ASSOCIATED ESTATES REALTY CORP
Form PREC14A
March 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

ASSOCIATED ESTATES REALTY CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x **No fee required.**

¨ **Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.**

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ **Fee paid previously with preliminary materials.**

¨ **Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.**

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

In accordance with Rule 14a-6(d) under Regulation 14A of the Securities Exchange Act of 1934, please be advised that Associated Estates Realty Corporation intends to release definitive copies of the proxy statement to security holders on or about [__________], 2015.

[________], 2015

Dear Fellow Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Associated Estates Realty Corporation (the Company) to be held on Friday, May 22, 2015 at 10:00 a.m., local time, at One Cleveland Center, 1375 East 9th Street, Cleveland, Ohio 44114.

The attached Notice of Annual Meeting and Proxy Statement describe the matters expected to be acted upon at the meeting. We encourage you to review these materials carefully.

Your vote is very important. If you are unable to attend the meeting, please cast your vote electronically through the Internet, by telephone, or by completing, signing and returning the **WHITE** proxy card enclosed with the proxy statement.

Your Board of Directors strongly urges you to vote **FOR** the election of Jeffrey I. Friedman, Douglas Crocker II, Jon A. Fosheim, Michael E. Gibbons, James J. Sanfilippo, James A. Schoff and Richard T. Schwarz, the seven nominees recommended by your Board of Directors.

Your Board of Directors strongly recommends that you vote **FOR** an amendment to the Company s Code of Regulations that would enable your Board to increase in size to eight directors, and facilitate the election of John S. Gates, Jr. as an independent director on your board.

You should know that Land & Buildings Capital Growth Fund, L.P. (Land & Buildings) has stated it intends to nominate a slate of three nominees for election as directors at the Annual Meeting in opposition to the nominees recommended by your Board of Directors. Your Board of Directors does not endorse the election of any of Land & Buildings nominees.

You may receive solicitation materials from Land & Buildings or its affiliates, including a proxy statement and a [___] proxy card. We are not responsible for the accuracy of any information provided by or relating to Land & Buildings or its nominees contained in solicitation materials filed or disseminated by or on behalf of Land & Buildings or any other statements of Land & Buildings.

Your Board of Directors unanimously recommends that you vote **FOR** the election of each of our Director nominees on the enclosed **WHITE** proxy card. Your Board of Directors strongly urges you not to sign or return any [___] proxy card sent to you by or on behalf of Land & Buildings. If you have already returned a proxy card for Land & Buildings, you can revoke that proxy by using the enclosed **WHITE** proxy card to vote your shares today by telephone, by Internet or signing, dating and returning the enclosed **WHITE** proxy card. Only your latest-dated proxy will count.

Regardless of the number of shares you own and whether or not you plan to attend the Annual Meeting, it is important that you exercise your right to vote as a shareholder. Please indicate your vote on the enclosed **WHITE** proxy card and return it promptly using the envelope provided, or vote by telephone or by Internet according to the instructions on the enclosed **WHITE** proxy card. Be assured that your votes are completely confidential.

This is your opportunity to voice your opinion on matters affecting Associated Estates. We look forward to receiving your **WHITE** proxy and perhaps seeing you at our annual meeting.

Sincerely,

Jeffrey I. Friedman

Chairman, President and Chief Executive Officer

Notice Of 2015 Annual Meeting Of Shareholders

Friday, May 22, 2015

10:00 a.m. Local Time

One Cleveland Center, 1375 East 9th Street, Cleveland, Ohio 44114

TO OUR SHAREHOLDERS:

ITEMS OF BUSINESS:

1. To elect up to seven directors, each to hold office for a one-year term and until his successor has been duly elected and qualified;

2. To approve an amendment to the Associated Estates Realty Corporation Amended and Restated Code of Regulations;

3. Subject to the approval of Proposal Two, to elect John S. Gates, Jr. as a director of the Company.

4. To approve the Associated Estates Realty Corporation Third Amended and Restated Articles of Incorporation;

5. To ratify the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the Company s fiscal year ending December 31, 2015;

6. To approve, on an advisory basis, the compensation of our named executive officers; and

7. To transact all other business that properly comes before the meeting.

RECORD DATE: The Board has fixed the close of business on April 6, 2015 as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting, or any adjournment(s) or postponement(s) thereof.

PROXY VOTING: Your vote is very important to us. Whether or not you plan to attend the Annual Meeting, we urge you to submit the enclosed **WHITE** proxy or voting instructions as soon as possible to ensure your shares are represented at the Annual Meeting. If you attend the Annual Meeting and vote in person, your proxy or voting instructions will not be used.

By Order of the Board of Directors,

Scott D. Irwin

Senior Vice President, General Counsel and Secretary

[__________], 2015

Richmond Heights, Ohio

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDERS MEETING TO BE HELD ON MAY 22, 2015

The Notice of Annual Meeting, Proxy Statement and our 2014 Annual Report on Form 10-K are available at [www.____________].

You are encouraged to access and review all of the important information contained in our proxy materials before voting.

PROXY STATEMENT

RECENT HIGHLIGHTS AND PROXY SUMMARY

We prepared the following summary to provide highlights of our recent performance, and to assist you in reviewing matters to be considered at our 2015 Annual Meeting of Shareholders. This summary should be read in conjunction with the other information contained in this proxy statement, as well as our Annual Report on Form 10-K for the year ended December 31, 2014. We are mailing this proxy statement and the accompanying notice and proxy materials, along with our Annual Report to Shareholders, on or about [______], 2015.

Strengthening Our Portfolio

A critical component of our strategic plan for creating ever increasing shareholder value is the efficient recycling of capital to reduce the average age and improve the quality of our multifamily portfolio while continuing to increase our operating margins. Our focus is on prudently investing in Class A properties, including accretive development opportunities. We have strategically analyzed the apartment markets and developed a comprehensive portfolio transformation plan, to ensure it is comprised of newer properties in faster growing markets. For example, during 2014, we completed five property dispositions representing 1,209 units with an average age of 22 years and total proceeds of approximately $216 million, generating GAAP gains of $133.3 million. The blended, unlevered IRR on these sales was 16.2%, and the blended market cap rate was 5.4% (calculated on trailing twelve months NOI after a 3% management fee and marking real estate taxes to market).

Following this strategy, we have cultivated a diversified portfolio of high-quality properties in growing submarkets with an average age of 15 years (second youngest among the public multifamily REITs) by selling 48 properties since 2005 (average age of 22 years) while acquiring 23 properties (average age of six years):

	Portfolio 10 Years Ago (1)	Portfolio 5 Years Ago (1)	Portfolio Today (2)
Total # of Units	16,903	12,108	12,734
Total Revenue / Occupied Unit	$757	$935	$1,282
Average Occupancy	91.9%	93.5%	94.4%
Portfolio Quality	B- / C+ (3)	B+ (3)	A- / A (3)
Operating Margins	53.6%	58.4%	63.6%
Average Age	14	15	15
Top 5 Markets % of NOI			

Source: Sec Filings

(1) Information is as of Q4 2004 and 2009
(2) Information is as of Q4 2014, excludes assets disposed of throughout year
(3) Per Green Street Advisors, LLC

In 2013, we announced an agreement to acquire a portfolio of seven Class A apartment communities located in high growth submarkets in the Raleigh-Durham, Charlotte, Atlanta and Tampa markets:

	St. Mary s Square Raleigh, NC	Year Built:	2013
		Acquisition Date:	2013
		Units:	134
		Occupancy:	97.0%
		Avg. Rent:	$1,430
	Lofts at Weston Lakeside Cary, NC	Year Built:	2013
		Acquisition Date:	2013
		Units:	215
		Occupancy:	96.7%
		Avg. Rent:	$1,301

	The Apartments at Blakeney Charlotte, NC	Year Built:	2008
		Acquisition Date:	2013
		Units:	295
		Occupancy:	95.3%
		Avg. Rent:	$1,426
	Alpha Mill (Phases I & II) Charlotte, NC	Year Built:	2007 (I); 2013 (II)
		Acquisition Date:	2014
		Units:	134
		Occupancy:	94.4%
		Avg. Rent:	$1,248
	1160 Hammond (f/k/a Perimeter Town Center) Atlanta, GA	Year Built:	2015
		Acquisition Date:	2015
		Units:	345
		Occupancy:	[38.9%] (Lease up)
	Varela Westshore Tampa, FL	Year Built:	Under construction
		Acquisition Date:	2015 (projected)
		Units:	350
		Occupancy:	[24.0%] (Lease up)

In addition to our committed acquisition in Tampa, we have an agreement to acquire The Edge at Flagler Village, a 331-unit apartment community presently in lease up in downtown Fort Lauderdale, Florida:

	The Edge at Flagler Village Ft. Lauderdale, FL	Year Built:	2015
		Acquisition Date:	2016 (projected)
		Units:	331
		Occupancy:	[66.5%] (Lease up)

Enhancing our successful track record of improving margins and elevating the value of our portfolio through property acquisitions and dispositions is our proven development and redevelopment platform. Relying on our deep bench of experienced construction management and development professionals, we are uniquely equipped to create value for our shareholders by developing new apartment communities that offer greater returns on investment than could be achieved by acquiring stabilized Class A properties. For example, in 2010, we entered into a 90/10 joint venture with a local developer to build the 242-unit Vista Germantown apartment community in Nashville, Tennessee. Construction was completed in 2012. In 2013, we bought out the 10% interest of our local development partner for $4.5 million. In 2014, we sold Vista Germantown for $53.3 million, representing a market cap rate of 4.5%, an IRR of 19.8% and a gain of $15.8 million (42%). Furthermore, our development platform enables us to create incremental value by also redeveloping our existing properties to improve our competitiveness, support rent growth and increase the value of our properties.

Our robust development pipeline includes five projects under various stages of construction in California, Maryland and Texas. The remaining development spend for these projects is currently fully-funded through a combination of project-specific construction loan financing, free cash flow and proceeds from property dispositions:

	Cantabria at Turtle Creek Dallas, TX	Est. Completion Date:	2015
		Est. Stabilization Date:	2015
		Units:	249
		Occupancy:	[38.2]%
		Features:	Parking garage Rooftop sky lounge Resort style pool Turtle Creek / Uptown location
	7001 Arlington at Bethesda Bethesda, MD	Est. Completion Date:	2015
		Est. Stabilization Date:	2015
		Units:	140
		Features:	Parking garage 6,898 s.f. retail space 100% smoke-free community Walking distance to Bethesda Row / Metro Rail Station
	The Desmond on Wilshire Los Angeles, CA	Est. Completion Date:	2015
		Est. Stabilization Date:	2016
		Units:	175
		Features:	Parking Garage 100% smoke-free community Multi-level fitness center Rooftop sky lounge Outdoor pool with cabanas Mid-Wilshire location
	950 East Third Los Angeles, CA	Est. Completion Date:	2017
		Est. Stabilization Date:	2017
		Units:	472
		JV Partner:	Legendary Developments LLC
		Features:	Parking garage

			19,700 s.f. retail space Rooftop sky lounge LA Arts District location

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	350 8th	Est. Completion Date:	2016
		Est. Stabilization Date:	2017
	San Francisco, CA	Units:	410
		JV Partner:	AIG Global Real Estate
		Features:	Parking garage 40,000 s.f. retail space Multiple roof decks SoMa Neighborhood location

Strengthening Our Balance Sheet

Successfully executing our strategic plan to create long-term value for our shareholders requires the foundation of a strong, investment-grade balance sheet. Our relentless focus on improving our already strong credit metrics has enabled Associated Estates to achieve investment grade ratings from Moody s, Fitch and S&P, while reducing our net debt to annualized EBITDA from 8.1x in 2011 to 6.6x at December 31, 2014, increasing the fixed charge coverage ratio from 2.3x in 2011 to 3.3x at December 31, 2014, and expanding unencumbered NOI from 44.2% in 2011 to 75.9% at December 31, 2014.

Strengthening Our Corporate Governance

By transforming our high-quality apartment portfolio and strengthening our investment grade balance sheet, we have positioned Associated Estates to deliver long-term value for our shareholders and industry leading returns. However, standing in isolation, these accomplishments are but spokes in a wheel of value creation. The hub of that wheel, and the indispensable necessity for creating sustainable, long-term value for shareholders, are sound corporate governance policies and best practices. During 2014, our Board took action to further enhance our corporate governance:

ü Appointing multifamily industry veteran, Douglas Crocker II, the former Vice Chairman and Chief Executive Officer of Equity Residential (NYSE: EQR), to our Board as an independent director.

ü Appointing Mr. Crocker to serve as Chairman of our Finance and Planning Committee, which, in consultation with Citigroup Global Markets Inc., our financial advisor, is conducting a thorough review of our business.

ü

Appointing REIT industry veteran, Jon A. Fosheim, co-founder and former Principal of Green Street Advisors, to our Board as an independent director.

ü Appointing Mr. Fosheim to replace Jeffrey I. Friedman as a member of our Finance and Planning Committee.

ü Seeking shareholder approval at the 2015 Annual Meeting to eliminate our 4.0% share ownership limit, which we have regularly waived to allow institutional shareholders to acquire shares in excess of the limit.

ü Seeking shareholder approval at the 2015 Annual Meeting to increase the size of our Board of Directors from seven to eight members, and recommending the election of John S. Gates, Jr. as the eighth director.

ü Eliminating our shareholder rights plan.

ü Eliminating the Executive Committee of the Board, which has historically served almost exclusively to declare quarterly dividends authorized by the Board.

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These most recent actions by the Board followed the numerous enhancements we have implemented in recent years to elevate our corporate governance policies and compensation practices, including:

ü Increasing the percentage of independent directors to 86% (100% of non-employee directors), each of whom is elected annually.

ü Adopting clawback provisions with respect to equity-based and cash incentive compensation.

ü Adding a double trigger change-in-control feature to the equity based award plan.

ü Eliminated the evergreen provision and the tax gross up provision in the CEO s contract.

ü Adopting robust minimum share ownership requirements for Directors and Section 16 officers.

ü Modifying the Directors deferred compensation plan to facilitate payment of deferred compensation (including cash) and related earnings in shares upon distribution.

ü Reducing the cash retainer portion and increasing the equity based component of Director s compensation.

Sharpening Our Executive Compensation

Our executive compensation program supports our commitment to creating long-term shareholder value, achieving performance objectives, executing our strategic plan, and attracting and retaining the best executive team in the multifamily real estate industry. The program is designed to provide a strong linkage between our executives pay and their ability to influence both short-term and long-term performance-based financial and organizational objectives. Additionally, the program is designed to place at risk a high percentage of executive s compensation earned through the achievement of both single-year and multi-year performance metrics. At our 2014 Annual Meeting, over 95% of shareholders that voted on the say-on-pay proposal voted in favor of our compensation program and policies, and the compensation paid to the our named executive officers for fiscal 2013. As part of our commitment to continually improving our executive compensation program and practices, and strengthening the existing alignment between executive pay and shareholder interests, we have implemented important changes to our executive compensation program for fiscal 2015:

ü We are interested in the feedback received from our compensation consultants, the proxy advisory firms who reviewed our 2014 Proxy Statement and our shareholders. As such, we have improved our disclosure in the Compensation Discussion and Analysis section of this proxy statement:

- The Annual Incentive Plan, which is paid in cash based on achievement of single-year performance metrics, is now referred to as the Single-Year Cash Incentive.

- The Single-Year component of the Long Term Incentive Plan (SYLTIP), which is paid in restricted shares based on achievement of single-year performance metrics, is now referred to as the Single-Year Equity Incentive.

- The Multi-Year component of the Long Term Incentive Plan (MYLTIP), which is paid in restricted shares based on achievement of three-year performance metrics, is now referred to as the Multi-Year Equity Incentive.

- In recognition of our relatively small size compared to the other public multifamily REITs, and based on input we received from FPL Associates, our compensation consultant, we adopted a size-based peer group that will serve as the primary benchmark in determining compensation for our executive officers.

- We enhanced our clawback policy that enforces the recoupment of incentive compensation if a material accounting restatement is required, to include cash compensation paid.

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Creating Long-Term Value For Our Shareholders

Strengthening our portfolio, balance sheet, corporate governance and executive compensation serve the singular objective of Associated Estates: maximizing the creation of long-term value for our shareholders. During the approximately 10 years our current Board and management team have been together, we have delivered a total return to our shareholders of approximately 195%, greatly exceeding the approximately 138% return provided by the public multifamily REIT sector, and the approximately 98% return of the Morgan Stanley REIT Index (RMS):

Source: SNL Financial

(1) Land & Buildings first letter to AEC was published on 6/3/2014.

Our full year 2014 total return of 52.6% was the highest among the public multifamily REITs:

Source: SNL Financial

Proxy Summary

ANNUAL MEETING **Meeting Logistics**

Meeting Date:	May 22, 2015 at 10:00 a.m. local time
Record Date:	April 6, 2015
Location:	One Cleveland Center 1375 East 9th Street Cleveland, OH 44114

Voting