of this Committee is to review potential acquisitions and dispositions between regular meetings of the Board of Directors and to approve such transactions as are acceptable to the Committee pursuant to the authorization parameters approved by the Board of Directors. The Real Estate Investment Committee met once in 2002 and all members attended except for Albert Small.

Compensation of Directors

In 2002, the Company paid its Non-Management Directors an annual stipend of $20,000. An additional annual stipend in the amount of $3,000 was paid to the Chairman of each of the Audit and the Management and Directors Committees. Non-Management Directors were also paid $1,000 per day for attendance (in person or by telephone) at Board and committee meetings. For 2003, the additional annual stipend paid to the Committee Chairs will be increased to $5,000 and will be paid to the Chairmen of the Corporate Governance/Nominating and Real Estate Investment Committees, as well as to the Chairmen of the Audit and Management and Directors Committees. In addition, in February 2003, each of the Non-Management Directors received an award of 300 shares of restricted stock under the Company s 2000 Stock Benefit Plan. The restrictions on the restricted stock lapse in five years.

Pursuant to the 2000 Stock Benefit Plan, each of the Non-Management Directors was granted options to purchase 7,000 shares of the Company s Common Stock immediately following the annual meeting of stockholders in 2000, 2001 and 2002. Following the May 2002 annual stockholders meeting, the 7,000 options issued to each of the Non-Management Directors were issued at an exercise price of $36.03, which was the closing price of a share of the Company s Common Stock on that date. All of the options granted to the Non-Management Directors under the 2000 Stock Benefit Plan vested immediately upon grant.

Subject to receipt of stockholder approval, the Company s proposed 2003 Stock Benefit Plan provides that each of the Non-Management Directors will be provided with options to purchase shares of the Company s Common Stock immediately following the annual meeting of the stockholders in 2003 and 2004. These options are to have an exercise price equal to the fair market value of a share of the Company s Common Stock on the date of grant, and are to vest twenty percent per year. Subject to stockholder approval, the number of shares to be issued to each of the Non-Management Directors under the 2003 Stock Benefit Plan are 7,000 shares in 2003 and up to 10,000 shares in 2004. For 2004, the Management and Directors Committee will determine the number of option shares to be issued to each of the Non-Management Directors (not to exceed 10,000 per year) based on an analysis of the amount and type of consideration paid to the boards of the Company s peer group and other factors as may reasonably be considered.

Under the Director Deferred Compensation Plan, the Non-Management Directors can defer up to 100% of their total annual cash compensation (including meeting fees) for three, five or ten years and their compensation in the form of restricted stock for ten years. The Company contributes 10% of the deferred cash amount, which amount vests after three years. A phantom stock account is established for both the director and the Company contribution amounts. Each deferral and the Company contribution is reflected by crediting those accounts with the number of shares of the Company s Common Stock that could be purchased with the amounts deferred and contributed at the Common Stock s fair market value as of the day when the compensation would otherwise have been paid or with the number of shares of restricted stock where receipt of that component of compensation has been deferred. Participants accounts are also credited with the number of shares of the Company s Common Stock that could be purchased with hypothetical dividends that would be paid with respect to shares previously allocated to the accounts on the same date and at the same price that shares are purchased for participants in the dividend reinvestment feature of the Company s Dividend Reinvestment and Direct Stock Purchase Plan (the DRIP). Payments out of the deferred accounts, upon vesting or otherwise, are made by issuance of Common Stock, except in the event of payment by reason of a change in control in which event payment may be made in cash or by issuance of Common Stock at the election of the Management and Directors Committee. The Director Deferred Compensation Plan is designed to provide substantially the same benefits to the Non-Management Directors as are provided to eligible employees under the Company s Deferred Bonus Plan. Under the Director Deferred Compensation Plan, seven of the nine Non-Management Directors elected to defer some or all of the compensation earned by them in 2002.

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

Following her resignation as an officer of the Company in 2001, Mrs. Tait entered into a consulting agreement with the Company which is described below on page 28 under the heading Certain Relationships and Transactions. That agreement terminated by its terms on February 15, 2002.

EXECUTIVE COMPENSATION

The following table sets forth the cash compensation paid during 2000, 2001 and 2002 to the Company s two Co-Chief Executive Officers, the Executive Vice President and the five Senior Vice Presidents, which group includes the other four most highly compensated Executive Officers (collectively the Named Executives).

Summary Compensation Table

Long-Term
Compensation Awards
Securit

Name and Principal Position	Year	Annual Compensation Salary	Annual Compensation Bonus(1)	Restricted Stock Awards(2)	Underly Options
Norman P. Leenhouts,	2000	$276,000	$62,044	$ 3,102	50,000
Chairman and Co-Chief	2001	325,000	98,866	4,943	50,000
Executive Officer(5)	2002	400,000	192,000	118,800	50,000
Nelson B. Leenhouts,	2000	276,000	62,044	4,653	50,000
President and Co-Chief	2001	325,000	98,866	0	50,000
Executive Officer(6)	2002	400,000	192,000	99,600	50,000
Edward J. Pettinella,	2000	0	0	0	0
Executive Vice President(7)	2001	272,692	54,534	54,020	150,000
	2002	350,000	154,000	66,400	50,000
David P. Gardner,	2000	153,000	18,380	368	15,000
Senior Vice President and	2001	176,000	28,060	27,571	15,000
Chief Financial Officer(8)	2002	193,685	67,015	35,881	15,000
Ann M. McCormick,	2000	153,000	18,380	368	15,000
Senior Vice President,	2001	176,000	28,060	27,571	15,000
General Counsel and	2002	190,000	66,500	34,530	15,000
Secretary(9)					
John E. Smith,	2000	95,000	6,900	0	5,000
Senior Vice President(10)	2001	133,565	15,449	21,608	10,000
	2002	160,000	40,000	26,560	10,000
Scott A. Doyle,	2000	100,000	11,750	0	10,000
Senior Vice President(11)	2001	131,000	17,499	21,608	10,000
	2002	160,000	45,760	26,560	10,000
Johanna A. Falk,	2000	100,000	8,671	104	10,000
Senior Vice President(12)	2001	121,000	15,894	21,799	10,000
	2002	135,000	39,760	26,560	10,000

(1) All amounts listed in the following footnotes as having been subject to mandatory deferral were required to be deferred under the Company s Incentive Compensation Plan. When the deferred amounts are paid, they are paid with interest as provided in that plan. See the description of this plan under Incentive Compensation Plan on page 16 of this proxy statement.

(2) Amounts in this column include the value of shares of restricted stock issued under the Company s 2000 Stock Benefit Plan and, where applicable, the Company s contribution of 10% of the bonus deferred voluntarily by the Named Executives pursuant to the Company s Deferred Bonus Plan (a 10% Company Contribution). The value of the restricted stock is based on the closing price of a share of Common Stock on the New York Stock Exchange on the date of grant. The amount of the Company s contribution is credited to the applicable Named Executive s account in the form of shares as described under Deferred Bonus Plan on page 17 of this proxy statement (Plan Shares). The restrictions on the shares of restricted stock granted in 2001 lapse in February, 2006. The restrictions on the shares of restricted stock granted in 2002 lapse in February, 2007. The Plan Shares vest on the three-year anniversary of the date they were first credited to the applicable Named Executive s deferred bonus account. Dividends are paid on the restricted shares as and when dividends are paid on the Common Stock. The equivalent of dividends are paid on the Plan Shares at the time dividends are paid on the Common Stock and are reinvested as described on page 17 of this proxy statement. The value of all of the restricted stock (including Plan Shares) listed in this column for the Named Executives as of December 28, 2002 was as follows: Norman Leenhouts $133,780; Nelson Leenhouts $109,485; Edward Pettinella $137,800; David Gardner $72,926; Ann McCormick $71,440; John Smith $55,120; Scott Doyle $55,120; and Johanna Falk $55,458.

(3) All options were granted under the 2000 Stock Benefit Plan and are exercisable for 10 years following grant. Except with respect to options granted to Mr. Pettinella, all options vest five years from the date of grant. The exercise price for all options granted in 2000 is $31.375 per share. Except with respect to the options granted to Mr. Pettinella in February 2001, the exercise price for all options granted in 2001 is $30.15 per share. The exercise price for all options granted in 2002 is $34.65 per share. The options granted to Mr. Pettinella in 2001 and 2002 were granted pursuant to his employment agreement. Of the options granted in 2001, 100,000 were granted in February 2001 when Mr. Pettinella became an officer of the Company. These options vested immediately

at an exercise price of $27.01 per share, which was the closing price of a share of the Common Stock on the New York Stock Exchange on the date of grant. The remaining 50,000 options granted to Mr. Pettinella in 2001 were granted in July, 2001. These options vest 25,000 in July, 2002 and 25,000 in July, 2003. The options granted to Mr. Pettinella in 2002 vest 25,000 in August, 2003 and 25,000 in August, 2004.

(4) Represents contributions made by the Company to the Named Executive s account under the Company s retirement savings plan.

(5) Mr. Leenhouts 2000 bonus includes $21,099 and $19,748 which represents 50% of the amount of his 1998 bonus and 1999 bonus, respectively, that was subject to mandatory deferral plus interest. His 2001 bonus includes $20,866 which represents 50% of his 1999 bonus that was subject to mandatory deferral plus interest. The amounts in the restricted stock column represent the 10% Company Contribution which was credited to Mr. Leenhouts deferred bonus account in the form of 119, 151 and 613 Plan Shares, respectively, for 2000, 2001 and 2002. The amount in restricted stock column for 2002 also includes the value of 3,000 shares of restricted stock granted to Mr. Leenhouts in that year.

(6) Mr. Leenhouts 2000 bonus includes $21,099 and $19,748 which represents 50% of his 1998 bonus and 1999 bonus, respectively, that was subject to mandatory deferral plus interest. His 2001 bonus includes $20,866 which represents 50% of his 1999 bonus that was subject to mandatory deferral plus interest. For 2000, the amount in the restricted stock column represents the Company s 10% Contribution which was credited to Mr. Leenhouts deferred bonus account in the form of 178 Plan Shares. For 2002, the restricted stock column represents the value of 3,000 shares of restricted stock granted to Mr. Leenhouts in that year.

(7) Mr. Pettinella became an employee of the Company on February 5, 2001. For 2001 and 2002 the amounts in the restricted stock column represents the value of 2,000 shares of restricted stock granted to Mr. Pettinella in each of those years.

(8) Mr. Gardner s 2000 bonus includes $5,936 and $6,569, which represents 50% of his 1998 and 1999 bonus, respectively, that was subject to mandatory deferral plus interest. His 2001 bonus includes $6,940, which represents 50% of his 1999 bonus that was subject to mandatory deferral plus interest. The amounts in the restricted stock column include the 10% Company Contribution which was credited to Mr. Gardner s deferred bonus account in the form of 14, 17 and 86 Plan Shares, respectively, for 2000, 2001 and 2002. The amounts in the restricted stock column for 2001 and 2002 also include the value of 1,000 shares of restricted stock granted to Mr. Gardner in each of those years.

(9) Mrs. McCormick s 2000 and 2001 bonus amounts include the same mandatory deferral amounts from her 1998 and 1999 bonuses as referenced in footnote (8). The amounts in the restricted stock column include the 10% Company Contribution which was credited to Mrs. McCormick s deferred bonus account in the form of 14, 17 and 42 Plan Shares, respectively, for 2000, 2001 and 2002. The amounts in the restricted stock column for 2001 and 2002 also include the value of 1,000 shares of restricted stock granted to Mrs. McCormick in each of those years.

(10) Mr. Smith s 2000 bonus includes $2,326 and $2,015 which represents 50% of his 1998 bonus and 1999 bonus, respectively, that was subject to mandatory deferral plus interest. His 2001 bonus includes $2,129, which represents 50% of his 1999 bonus that was subject to mandatory deferral plus interest. The amounts in the restricted stock column for 2001 and 2002 represent the value of 800 shares of restricted stock granted to Mr. Smith in each of those years.

(11) Mr. Doyle s 2000 bonus includes $4,347 and $4,635 which represents 50% of his 1998 bonus and 1999 bonus, respectively, that was subject to mandatory deferral plus interest. His 2001 bonus includes $4,897 which represents 50% of his 1999 bonus that was subject to mandatory deferral plus interest. The amounts in the restricted stock column for 2001 and 2002 represent the value of 800 shares of restricted stock granted to Mr. Doyle in each of those years.

(12) Mrs. Falk s 2000 bonus includes $2,392 and $3,590, which represents 50% of her 1998 bonus and 1999 bonus, respectively, that was subject to mandatory deferral plus interest. Her 2001 bonus includes $3,794, which represents 50% of her 1999 bonus that was subject to mandatory deferral plus interest. The amounts in the restricted stock column include the 10% Company Contribution which was credited to Mrs. Falk s deferred bonus account in the form of 4 and 6 Plan Shares, respectively, for 2000 and 2001. The amounts in the restricted stock column for 2001 and 2002 also include the value of 800 shares of restricted stock granted to Mrs. Falk in each of those years.

STOCK BENEFIT PLANS

The Company s 1994 Stock Benefit Plan was adopted by the Company at the time of its initial public offering. As of March 10, 2003, options to purchase 1,542,381 shares have been granted to employees and options to purchase 153,654 shares have been granted to

Non-Management Directors under the 1994 Stock Benefit Plan. Of the options granted under the 1994 Stock Benefit Plan, 456,561 issued to employees and 56,600 issued to Non-Management Directors were outstanding on March 10, 2003. The Board of Directors has determined that no additional awards will be made under this Plan.

At the annual stockholders meeting held in 2000, the stockholders approved the Company s 2000 Stock Benefit Plan. As of March 10, 2003, options to purchase 2,100,920 shares have been granted to employees and options to purchase 163,760 shares have been granted to Non-Management Directors under the 2000 Stock Benefit Plan. Of the options granted under the 2000 Stock Benefit Plan, 1,712,178 issued to employees and 163,760 issued to Non-Management Directors were outstanding on March 10, 2003.

In addition, as of March 10, 2003, 109,000 shares of restricted stock have been issued under the 2000 Stock Benefit Plan to the Executive Officers and other key employees. Of those shares issued, 106,700 were outstanding on March 10, 2003. In 2003, 2,700 shares in the aggregate of restricted stock were issued under the 2000 Stock Benefit Plan to the Non-Management Directors (300 shares each). The restrictions on these shares terminate five years after their grant date with dividend and voting rights effective on the grant date. As of March 10, 2003, the aggregate number of shares of restricted stock issued to date represents less than 0.23 percent of the aggregate of the Company s outstanding Common Stock and other equity that is convertible into Common Stock on an as-converted basis the Outstanding Equity).

Options and restricted stock that have been issued and that are subsequently terminated, cancelled or surrendered without being exercised are available for future grant under the 2000 Plan. Taking those shares in account, under the 2000 Stock Benefit Plan and as of March 10, 2003, 577,408 shares are available for issuance of all types of awards to employees and 127,706 shares are available only for issuance of non-statutory stock options to employees. There are also 36,240 shares available for issuance of stock options and 2,300 shares available for grants of restricted stock to the Non-Management Directors under the 2000 Stock Benefit Plan. If the 2003 Stock Benefit Plan is approved by the stockholders, the Board of Directors has determined that no additional grants will be made to the Non-Management Directors under the 2000 Stock Benefit Plan.

As of March 10, 2003 the aggregate of the shares of Common Stock subject to outstanding option grants under the 1994 Stock Benefit Plan and the 2000 Stock Benefit Plan (the Existing Plans), the shares of restricted stock outstanding under the 2000 Stock Benefit Plan and of the shares still available for issuance of awards under the 2000 Stock Benefit Plan equals 6.8% of the Outstanding Equity.

The 2003 Stock Benefit Plan provides up to 1,250,000 shares for issuance of stock options to employees, 175,000 shares for issuance of stock options to Non-Management Directors and 25,000 shares for issuance of shares of restricted stock to Non-Management Directors. These shares together with the shares available for issuance under the Existing Plans are expected to provide sufficient shares for two years of grants to employees and Non-Management Directors. If the 2003 Stock Benefit Plan is approved by the stockholders: (i) grants of stock options will be made to employees from the shares remaining available under the 2000 Stock Benefit Plan and/or from shares available under the 2003 Stock Benefit Plan, as determined in the discretion of the Management and Directors Committee; (ii) restricted stock and option awards to Non-Management Directors will be made under the 2003 Stock Benefit Plan; and (iii) grants of restricted stock to employees will continue to be made under the 2000 Stock Benefit Plan. The Board anticipates that grants under the 2000 Stock Benefit Plan and the 2003 Stock Benefit Plan would be made on similar terms, including vesting schedules and exercise price.

Upon receipt of stockholder approval of the 2003 Stock Benefit Plan, the aggregate of the shares outstanding under the Existing Plans, the shares remaining available for issuance under the Existing Plans and the shares provided for issuance under the 2003 Stock Benefit Plan will equal 9.82% of the Outstanding Equity as of March 10, 2003. That aggregate is equal to 8.85% of the sum of the Outstanding Equity as of March 10, 2003 and the shares proposed for issuance under the 2003 Stock Benefit Plan.

If the stockholders do not approve the 2003 Stock Benefit Plan, the Board of Directors would continue to make grants under the 2000 Stock Benefit Plan until substantially all of the awards available for issuance under that plan had been granted. The Board of Directors might also consider other means of adequately compensating employees and Non-Management Directors including by additional cash payments and/or other incentive programs.

The Board of Directors has adopted a policy that, effective January 1, 2003, the Company will begin accounting for all stock awards utilizing the fair value method.

Option Grants in Fiscal Year 2002

The following table sets forth certain information relating to options granted to the Named Executives during the fiscal year ended December 31, 2002. These options were granted under the 2000 Stock Benefit Plan. The columns labeled Potential Realizable Value are based on hypothetical 5% and 10% growth assumptions in accordance with the rules of the Securities and Exchange Commission. The Company cannot predict the actual growth rate of the Common Stock.

Option Grants in Last Fiscal Year(1)
Individual Grants

Name	Number of Shares Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/sh.)	Expiration Date	Potential at Assume Stock Pr for 5%
Norman P. Leenhouts	50,000	8.1%	$34.65	8/5/2012	$1,089,5
Nelson B. Leenhouts	50,000	8.1%	34.65	8/5/2012	1,089,5
Edward J. Pettinella	50,000	8.1%	34.65	8/5/2012	1,089,5
David P. Gardner	15,000	2.4%	34.65	8/5/2012	326,8
Ann M. McCormick	15,000	2.4%	34.65	8/5/2012	326,8
John E. Smith	10,000	1.6%	34.65	8/5/2012	217,9
Scott A. Doyle	10,000	1.6%	34.65	8/5/2012	217,9
Johanna A. Falk	10,000	1.6%	34.65	8/5/2012	217,9

(1) Stock appreciation rights were not granted in 2002.

Option Exercises and Year-End Option Values

The following table sets forth the value of options held as of December 31, 2002 by the Company s Named Executives.

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

Shares	Number of	Number of Shares	Value of Unexercised		in-the-
	Acquired		Underlying Unexercised		Fisca
	on	Value	Options at Fiscal Year End		
Name	Exercise	Realized	Exercisable	Unexercisable	Exercisabl
Norman P. Leenhouts	7,721	$61,998	72,279	143,000	$423,5
Nelson B. Leenhouts			79,468	143,000	491,9
Edward J. Pettinella	0	0	125,000	75,000	851,5
David P. Gardner	17,960	188,564	21,274	43,000	140,7
Ann M. McCormick	19,150	215,470	24,723	40,000	156,6
John E. Smith	0	0	9,000	23,000	54,0
Scott A. Doyle	0	0	12,300	27,200	69,2
Johanna A. Falk	0	0	16,023	28,200	110,7

(1) Stock appreciation rights were not granted in 2002.

(2) Based on the closing price of the Common Stock on the NYSE on December 31, 2002 of $34.45 less the per share exercise price of the options.

Equity Compensation Plan Information

The following table sets forth the number of securities issued and outstanding under the Existing Plans, as of December 31, 2002, as well as the weighted average exercise price of outstanding options.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Ava
Options:			
Equity compensation plans approved by security holders	2,055,059	$ 28.68	
Equity compensation plans not approved by security holders	372,294	$ 30.15	
Total Options	2,427,353	$ 28.75	
Restricted Stock Awards:			
Equity compensation plans approved by security holders	17,900	$ 0	
Equity compensation plans not approved by security holders	23,050	$ 0	
Total Restricted Stock Awards	40,950	$ 0	

(1) Includes 594,756 shares available as of December 31, 2002 for grants under the 2000 Stock Benefit Plan of options and restricted stock to employees and 36,240 for grants of options to Non-Management Directors. Upon approval by the stockholders of the 2003 Stock Benefit Plan, no additional grants will be made to the Non-Management Directors under the 2000 Stock Benefit Plan. Also includes 374,193 shares available for grants to employees and 346 shares available for grants to Non-Management Directors under the 1994 Stock Benefit Plan. Subsequent to December 31, 2002, the Board of Directors determined that no additional awards will be made under that plan.

(2) In August 2001, the Board of Directors amended the 2000 Stock Benefit Plan to increase by 500,000 the number of shares available thereunder for issuance of non-statutory stock options to employees. These remaining shares may only be used for that purpose.

(3) See footnote (1). Up to 594,756 shares were available for issuance of grants to employees under the 2000 Stock Benefit Plan, including but not limited to, grants of restricted stock. (4) In August 2001, the Board of Directors amended the 2000 Stock Benefit Plan to increase the shares available thereunder as follows: 5,000 for grants of restricted stock to Non-Management Directors and 50,000 for grants of restricted stock to employees. Of these available shares, as of December 31, 2002, 5,000 were available for issuance to Non-Management Directors and 26,950 were available for issuance to employees. Upon approval by stockholders of the 2003 Stock Benefit Plan, no additional grants of restricted stock will be made to Non-Management Directors under the 2000 Stock Benefit Plan.

EMPLOYMENT AGREEMENTS

Norman and Nelson Leenhouts entered into employment agreements with the Company prior to its initial public offering providing for an initial term of five years commencing August 4, 1994 with automatic one-year extensions (the Employment Agreements). Certain of the terms of the original Employment Agreements have been amended. The third extension term of the Employment Agreements expired on August 4, 2002 and the agreements automatically renewed to August 4, 2003. The agreements provide for the employment of Norman Leenhouts as Chairman of the Board and Co-Chief Executive Officer of the Company and Nelson Leenhouts as President and Co-Chief Executive Officer of the Company and President and Chief Executive Officer of HP Management. The Employment Agreements also provide that if employment is terminated by the Company or not renewed without cause, or terminated by the executive for good reason at any time each of the Leenhouts is entitled to receive an amount equal to twice his base salary and incentive compensation for the year preceding termination plus, in the year following termination, the amount of incentive compensation that he would have earned if he had been an employee on December 31 of the year of termination. The Employment Agreements also entitle the Leenhoutses to receive incentive compensation pursuant to the Company s

Incentive Compensation Plan, as such plan may be amended from time to time. Pursuant to the Employment Agreements each of Norman and Nelson Leenhouts are subject to a covenant not to compete with the Company during the term of his employment and, if either is terminated by the Company for cause or resigns without good reason, for two years thereafter. The covenants prohibit Norman and Nelson Leenhouts from participating in the management, operation or control of any multifamily residential business which is competitive with the business of the Company, except that they, individually and through Home Leasing and its affiliates, may continue to own and develop the properties managed by HP Management. The Leenhoutses have also agreed that any commercial property which may be developed by them will be managed by HP Management subject to the approval of the outside members of the Board of Directors. The Employment Agreements may be terminated by either party on written notice given sixty days prior to the expiration of the then current term. It is expected that the Employment Agreements will be extended until December 31, 2003 at which time they will terminate when Nelson and Norman Leenhouts are anticipated to retire as the Co-Chief Executive Officers of the Company. The Company is expected to enter into arrangements with the Leenhouts to provide for some continuation of their services to the Company after December 31, 2003. The terms of any potential arrangements are not currently known. The Management and Directors Committee has retained the services of FPL Associates, a compensation consulting firm, to advise it on retirement arrangements and ongoing compensation to Norman and Nelson Leenhouts after December 31, 2003.

Edward Pettinella also entered into an employment agreement with the Company providing for a term that commenced on February 5, 2001 and expires on December 31, 2003. The agreement provides for the employment of Mr. Pettinella as an Executive Vice President of the Company at a base salary for 2001 at an annual rate of $300,000, increasing to $350,000 for 2002 and $400,000 for 2003. In addition, the agreement provides that Mr. Pettinella will receive incentive compensation under the Company s Incentive Compensation Plan. The factor to be applied to his base salary for purposes of determining his share of the bonus pool was set at 10% for 2001, 11% for 2002 and 12% for 2003. Mr. Pettinella was also granted options to purchase 100,000 shares of the Company s Common Stock that vested immediately and have a ten-year term. He was also granted options to purchase 50,000 shares in each of July, 2001 and August, 2002. The options granted in July, 2001 vest 25,000 in July, 2002 and 25,000 in July, 2003. The options granted in August, 2002 vest 25,000 in August, 2003 and 25,000 in August, 2004. The Company also loaned Mr. Pettinella funds sufficient to purchase 75,000 shares of its Common Stock under the Company s Director, Officer and Employee Stock Purchase Plan. Mr. Pettinella subsequently refinanced and paid off that loan. If Mr. Pettinella s employment is terminated by the Company without cause or terminated by the executive for good reason, he is entitled to receive an amount equal to not less than twice his base salary and incentive compensation for the year preceding termination and the continuation of other fringe benefits. If Mr. Pettinella is not appointed Chief Executive Officer of the Company on or prior to December 31, 2003 and he elects to terminate his employment on or before March 31, 2004, he will be entitled to receive a lump sum payment of $800,000 plus two times his 2003 incentive compensation. It is expected that Mr. Pettinella will be appointed Chief Executive Officer of the Company on December 31, 2003.

INCENTIVE COMPENSATION PLAN

Under the Company s Incentive Compensation Plan eligible officers and key employees may earn a cash bonus based on the Company s Funds from Operations (FFO) per share/unit (computed on a diluted basis). The number of bonus units to be awarded is based on the Company s FFO performance for a calendar year period as compared to the performance of its peer group for that same period. Eight bonus units were awarded for 2002.

Pursuant to the plan, a factor is applied to each eligible participant s salary, ranging from 1% to 12%. This factor is multiplied by the awarded bonus units to determine the percentage of a participant s salary to be paid as a bonus. The factor applied to the salaries of Norman and Nelson Leenhouts was 12% for services rendered in 2002. For services rendered in 2002, the factor applied to the salary of Mr. Pettinella was 11%. In 2002, the factor applied to the salaries of the other Named Executives ranged from 5% to 7%.

Incentive Plan participants in the 1% and 2% bonus categories are limited to bonuses equal to ten and twenty percent, respectively, of their salaries. There is no limit for participants in the 3% bonus category or above, except there is a deferral component if the number of bonus units awarded exceeds 5 bonus units. The deferred amount plus interest at 6% will be paid out at the rate of 50% in each of the following two years, provided the Company pays a bonus under the Incentive Compensation Plan in those years.

DIRECTOR, OFFICER AND EMPLOYEE STOCK PURCHASE AND LOAN PROGRAM

The Company has made various loans to its officers and directors pursuant to its Director, Officer and Employee Stock Purchase and Loan Program, which the Board approved in 1996 (the Stock Purchase Program). The loans were used by the recipients to purchase the Company s Common Stock. The Stock Purchase Program approved by the stockholders at the 1998 annual meeting of the stockholders provided that the Company could loan approximately 50% of the purchase price to the Non-Management Directors and arrange for loans from a commercial bank for the balance. The Company could loan other participating employee directors and officers 100% of the purchase price. All dividends from the shares issued under the Stock Purchase Program are applied toward interest and principal payments on the Company or commercial bank loans. The loans are fully recourse to the participants and there is no provision for debt forgiveness. Seven of the Non-Management Directors and thirty of the Company s current or former officers, including the employee directors, have participated in some or all of the various phases of the Stock Purchase Program. In total, 690,864 shares of the Company s Common Stock were purchased by participants in the Stock Purchase Program and a total of $11,734,837 was loaned by the Company to participants. Interest rates on the loans range from 6.7% to 7.13%.

To the extent applicable, the largest aggregate amount of indebtedness outstanding under the Stock Purchase Program which exceeded $60,000 at any time during 2002 for the Non-Management Directors and Executive Officers was as follows: (i) the Company s Non-Management Directors Burton August $126,124.81; William Balderston $126,124.81; Leonard Helbig $126,124.81; Roger Kober $126,124.81; Clifford Smith $83,027.77; and Paul Smith $93,107.81; and (ii) the Executive Officers Scott Doyle $95,913.32; Johanna Falk $165,409.62; David Gardner $392,963.13; Nelson Leenhouts $1,373,871.86; Norman Leenhouts $1,373,874.31; Robert Luken $205,697.43; Ann McCormick $389,067.14; and John Smith $74,957.47.

In August 2002, the Board of Directors adopted a policy that no new loans and no material modifications to existing loans could be made under the Stock Purchase Program. This policy was consistent with the provisions of the Sarbanes-Oxley Act, although the Board s policy prohibits loans to all employees not just to the Non-Management Directors and Executive Officers of the Company.

Although not required by Sarbanes-Oxley, five of the Non-Management Directors and six of the Executive Officers have subsequently paid off or refinanced their loans with a third party. As of March 10, 2003 $89,227 remained outstanding to the Non-Management Directors, $169,368 remained outstanding to the Executive Officers and $463,193 remained outstanding to the other officers of the Company under the Stock Purchase Program.

DEFERRED BONUS PLAN

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

Under the Deferred Bonus Plan, Norman Leenhouts deferred $192,000 (100%) of his 2002 bonus and the other Executive Officers collectively deferred approximately $50,000 of their 2002 bonuses.

EXECUTIVE RETENTION PLAN

The Company s Executive Retention Plan provides for severance benefits and other compensation to be received by certain employees, including the Executive Officers, in the event of a change of control of the Company and a subsequent termination of their employment without cause or voluntarily with good cause. Under this Plan, the Executive Officers, in the event of a termination covered by the Plan, would receive a lump sum payment equal to two times their current base salary, two times their last paid bonus under the Incentive Compensation Plan plus a gross-up amount necessary to pay any excise tax due on the payment. In addition, all accrued or deferred bonuses under the Incentive Compensation Plan would be paid and all stock options granted under the 1994 Stock Benefit Plan and the 2000 Stock Benefit Plan would vest. By its terms, the 2003 Stock Benefit Plan provides that stock options vest and restrictions on restricted stock lapse upon a change of control.

Performance Graph

(A line graph illustrating the information found below was shown here.)

The following graph compares the cumulative return on the Company s Common Stock during the five year period ended December 31, 2002 to the cumulative return of the NAREIT All Equity REIT Index and the Standard and Poor s 500 Index for the same period. The total return assumes that dividends were reinvested quarterly at the same discounted price as provided under the Company s DRIP and is based on a $100 investment on December 31, 1997. Stockholders should note that past performance does not predict future results.

	12/31/1997	12/31/1998	12/31/1999	12/31/2000	12/31/2001
HME	$100.00	$101.91	$117.51	$129.63	$158.71
NAREIT	$100.00	$82.50	$78.69	$99.43	$113.29
S&P 500	$100.00	$128.58	$155.63	$141.46	$124.65

Management and Directors Committee Report on Executive Compensation

As part of its responsibilities, the Management and Directors Committee recommends to the Board compensation policies applicable to the Company s Executive Officers and the members of the Board of Directors, as well as broad-based compensation plans for the Company s other officers and employees generally. The Committee also makes specific annual compensation recommendations to the Board relating to the Company s Executive Officers. On an ongoing basis, the Committee also considers the structure of the Company s compensation program as it applies to all employees and, when appropriate, recommends changes to the full Board. The Management and Directors Committee consists only of Non-Management Directors, each of whom has been determined to be an Independent Director by the Board of Directors.

The Committee believes that the success of the Company is, in large part, attributable to the performance and dedication of its employees and, in particular, to the leadership efforts of its Executive Officers. The Committee continues to believe that it is important to closely align the interests of those executives and other employees with the interests of the Company s stockholders. In establishing the Company s compensation program, the Management and Directors Committee s goal therefore is to: (1) attract and retain highly capable employees; (2) link compensation to the operating and financial performance of the Company; and (3) provide appropriate incentives to motivate employees to maximize the long-term going-concern value of the Company. To achieve these ends, the Company s executive compensation package consists of three components: base salary, annual incentive compensation in the form of a bonus under the Incentive Compensation Plan, and awards of restricted stock and stock options under the Company s stock benefit plan. The Committee annually considers the appropriate level and combination of these three components in the Executive Officers compensation packages and, among other things, weighs the competitiveness of the Company s overall compensation arrangements in relation to comparable companies.

As part of its consideration as to the appropriateness of the Executive Officers compensation, the Committee compared information pertaining to base salary, incentive compensation and long-term equity-based compensation for its apartment REIT industry peer group by reviewing 2002 proxy statements. This comparison continued to demonstrate to the Committee that total compensation to the Company s senior executives was below the peer-group average and in particular that equity-based compensation was well below average levels.

In addition to peer group comparisons, the Committee considered the status of the Company s succession plan in determining the compensation levels and component mix for the Company s senior management team. With the anticipated retirement of Norman and Nelson Leenhouts from their positions as Co-Chief Executive Officers at the end of 2003 and the expected appointment of Edward Pettinella as Chief Executive Officer, the Committee was particularly focused on the continued alignment of senior management s interests with the best long-term interests of the Company and its stockholders. The Committee has also retained the services of FPL Associates, a compensation consulting firm, to advise it on how to structure the ongoing compensation of its senior executives, including the retirement arrangements and ongoing compensation for the Leenhoutses.

The Committee expects to make an annual review of total compensation packages for the senior executives and other key officers of the Company.

Salary. Based on the above considerations, as well as an assessment of overall corporate performance, including a comparison to peer group performance, and consideration of individual responsibilities and contributions, the Committee recommended to the Board of Directors and the Board approved a 12.5% salary increase to $450,000 for 2003 for each of the two Co-Chief Executive Officers. Mr. Pettinella s employment agreement provided for a 14.3% increase to $400,000 for 2003, which, it was determined, was consistent with an appraisal of his contribution to the Company. The other Executive Officers received increases averaging 8.4%.

The Committee conducted a peer group review relating to director compensation on substantially the same basis as the executive review. The only recommended adjustment to the cash component of compensation paid to the Non-Management Directors was an increase from $3,000 to $5,000 in the stipend paid to the four committee chairmen. This was determined to be appropriate in light of the increased responsibilities imposed on the chairmen by Sarbanes-Oxley and their related increased time commitment.

Incentive Compensation. The Incentive Compensation Plan is designed to motivate employees to maximize the Company s annual operating and financial performance. It provides for a cash bonus pool to be established based on the Company s level of performance in terms of Funds from Operations (FFO) as compared to its peer group. Historically, the bonus pool had been based on achieving a level of performance set by the Board of Directors during the fourth quarter of the prior year. For 2002, however, it became apparent to the Committee that the expected uncertain economic climate, as well as the wide range of published anticipated performance levels for 2002 for the Company and its peer group, made it undesirable to set a fixed Company performance level for bonus purposes. Rather, the Committee recommended and the Board approved that a bonus pool would be established in the event that the Company s actual 2002 FFO growth exceeded the actual FFO growth for its peer group. If the Company s performance exceeded that of its peer group yet its growth rate was negative, the Board of Directors directed the Management and Directors Committee to determine whether and what amount of bonus should be paid in 2002 and to submit its recommendation to the Board for approval.

The Company s actual 2002 performance did, in fact, significantly exceed that of its peer group if certain impairment charges relating to the Company s anticipated sale of virtually all of the assets associated with its interest in various affordable property limited partnership (the Affordable Assets) are excluded. Even excluding these charges, however, the Company s FFO growth was negative, although much less negative than its peer group. The Committee considered the following factors in determining the bonus pool for 2002: (1) the Company s total return to stockholders for 2002 was 16.6% compared to its peer group average of negative 6.15%; (2) the Company s FFO for 2002 was $121.7 million ($2.62 per share) including the impairment and other charges and $136.6 million ($3.03 per share) excluding those charges; (3) excluding the charges relating to the sale of the Affordable Assets, the Company s FFO performance was 12.9% better than the average for its peer group; (4) negative FFO growth in 2002, except for the impairment charges, was largely attributable to economic conditions outside of management s control; and (5) the sale of the Affordable Assets was determined to be in the best long-term interest of the Company. The Committee decided to establish a bonus pool of eight units for 2002.

Pursuant to the Company s bonus plan, a factor is then applied to the salary of each participant to determine their share of the bonus pool. For 2002, the factor applied to Nelson and Norman Leenhouts salaries had previously been set at 12%. The factor applied to Edward Pettinella s salary was fixed in his employment agreement at 11% for 2002. The factor applied to the salaries of the other Executive Officers ranged from 5% to 7%. Payment of the bonus is entirely in the discretion of the Committee. While the sale of the Affordable Assets was determined to be of long-term benefit to the Company, the related impairment charges had negatively impacted short-term results. The Committee therefore decided to limit the bonus (which it considers to be short-term performance-based compensation) to the most senior executives of the Company Nelson and Norman Leenhouts and Edward Pettinella to fifty percent of the cash bonus otherwise payable to them for services rendered in 2002. The other Executive Officers of the Company received their full share of the bonus pool.

The Committee expects to regularly review the Incentive Plan to assure its appropriateness.

Stock Compensation. The purpose of equity grants is to offer employees an incentive to maximize their efforts to promote the Company s long-term going-concern value and thereby advance the interests of the Company s stockholders. To encourage the employees to seek long-term appreciation in the value of the Company s Common Stock, stock options granted to employees have not been immediately exercisable but vest over five years.

In 2002, the Management and Directors Committee again reviewed the number of options granted to the Co-Chief Executive Officers and other Executive Officers in light of the other elements of their compensation and their overall equity interest in the Company s business, including their ownership of Units of limited partnership interest in Home Properties. The Committee determined to encourage officers to acquire additional Common Stock by making option awards under the 2000 Stock Benefit Plan.

The Management and Directors Committee therefore recommended and the Board of Directors approved the issuance of up to 650,000 additional options to purchase Common Stock to certain officers and employees of the Company at an option price equal to the closing price on the New York Stock Exchange for a share of the Company s Common Stock on the date of the grant. In August 2002, each of the Named Executives received additional options which vest 20% per year and expire in ten years. Each of the Co-Chief Executive Officers received 50,000 additional options. Pursuant to his employment agreement, Mr. Pettinella received 50,000 options in August, 2002. The other Executive Officers received options grants ranging from 7,500 to 15,000 shares.

In addition, in February 2003, the Committee recommended and the Board of Directors approved the issuance of 63,950 shares of restricted stock to Executive Officers and key employees under the 2000 Stock Benefit Plan. A review of the granting levels of the Company s peer group caused the Committee to conclude that existing grants to executives and other key employees of the Company were materially lower than the levels of grant at peer companies. The Committee determined that restricted stock grants to this group of employees should be significantly increased. The Committee also considered that restricted stock grants provide the motivational advantages of stock appreciation and restrictions that do not lapse until five years after the grant. Since recipients of restricted stock begin receiving dividends immediately, they are also motivated to work toward further dividend increases.

The Co-Chief Executive Officers were each awarded 16,000 shares of restricted stock and Edward Pettinella received 13,000 shares of restricted stock. This increased level of restricted stock grants to the Leenhoutses and Mr. Pettinella also reflected the Committee s desire to more closely align the senior executives compensation to the Company s long-term performance, particularly as that performance was anticipated to be positively impacted by the sale of the Affordable Assets. The other Executive Officers received an aggregate of 9,300 shares of restricted stock. The restrictions on all of these awards lapse at the end of five years.

The Committee also further considered the level of stock compensation to its Non-Management Directors. The 2000 Stock Benefit Plan approved by the stockholders provided for grants of 7,000 stock options to each Non-Management Director in each of 2000, 2001 and 2002. The Committee recommended and the full Board approved a similar grant to each of the Non-Management Directors for 2003 subject to stockholder approval of the 2003 Stock Benefit Plan. The 2003 Stock Benefit Plan also includes a proposed issuance of up to 10,000 stock options to each of the Non-Management Directors in 2004. Options to be granted to Non-Management Directors under the 2003 Stock Option Plan do not vest immediately as was the case with options previously granted. Rather, the new options would vest over five years.

If the 2003 Stock Benefit Plan is approved by the stockholders, the Committee expects to recommend additional periodic awards of stock options to employees under that plan. The Committee expects to recommend periodic awards of stock options and restricted stock to employees under the 2000 Stock Benefit Plan.

The Committee also recommended and the full Board approved the grant of 300 shares of restricted stock to each of the Non-Management Directors as part of their compensation for 2003. The Company had not previously issued restricted stock to its Non-Management Directors. A review of the Company s peer group director compensation suggested to the Committee that a restricted stock grant at this level was appropriate. The 2003 Stock Benefit Plan, if approved by the stockholders, provides for a grant of up to 1,000 shares of restricted stock to each of the Non-Management Directors in 2004 and 2005. This increased potential grant level is designed to provide flexibility for future grants.

Co-Chief Executive Officer Compensation. The Committee considers and develops recommendations to the full Board on matters pertaining to the compensation of Nelson and Norman Leenhouts substantially in conformity with the policies described above for all other Executive Officers of the Company. The Committee meets in executive session to determine compensation levels for all inside directors, including the Co-Chief Executive Officers, for the next year in the context of a review of their performance.

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

Submitted by the Management and Directors Committee,

Clifford W. Smith, Jr., Chairman
Burton S. August, Sr.
William Balderston, III

Management and Directors Committee Interlocks and Insider Participation in Compensation Decisions