

ASSOCIATED ESTATES REALTY CORP

Form S-3/A

May 22, 2009

Table of Contents

As filed with the Securities and Exchange Commission on May 22, 2009.

Registration No. 333-155698

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 2
to
FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
ASSOCIATED ESTATES REALTY CORPORATION
(Exact Name of Registrant as Specified in Its Charter)**

Ohio
(State or Other Jurisdiction of Incorporation or
Organization)

34-1747603
(I.R.S. Employer Identification No.)

1 AEC Parkway
Richmond Heights, Ohio 44143-1467
(216) 261-5000
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive
Offices)

Jeffrey I. Friedman
Chairman of the Board, President and Chief Executive Officer
Associated Estates Realty Corporation
1 AEC Parkway
Richmond Heights, Ohio 44143-1467
(216) 261-5000
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

With a copy to:
Albert T. Adams, Esq.
Baker & Hostetler LLP
3200 National City Center
1900 East 9th Street
Cleveland, Ohio 44114-3485
(216) 621-0200

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

Table of Contents

The information contained in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus shall not constitute an offer to sell nor the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such State.

Subject to Completion, dated May 22, 2009

Prospectus

5,000,000 Common Shares

ASSOCIATED ESTATES REALTY CORPORATION

Amended and Restated Dividend Reinvestment and Stock Purchase Plan

Our Amended and Restated Dividend Reinvestment and Stock Purchase Plan, referred to herein as the Plan, applies to our common shares, referred to herein as Shares. Anyone who joins or participates in the Plan will be considered a Participant.

The Plan is open to our existing shareholders, our employees, the residents of our apartment communities and anyone who desires to purchase Shares. The Shares trade on the New York Stock Exchange and the Nasdaq Global Market under the symbol AEC.

The Plan offers a convenient way to invest in Shares. If you currently are participating in the Plan or are an Associated Estates shareholder at the time you enroll in the Plan, your purchases of Shares under the Plan will be free of brokerage fees, commissions or service charges. If you are not a shareholder or an employee at the time you enroll in the Plan, you must pay a fee of \$50 in connection with your first purchase of Shares under the Plan; thereafter, your purchases of Shares under the Plan will be free of brokerage fees, commissions or service charges. You can purchase Shares by check or money order, or by scheduling automatic payments, subject to certain investment limits. This type of investment is called a direct purchase. If you are an employee who is not a shareholder and you desire to enroll in the Plan, you should contact our Investor Relations Department prior to enrolling if you intend to purchase Shares by check or money order. You also may use the dividends on Shares you own to purchase additional Shares. This process is known as dividend reinvestment. You will receive account statements that show your investments and account balance under the Plan.

Investing in our Shares involves risks. See Risk Factors beginning on page 1 of this prospectus and the documents we file with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, incorporated by reference in this prospectus, to read about factors you should consider before buying our Shares.

If you are already participating in the Plan, no action is required to continue participating. To join the Plan or make investment elections, you must complete an Authorization Form (attached at the back of this prospectus) and send it to the Plan's administrator, at the address shown on the Authorization Form. If you own Shares that are registered and held in the name of someone else, such as a brokerage or securities firm, those Shares can become subject to the Plan in one of two ways. Either the registered holder can join the Plan on your behalf, or you can have those Shares re-registered in your name.

The Plan is set forth and explained in question-and-answer format below. You should read this prospectus carefully and keep it for future reference.

This prospectus is not an offer to sell Shares and it is not soliciting an offer to buy Shares in any state where the offer or sale is not permitted. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2009.

PLAN SERVICE FEES

Enrollment of New Investors	pg. 1 (Direct Purchase)
Dividend Reinvestment	no fee
Purchase of Shares	no fee
Gift or Transfer of Shares	no fee
Withdrawal from the Plan	no fee
Routine Account Statements	no fee
Duplicate Account Statements	no fee
Sales of Shares Through the Plan	pg. 13
<u>EX-23.1</u>	

TABLE OF CONTENTS

<u>SUMMARY</u>	1
<u>RISK FACTORS</u>	3
<u>THE COMPANY</u>	6
<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	7
<u>THE PLAN</u>	8
<u>Purpose</u>	8
<u>Advantages and Possible Disadvantages</u>	8
<u>Administration</u>	8
<u>Eligibility</u>	9
<u>Participation</u>	9
<u>Direct Purchase</u>	12
<u>Dividend Reinvestment</u>	13
<u>Costs</u>	14
<u>Source and Pricing of Shares</u>	14
<u>Sales and Transfers of Shares</u>	16
<u>Account Statements and Shareholder Matters</u>	17
<u>Certificates for Shares</u>	17
<u>Withdrawal from the Plan</u>	18
<u>Tax Information</u>	18
<u>General Matters</u>	19
<u>USE OF PROCEEDS</u>	20
<u>PLAN OF DISTRIBUTION</u>	20
<u>EXPERTS</u>	21
<u>LEGAL MATTERS</u>	21
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	21
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	21
<u>INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE</u>	21

FORMS (3)

Authorization Form
Bank Withdrawal
Form
Waiver Request Form

EX-5 OPINION OF BAKER & HOSTETLER
EX-23.1 CONSENT OF PRICEWATERHOUSECOOPERS

Table of Contents

You should rely only on the information that is provided in, or is incorporated by reference into, this prospectus. We have not authorized anyone to provide you with different or additional information. We are not offering to sell the Shares, and are not soliciting any purchase of them, in any jurisdiction where such actions would not be permitted. The effective date of the information in this prospectus, or in any prospectus supplement, is or will be shown on the cover. You should not assume that such information is accurate as of any other date.

SUMMARY

The following summary of the Plan may omit certain information that may be important to you. You should carefully read the entire text of the Plan contained in this prospectus before you decide to participate in the Plan. Unless otherwise indicated or unless the context otherwise requires, all references in this prospectus to we, us or our mean Associated Estates Realty Corporation and its consolidated subsidiaries, and references to Associated Estates refer to Associated Estates Realty Corporation, including its consolidated subsidiaries.

- Company:** We are a fully-integrated, self-administered and self-managed real estate investment trust, or REIT, focused primarily on the ownership, operation, management, acquisition and disposition of apartment communities. Our headquarters are located at 1 AEC Parkway, Richmond Heights, Ohio 44143 and our telephone number is (216) 261-5000.
- Enrollment:** If you are currently participating in the Plan, no action is required to continue participating. If you are not currently participating in the Plan, you can join the Plan by submitting a completed Authorization Form (attached at the back of this prospectus). Please see questions 8 and 9 for more detailed information.
- Direct Purchase:** If you currently are participating in the Plan or are a shareholder at the time you enroll in the Plan, you can buy additional Shares without paying fees. If you are not a shareholder or our employee at the time you enroll in the Plan, you must pay a \$50 fee in connection with your first purchase of Shares under the Plan; thereafter, you can buy additional Shares without paying fees. If you are an employee who is not a shareholder and you desire to enroll in the Plan, you should contact our Investor Relations Department prior to enrolling if you intend to purchase Shares by check or money order. Employees and other persons subject to our Insider Trading Policy who desire to purchase and sell Shares under the Plan are permitted to do so only in accordance with that policy. You can invest a minimum of \$100 and up to a maximum of \$5,000 in any one month. Under certain circumstances, we may approve a written request to waive the \$5,000 per month maximum amount. Please see questions 14, 17 and 18 for more detailed information.
- Reinvestment of Dividends:** You can reinvest your cash dividends on all or a portion of the Shares you hold in certificated form. All dividends on Shares purchased under or deposited in the Plan will be reinvested. You will be able to purchase additional Shares by reinvesting your dividends, without paying fees. Please see question 19 for more detailed information.
- Source of Shares:** The administrator of the Plan will purchase Shares directly from us (either treasury shares or newly-issued common shares), in the open market or in

privately negotiated transactions with third parties. Please see question 23 for more detailed information.

Purchase Price:

If the administrator purchases Shares directly from us, the purchase price for the Shares will be the higher of the Prior Day Average or the Prior 10-Day Average on the New York Stock Exchange. Please see question 25 for more detailed information.

- 1 -

Table of Contents

The purchase price for Shares purchased by the administrator in the open market or in privately negotiated transactions with third parties will equal the weighted average price paid for such Shares on the relevant investment date, excluding any brokerage commission. Please see question 25 for more detailed information.

Tracking Your Investment:

You will receive from the administrator statements of the transactions made in your Plan account. These statements will provide you with details of the transactions and will indicate the Share balance in your Plan account. Please see question 34 for more detailed information.

Administration:

National City Bank, now a part of PNC Financial Services Group, Inc., initially will serve as the administrator of the Plan. You should send all correspondence with the administrator to:

National City Bank
Reinvestment Services
P.O. Box 94946
Cleveland, Ohio 44101-4946

You may call the administrator at (800) 622-6757. Please see question 4 for more detailed information.

- 2 -

Table of Contents

RISK FACTORS

You should carefully consider the risks described below and the documents we file with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, incorporated by reference herein before making an investment decision in our company. 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 equity securities may be adversely affected if any of such risks are realized.

We are subject to risks inherent in the ownership of real estate. 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 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, our ability to consummate the sale of properties pursuant to our current plan, the overall level of economic activity, the availability of consumer credit and mortgage financing, unemployment rates and other factors;

the ability to refinance debt on favorable terms at maturity;

the ability to defease or prepay debt pursuant to our current plan;

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;

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;

inability to control operating expenses or achieve increases in revenue;

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 because of diminished insurance coverage;

catastrophic property damage losses that are not covered by our insurance;

the ability to acquire properties at prices consistent with our investment criteria;

risks associated with property acquisitions such as environmental liabilities, among others;

changes in or termination of contracts relating to third party management and advisory business; and

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.

- 3 -

Table of Contents

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. 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, Indiana, Virginia, Maryland, and Pennsylvania. As of December 31, 2008, approximately 32%, 23%, 14%, 10%, 7%, 6%, 5% and 3% of the units in properties we own were located in Ohio, Michigan, Georgia, Florida, Indiana, Virginia, Maryland, and Pennsylvania, 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, 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.

Debt financing could adversely affect our performance. Thirty-two of our forty-nine properties are 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.

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, as amended (the Code) limit the ability of a REIT to sell its properties in some situations when it may be economically advantageous to do so, thereby potentially adversely affecting our ability to make distributions to our shareholders.

Our access to corporate public bond markets is limited. Substantially all of our current debt is either secured or bank debt under our revolving credit facility because of our limited access to corporate public bond 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, such as a class action, could result in substantial costs being incurred.

Our financial results may be adversely impacted if we are unable to sell properties and employ the proceeds in accordance with our strategic plan. Our ability to pay down debt, reduce our interest costs, and acquire properties is impacted by our ability to sell the properties we have selected for disposition at the prices and within the deadlines established for each respective property. Moreover, if we are unable to acquire properties at prices consistent with our investment criteria, we may reduce or discontinue property sales.

The costs of complying with laws and regulations could adversely affect our cash flow. Our properties must comply with Title III of the Americans with Disabilities Act (the ADA) to the extent that they are public accommodations or commercial facilities as defined in the ADA. The ADA does not consider apartment communities to be public accommodations or commercial facilities, except for portions of such communities that are open to the public. In addition, the Fair Housing Amendments Act of 1988 (the FHAA) requires apartment communities first occupied after March 13, 1990, to be accessible to 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.

- 4 -

Table of Contents

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 law imposes 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 by our properties to achieve anticipated operating results;

construction costs of a property exceeding original estimates;

delays in construction; and

expenditure of funds on, and the devotion of management time to, transactions that may not come to fruition.

We impose stock ownership limitations. With certain limited exceptions, our Second Amended and Restated Articles of Incorporation, as amended and supplemented to date, prohibit the ownership of more than 4.0% of the outstanding common shares and more than 9.8% of the shares of any series of any class of our preferred shares by any person, unless we grant a waiver. Absent such a waiver, any shares owned in excess of such ownership limit are subject to repurchase by us and to other consequences as set forth in our Amended and Restated Articles of Incorporation. All shares of stock issued by the 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 Amended and Restated Articles of Incorporation, no Person may Beneficially Own Common Shares in excess of 4.0% 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 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 Amended and Restated Articles of Incorporation.

We also have a shareholders rights plan, which may be triggered if any person or group becomes the beneficial owner of, or announces an offer to acquire 15.0% or more of our common shares. We are domiciled in the State of Ohio, where various state statutes place certain restrictions on takeover activity. 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 shares of stock issued by the 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 Amended and Restated Shareholder Rights Agreement between Associated Estates Realty Corporation, an Ohio corporation (the Company), and National City Bank, a national banking association, 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.

- 5 -

Table of Contents

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 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 our directors and officers. Our directors and executive officers and some members of their respective families owned approximately 15.0% of our outstanding common shares as of December 31, 2008. Accordingly, those persons have substantial influence over us and the outcome of matters submitted to our shareholders for approval.

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

THE COMPANY

We are a fully-integrated, self-administered and self-managed real estate investment trust, or REIT, focused primarily on the ownership, operation, management, acquisition and disposition of apartment communities. As of March 31, 2009, our portfolio consisted of 52 apartment communities containing 13,192 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 management and other services to us and to third parties.

As of March 31, 2009, our portfolio consisted of: (i) 49 apartment communities containing 12,576 units in eight states that are wholly owned, either directly or indirectly through subsidiaries; (ii) three apartment communities that we manage for third party owners consisting of 616 units and ancillary commercial facilities; 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.

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

The foregoing information concerning us does not purport to be comprehensive. For additional information concerning our business and affairs, including capital requirements and external financing plans, pending legal and regulatory proceedings and descriptions of certain laws and regulations to which we may be subject, please refer to the documents incorporated by reference into this prospectus.

Table of Contents**SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data is derived from our audited consolidated financial statements for the five years ended December 31, 2008 and reflects the following revisions to retrospectively incorporate the adoption of new accounting standards that were effective on January 1, 2009:

Our computations of basic and diluted earnings per share reflect the retrospective application of Financial Accounting Standards Board Staff Position FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, which was effective for us on January 1, 2009. This FSP clarifies that certain nonvested share based payment awards containing nonforfeitable dividend rights are participating securities and are therefore required to be included in the computations of basic and diluted earnings per share. This FSP requires retrospective application to all periods presented. As a result, Net income (loss) attributable to AERC applicable to common shares and the computation of Earnings per common share Basic and Diluted have been adjusted for such participating securities.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51 (SFAS 160)*, which establishes and expands accounting and reporting standards for minority interests in a subsidiary and the deconsolidation of a subsidiary. SFAS 160 requires income or loss to be allocated to noncontrolling interest after the determination of net income in arriving at net income attributable to AERC. SFAS 160 was effective January 1, 2009, and requires retrospective application. The revision to the selected consolidated financial data did not result in a change in the classification or measurement of our noncontrolling interest on our consolidated balance sheets, nor did it result in a change in the net income (loss) attributable to AERC. The change in the definition of net income (loss) required by SFAS 160 below related to the retrospective application of SFAS 160 was considered immaterial to all periods presented.

The data should be read in conjunction with our consolidated financial statements, related notes and other financial information incorporated by reference herein.

<i>(In thousands except per share amounts)</i>	Year Ended December 31,				
	2008	2007	2006	2005	2004
Operating Data:					
<i>Revenue</i>					
Property revenue	\$ 132,089	\$ 117,705	\$ 106,597	\$ 98,745	\$ 91,846
Management and service operations:					
Fees, reimbursements and other	1,784	10,990	11,689	11,723	13,400
Painting services	1,010	2,218	1,078	1,094	6,147
Total revenue	134,883	130,913	119,364	111,562	111,393
Total expenses	(109,499)	(107,249)	(98,691)	(92,699)	(89,701)
Interest income	135	430	652	602	297
Interest expense	(36,489)	(40,131)	(46,808)	(35,274)	(32,067)
(Loss) income before gain on disposition of investment, equity in net income (loss) of joint ventures, and income from discontinued operations	(10,970)	(16,037)	(25,483)	(15,809)	(10,078)
Gain on disposition of investment				150	
Equity in net income (loss) of joint ventures	1,502	(258)	(462)	(644)	(923)
(Loss) income from continuing operations	(9,468)	(16,295)	(25,945)	(16,303)	(11,001)

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Income from discontinued operations:					
Operating (loss) income	(1,054)	5,649	(1,066)	4,036	4,706
Gain on disposition of properties	45,202	20,864	54,093	48,536	9,682
Income from discontinued operations	44,148	26,513	53,027	52,572	14,388
Net income	34,680	10,218	27,082	36,269	3,387
Net loss attributable to noncontrolling redeemable interest	(53)	(53)	(61)	(63)	(63)
Net income attributable to AERC	34,627	10,165	27,021	36,206	3,324
Preferred share dividends	(4,655)	(4,924)	(5,046)	(5,130)	(5,805)
Original issuance costs related to repurchase/redemption of preferred shares	(143)	(58)		(2,163)	
Discount/(premium) on preferred share repurchase	2,289	(114)			
Allocation to participating securities	(730)	(338)	(770)	(623)	
Net income (loss) attributable to AERC applicable to common shares	\$ 31,388	\$ 4,731	\$ 21,205	\$ 28,290	\$ (2,481)
Earnings per common share Basic and Diluted:					
(Loss) income from continuing operations attributable to AERC applicable to common shares	\$ (0.74)	\$ (1.27)	\$ (1.82)	\$ (1.23)	\$ (0.87)
Income from discontinued operations	2.67	1.55	3.07	2.71	0.74
Net income (loss) attributable to AERC applicable to common shares	\$ 1.93	\$ 0.28	\$ 1.25	\$ 1.48	\$ (0.13)
Weighted average number of common shares outstanding	16,262	16,871	17,023	19,162	19,519
Dividends declared per common share	\$ 0.68	\$ 0.68	\$ 0.68	\$ 0.68	\$ 0.68

- 7 -

Table of Contents

THE PLAN

The Plan is set forth in its entirety below. You should keep this prospectus for future reference, and read it carefully before participating in the Plan.

Purpose

1. What Is the Purpose of the Plan?

The primary purpose of the Plan is to provide you with a convenient and economical way to invest in Associated Estates, either by making a direct purchase of Shares or by reinvesting dividends on your Shares. A secondary purpose of the Plan is to provide us another way to raise additional capital for a variety of corporate purposes.

Advantages and Possible Disadvantages

2. What Are the Advantages of the Plan?

Advantages of the Plan include the following:

No Brokerage Fees or Commissions for Shareholders If you currently are participating in the Plan or are a shareholder or employee at the time you enroll in the Plan, you will not pay any brokerage fees, commissions or service charges when you purchase Shares under the Plan.

Automatic Purchase and Reinvestment In addition to purchasing Shares by check or money order, you can purchase Shares automatically through:
Scheduled bank withdrawals;

Employee payroll deduction (if you are our employee); or

Full or partial dividend reinvestment.

Account Statements You will receive account statements that show your investments under the Plan and help simplify your record-keeping.

3. What Are the Possible Disadvantages of the Plan?

You also should consider the possible disadvantages of the Plan. First, the price of the Shares may fluctuate between the date of your investment election and the date when Shares are purchased for your account. Such fluctuations may change the number of Shares you receive. When you make a direct purchase of Shares, including as a result of a payroll deduction, your payment will be held without interest until the purchase occurs.

Second, your investment elections, and any changes to or cancellations of your investment elections, must be received by the administrator within certain time limits. If these time limits are not met, a significant delay may occur before your investment elections can be implemented. Please see the answer to question 12 for further details.

Third, dividends on your Shares will represent income to you for federal income tax purposes, whether those dividends are reinvested or not. If you receive your dividends in cash, the cash payment will enable you to pay the taxes owed on those dividends. By reinvesting dividends, however, you will reduce the cash that is available for such tax payments. Furthermore, participating in the Plan will increase the number of Shares you own and the total amount of your dividends. Thus, participating in the Plan will increase the income you must report for federal income tax purposes. Please see the answer to question 41 and your tax advisor for further details.

Administration

4. Who Administers the Plan?

The administrator of the Plan is National City Bank, now a part of PNC Financial Services Group, Inc. The administrator also serves as our corporate transfer agent, registrar, dividend disbursing agent, and distribution agent. As distribution agent, National City Bank will deliver all prospectuses for the Plan and will serve as our broker-dealer or our state securities agent, as necessary. The address and telephone number of the Plan administrator and the distribution agent are as follows:

National City Bank
Reinvestment Services
P.O. Box 94946
Cleveland, Ohio 44101-4946
Telephone: 800-622-6757

- 8 -

Table of Contents

If you would like an additional copy of this prospectus at any time, please contact National City Bank. We reserve the right to change the administrator or distribution agent for the Plan at any time, with or without notice to Participants.

5. What Are the Responsibilities of the Administrator?

The administrator is responsible for each of the following actions under the Plan:

establishing and maintaining your personal account;

processing your investment elections;

collecting your payments, including automatic bank withdrawals;

purchasing Shares for your account;

reinvesting dividends on your Shares;

sending you account statements and investment forms (such as Authorization Forms);

sending you year-end tax statements on Form 1099;

at your request, selling Shares in your account; and

answering your general questions about the administration of the Plan.

The administrator may perform its services under the Plan by engaging other companies as its nominees or agents.

Eligibility

6. Who Is Eligible to Participate in the Plan?

Except as described below, the Plan is generally open to all of our current shareholders and employees, to all residents of our apartment communities and to anyone who wants to invest in the Shares. Participants can be individuals, trusts, retirement plans, corporations or other entities.

7. Who Is Not Eligible to Participate in the Plan?

The Plan is not intended for those individuals or investors who are not purchasing Shares for investment purposes or whose actions may distort, destabilize or manipulate the price or trading volume of the Shares. In addition, we cannot allow any actions that would terminate, or would create a risk of terminating, our status as a REIT for federal income tax purposes. Due to the variety of improper actions, we reserve the right to deny, modify, suspend or terminate participation in the Plan by anyone for any reason, if we determine, in our sole judgment, that doing so would be in the best interests of Associated Estates, the Plan or our shareholders.

The Plan may be unavailable to people who reside in certain jurisdictions. If you reside in a jurisdiction where the Shares offered under the Plan, or the persons involved in the offering, are not registered under applicable securities laws or do not qualify for an exemption from registration, you will not be eligible to participate in the Plan.

Participation

8. How Does an Eligible Investor Participate in the Plan?

Participation in the Plan is voluntary. If you are already participating in the Plan, you will remain a Participant and the Plan (as amended and restated herein) will apply to you without any action on your part. If you are not already participating in the Plan, to join you must complete an Authorization Form and return it to the administrator. A copy of the Authorization Form is included at the back of this prospectus. You also may request

Table of Contents

an Authorization Form from the administrator. You may withdraw from the Plan at any time, as explained in the answer to question 40.

9. How Does an Eligible Investor Join the Plan if His or Her Shares Are Held in the Name of a Brokerage or Securities Firm?

If you beneficially own Shares that are registered in the name of a brokerage or securities firm or other nominee, your Shares are not subject to the Plan.

Shares you own beneficially, but not of record, can become subject to the Plan in one of two ways. Either the record holder (the brokerage or securities firm or other nominee) must join the Plan on your behalf, or you must have those Shares re-registered in your name. You should ask the record holder about any fees that it may charge for re-registering the Shares. We reserve the right to deny participation in the Plan to any record holder who insists on terms or conditions that, in our sole judgment, would cause us to incur an excessive cost or burden or would be inconsistent with the purposes of the Plan.

If the record holder joins the Plan on your behalf, the record holder must comply with the Plan in all respects. As a result, you generally would have no direct involvement with the Plan or the administrator, and would need to communicate with the record holder instead.

To simplify this description of the Plan, most of the remaining answers will be written from your perspective, as a Participant in your own name. Please keep in mind, however, that references below to you and your may also refer to any record holder acting on your behalf.

10. What Investment Elections Are Available Under the Plan?

As discussed in further detail below, you can purchase Shares in two separate ways:

Direct Purchase

You may purchase Shares by check or money order or by automatic withdrawal from your bank account. If you are a shareholder at the time of such purchase, you will not incur fees or commissions in connection with the purchase. If you are not a shareholder or our employee, you will incur a fee of \$50 at the time of your first purchase of Shares. If you are an employee who is not a shareholder and you desire to enroll in the Plan, you should contact our Investor Relations Department prior to enrolling if you intend to purchase Shares by check or money order. Employees and other persons subject to our Insider Trading Policy who desire to purchase and sell Shares under the Plan are permitted to do so only in accordance with that policy.

Our employees may purchase Shares through automatic payroll deduction.

Direct purchases are subject to a minimum purchase of \$100, and a maximum purchase of \$5,000, per month (unless you receive a waiver of the maximum amount, as discussed below in the answer to question 18).

Dividend Reinvestment

You may purchase additional Shares by automatically reinvesting the dividends that are paid on the Shares you already own.

You may reinvest the dividends on all of your current certificated Shares and all future Shares you may receive.

You may also limit dividend reinvestment to some of your current certificated Shares and all additional Shares received from reinvestment.

Table of Contents

Dividend reinvestment is not subject to any special minimum or maximum dollar amount.

11. When Do Investment Elections Take Effect?

All investment elections under the Plan take effect on periodic Investment Dates. The Investment Dates generally occur as follows: