ASSOCIATED ESTATES REALTY CORP
Form 424B5
December 06, 2004

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Filed Pursuant To Rule 424(b)(5)
Registration No. 333-22419
PROSPECTUS SUPPLEMENT
(To Prospectus dated March 7, 1997)

2,320,000 Shares

Associated Estates Realty Corporation

Depositary Shares

Each Representing 1/10 of a Share of 8.70% Class B Series II Cumulative Redeemable Preferred Shares

(Liquidation Preference $25.00 Per Depositary Share)

Each of the depositary shares offered hereby represents a 1/10 fractional interest in a share of our 8.70% Class B Series II Cumulative Redeemable Preferred Shares, without par value (the Class B Series II Preferred Shares), deposited with National City Bank, Cleveland, Ohio, as depositary. Each depositary share entitles the holder to a proportionate share of all rights and preferences of the Class B Series II Preferred Shares (including dividend, voting, redemption and liquidation rights and preferences). The liquidation preference of each Class B Series II Preferred Share is $250.00 (equivalent to $25.00 per depositary share), plus an amount equal to the accrued and unpaid dividends.

We will pay quarterly cumulative dividends, in arrears, on the Class B Series II Preferred Shares from and including December 10, 2004. These dividends are payable on or before the fifteenth day of March, June, September and December of each year, (or the first business day thereafter) when and as declared, at a yearly rate of 8.70% of the $250.00 liquidation preference per Class B Series II Preferred Share, or (equivalent to $2.175 per depositary share), per year. We may not redeem the Class B Series II Preferred Shares or depositary shares prior to December 15, 2009, except as necessary to preserve our status as a real estate investment trust. On or after December 15, 2009, we may, at our option, redeem the Class B Series II Preferred Shares and depositary shares, in whole or from time to time in part, for $250.00 per Class B Series II Preferred Share (equivalent to $25.00 per depositary share) in cash plus any accrued and unpaid dividends to the date of redemption. The Class B Series II Preferred Shares and depository shares have no stated maturity, are not subject to any sinking fund and will remain outstanding indefinitely unless we redeem or repurchase them.

We have agreed to engage Cohen & Steers Capital Advisors, LLC, as placement agent for this offering. Cohen & Steers has no commitment to purchase securities and will act only as an agent in obtaining indications of interest in the securities from certain investors. After paying the placement agent fee and other estimated expenses payable by us, we anticipate receiving approximately $56.7 million in net proceeds from this offering.

We expect to list the depositary shares on the New York Stock Exchange and expect that trading will commence within 30 days after the initial delivery of the depositary shares.

Investing in our depositary shares involves certain risks. See Risk Factors on page S-5 of this prospectus supplement.

	Per share	Total
Public offering price per depositary share	$ 25.00	$ 58,000,000
Placement agent fees	$ 0.36	$ 835,000
Proceeds, before expenses and certain other fees, to us	$ 24.64	$ 57,165,000

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

We expect to deliver the depositary shares offered hereby on or about December 10, 2004 in accordance with the terms of purchase agreements to be entered into with purchasers.

Placement Agent

Cohen & Steers Capital Advisors, LLC

The date of this prospectus supplement is December 3, 2004

We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You can identify some of the forward-looking statements by the use of forward-looking words, such as believes, expects, may, will, should, seeks, intends, estimates or anticipates, or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to:

- changes in economic conditions in the markets in which we own and manage properties, including interest rates, the overall level of economic activity, the availability of consumer credit and mortgage financing, unemployment rates and other factors;
- 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;
- changes in real estate taxes and other operating expenses;
- changes in government regulations affecting properties the rents of which are subsidized and certain aspects of which are regulated by the United States Department of Housing and Urban Development (HUD) and other properties we own;
- changes in or termination of contracts relating to our third party management and advisory business;
- our inability to renew current contracts with HUD for rent-subsidized properties at existing rents;
- weather and other conditions that might adversely affect operating expenses;
- expenditures that cannot be anticipated, such as utility rate and usage increases, unanticipated repairs, and real estate tax valuation reassessments;
- our inability to achieve anticipated reductions in operating expenses and increases in revenues;
- the results of litigation filed or to be filed against us;
- risks related to our joint ventures;
- risks of personal injury claims and property damage related to mold claims because of diminished insurance coverage; and
- 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.

For a discussion of these and other factors that could cause actual results to differ from those contemplated in the forward-looking statements, please see the discussion under Risk Factors contained in this prospectus supplement and in other information contained in our publicly available filings with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for the year ended December 31, 2003 and other reports we file under the Securities Exchange Act of 1934. We do not undertake any responsibility to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PROSPECTUS SUPPLEMENT SUMMARY

The following summary may not contain all of the information that is important to you. You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein carefully before deciding whether to invest in our depositary shares. In this prospectus supplement, unless otherwise indicated, Associated Estates, the company, we, us and our refer to Associated Estates Realty Corporation and our consolidated subsidiaries.

ABOUT OUR COMPANY

Associated Estates is a self-administered and self-managed equity real estate investment trust, or REIT. We were formed in July 1993 to continue the Associated Estates Group s business of acquiring, developing and operating multifamily assets.

We are a fully integrated multifamily real estate company engaged in property acquisition, advisory, development, property management, disposition, operation and ownership activities. Associated Estates owns three taxable REIT subsidiaries that provide management and other services for it and third parties. As of December 1, 2004, we own or manage 107 apartment communities in 12 states consisting of 23,457 units. Associated Estates owns, either directly or through subsidiaries, or holds ownership interests in 76 of the 107 apartment communities containing 17,854 units in 10 states. Thirteen of those owned or partially owned apartment communities, consisting of 1,354 units, are affordable housing communities. Associated Estates, or one of its subsidiaries, also property manages 31 communities in which it does not have an ownership interest consisting of 5,603 units. Additionally, Associated Estates property manages one commercial property containing approximately 270,000 square feet and asset manages a 186-unit apartment community and one commercial property containing approximately 145,000 square feet.

Our headquarters are located at 5025 Swetland Court, 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 supplement and the accompanying prospectus. To the extent that the information in this prospectus supplement conflicts with the information contained in the accompanying prospectus, the information contained in this prospectus supplement supersedes and replaces in its entirety such conflicting information.

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THE OFFERING

Securities offered	2,320,000 depositary shares, each representing a 1/10 fractional interest in a 8.70% Class B Series II Cumulative Redeemable Preferred Share.
Price per depositary share	$25.00
Maturity	The Class B Series II Preferred Shares and the depositary shares have no stated maturity and will not be subject to any sinking fund.
Rank	The Class B Series II Preferred Shares will rank, with respect to dividend rights and rights upon our liquidation, dissolution or winding up, equally with our 9 3/4% Class A Cumulative Redeemable Preferred Shares, or 9 3/4% Class A Preferred Shares, and senior to our common shares.
Dividends	Dividends on the Class B Series II Preferred Shares are cumulative from and including December 10, 2004 and are payable quarterly in arrears for the period covering the preceding quarter on or before the 15th day of March, June, September and December of each year, at the annual rate of 8.70% of the liquidation preference per share, equivalent to a fixed annual amount of $2.175 per depositary share. Dividends on the Class B Series II Preferred Shares will accrue regardless of whether or not we have earnings, whether there are funds legally available for the payment of such dividends and whether or not such dividends are declared.
Liquidation preference	The Class B Series II Preferred Shares will have a liquidation preference of $250.00 per Class B Series II Preferred Share (equivalent to $25.00 per depositary share) plus an amount equal to any accrued and unpaid dividends thereon.
Optional redemption	The Class B Series II Preferred Shares are not redeemable prior to December 15, 2009, except in limited circumstances to preserve our status as a REIT. On or after December 15, 2009, the Class B Series II Preferred Shares will be redeemable for cash at our option (and the depositary will redeem the number of depositary shares representing the Class B Series II Preferred Shares redeemed) in whole or from time to time in part, at $250.00 per Class B Series II Preferred Share (equivalent to $25.00 per depositary share), plus accrued and unpaid dividends to the redemption date. See Description of Class B Series II Preferred Shares and Depositary Shares Redemption.
Going Private Transaction	In the event of a Going Private Transaction, each holder of Class B Series II Preferred Shares will have the right at the holder s option, to require us to repurchase all or any part of the holder s Class B Series II Preferred Shares (and the depositary will repurchase the number of depositary shares representing the Class B Series II Preferred Shares repurchased) at a repurchase price of $250.00 per share (equivalent to $25.00 per depositary share), plus all accrued and unpaid dividends, if any, up to the date fixed for repurchase, without interest, subject to the Ohio General Corporation Law. A Going Private Transaction means the occurrence of any merger or other transaction or series of transactions as a conse-

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	quence of which a majority of our common shares are owned or acquired by the merging or acquiring person, entity or group and, following the transaction(s), the common shares of our company or its successor are not listed for trading on a national stock exchange or NASDAQ.
Voting rights	Holders of the Class B Series II Preferred Shares and depositary shares will generally have no voting rights. However, if dividends on the Class B Series II Preferred Shares are in arrears for six or more consecutive quarterly periods, holders of the Class B Series II Preferred Shares (voting separately as a class with all other classes of preferred shares upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors to serve on our Board of Directors until all dividend arrearages have been either (a) paid or (b) declared and a sum sufficient for payment thereof is set aside for payment. In addition, some changes that would be materially adverse to the rights of holders of the Class B Series II Preferred Shares then outstanding cannot be made without the affirmative vote of the holders of two-thirds of the Class B preferred shares, voting as a single class. In any matter in which the Class B Series II Preferred Shares may vote, each depositary share will be entitled to 1/10 of a vote.
No Conversion Rights	The Class B Series II Preferred Shares and the depositary shares are not convertible into or exchangeable for any other property or securities.
Restrictions on Ownership and Transfer	The depositary shares will be subject to certain restrictions on ownership and transfer intended to preserve our status as a REIT for United States federal income tax purposes.
Listing	We expect to list our depositary shares on the New York Stock Exchange and expect that trading will commence within 30 days after the initial delivery of the depositary shares.
Use of Proceeds	The net proceeds from this offering will be used primarily to redeem all 225,000 of our 9 3/4% Class A Preferred Shares, with no stated maturity, held by the depositary, and, as a result, the depositary will redeem outstanding depositary shares representing interests in the underlying 9 3/4% Class A Preferred Shares. The balance of the proceeds from this offering, if any, will be used for general corporate purposes, which may include the repayment of indebtedness, the acquisition of properties and the expansion and improvement of certain properties in our portfolio.
Risk Factors	An investment in depositary shares involves risks, and prospective investors should carefully consider the matters discussed under Risk Factors beginning on page S-5 of this prospectus supplement before making any investment in the depositary shares.

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RISK FACTORS

You should carefully consider the risks described below and in the accompanying prospectus before making an investment decision. 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. Other important factors are identified in our Annual Report on Form 10-K for the year ended December 31, 2003, which is incorporated by reference into this prospectus supplement, including factors identified under the headings Business and Management s Discussion and Analysis of Financial Condition and Results of Operations, and in the other documents incorporated by reference into this prospectus supplement. All of these risks could adversely affect our business, financial condition, results of operations and cash flows. Our ability to pay dividends on, and the market price of, our equity securities may be adversely affected if any of such risks are realized.

We are subject to risks inherent in the 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 maintain or increase revenues and to generate income in excess of operating expenses and debt service charges. Revenues from our properties may be affected by:

- changes in the economic climate in the markets in which we own and manage properties, including interest rates, the overall level of economic activity, the availability of consumer credit and mortgage financing, unemployment rates and other factors;
- 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;
- changes in real estate taxes and other operating expenses (e.g., cleaning, utilities, repair and maintenance costs, insurance and administrative costs, security, landscaping, staffing and other general costs);
- changes in government regulations affecting properties the rents of which are subsidized and certain aspects of which are regulated by the United States Department of Housing and Urban Development (HUD) and other properties we own;
- changes in or termination of contracts relating to our third party management and advisory business;
- our inability to renew current contracts with HUD for rent-subsidized properties at existing rents;
- weather and other conditions that might adversely affect operating expenses;
- expenditures that cannot be anticipated, such as utility rate and usage increases, unanticipated repairs and real estate tax valuation reassessments;
- our inability to achieve anticipated reductions in operating expenses and increases in revenues;
- the results of litigation filed or to be filed against us;
- risks related to our joint ventures;
- personal injury claims and property damage related to mold claims because of diminished insurance coverage; and
- 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.

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 will be

adversely affected.

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Our multifamily apartment communities are subject to competition. Our apartment communities are located in developed areas that include other apartment communities. Our apartment communities also compete with other housing alternatives, such as condominiums, single and multifamily rental homes and owner occupied single and multifamily homes, in attracting residents. This competition may affect our ability to attract and retain residents and to increase or maintain rental rates.

The properties we own are primarily concentrated in Ohio, Michigan, Indiana, Pennsylvania, Florida and Georgia. As of December 1, 2004, approximately 55%, 17%, 5%, 3%, 8% and 4% of the units in properties we own are located in Ohio, Michigan, Indiana, Pennsylvania, Florida and Georgia, respectively. Our performance, therefore, is linked to economic conditions and the market for available rental housing in these states. A decline in the market for apartment housing in Ohio, or to a lesser extent, those other states, may adversely affect our financial condition, results of operations and ability to make distributions to our shareholders.

We own or manage properties that are subject to government programs. As of December 1, 2004, we own directly or through subsidiaries or joint ventures 13 properties with approximately 1,354 units and manage, through one or more affiliates, 26 properties with approximately 4,640 units, that benefit from some form of interest rate or rental subsidy and therefore are subject to governmental programs administered by HUD. As a condition to the receipt of assistance under HUD programs, many of the properties must comply with various HUD requirements, which typically include maintenance of decent, safe and sanitary housing, HUD approval of rent adjustments, and, in the case of a HUD insured mortgage, approval of a transfer of the property. We can give no assurance that we will be able to renew current agreements with HUD at existing or higher rents. HUD requirements and other current and future laws regarding the provision of affordable housing, and any changes to existing law making it more difficult to meet such requirements, could adversely affect our results of operations, financial condition 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 or are not economically insurable. Moreover, certain risks, such as mold and environmental exposures, generally are not covered by our insurance. Should an uninsured loss or a loss in excess of insured limits occur, we could lose our investment in the affected property as well as the anticipated future cash flow from that property, while remaining obligated for any mortgage indebtedness or other financial obligations related to that property. Any such loss could have a material adverse effect on our business, financial condition and results of operations. Additionally, increases in property insurance costs could adversely affect our financial condition and results of operation.

Debt financing could adversely affect our performance. We are highly leveraged and subject to risks associated with debt financing. These risks include the risk that we will not have sufficient cash flow from operations to make required payments of principal and interest, that we will be unable to refinance current or future indebtedness, that the terms of any refinancing will not be as favorable as the terms of existing indebtedness, and that we will be unable to make necessary investments in new business initiatives because of a lack of available funds. Increases in interest rates could increase our interest expense, which would adversely affect our cash available for payment of obligations and distribution to our shareholders. 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. It is possible that our debt level may change and that our total indebtedness could increase.

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 diversify or vary our portfolio promptly in accordance with our strategies or in response to economic or other conditions. In addition, provisions of the Internal Revenue Code of 1986, as amended (the Code), limit the ability of a REIT to sell its properties in some situations when it may be economically advantageous to do so, thereby potentially adversely affecting our ability to make distributions to our shareholders.

The costs of complying with laws and regulations could adversely affect our cash flow and ability to make distributions to our shareholders. Our properties must comply with Title III of the Americans with

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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. If compliance with these laws involves substantial expenditures or must be made on an accelerated basis, our ability to make distributions to our shareholders could be adversely affected.

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 anticipate that we will incur additional costs for systems, staffing and third party services in maintaining compliance with federal laws and regulations addressing corporate governance issues.

We are subject to the risks associated with investments through joint ventures. Three of our properties are owned by joint ventures in which we do not have a controlling interest. We may enter into joint ventures, including joint ventures that we do not control, in the future. Any joint venture investment involves risks such as the possibility that the co-venturer may seek relief under federal or state insolvency laws, or have economic or business interests or goals that are inconsistent with our business interests or goals. While the bankruptcy or insolvency of our co-venturer generally should not disrupt the operations of the joint venture, we could be forced to purchase the co-venturer s interest in the joint venture or the interest could be sold to a third party. We also may guarantee the indebtedness of our joint ventures. If we do not have control over a joint venture, the value of our investment may be affected adversely by a third party that may have different goals and capabilities than ours. It may also be difficult for us to exit a joint venture that we do not control after an impasse. For example, we could be bought out by our partner on unfavorable terms if we reach an impasse and are unable to fund the purchase of our partner s interest in the joint venture.

We are subject to risks associated with development, acquisition and expansion of multifamily apartment communities. Development projects and 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 may fail to qualify as a REIT and you 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

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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.

Our ownership limit may discourage takeover attempts. With certain limited exceptions, our Second Amended and Restated Articles of Incorporation, as amended and supplemented to date, and referred to in this prospectus supplement as our Articles, prohibit the ownership of more than 4% 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. 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.

We are subject to control by our directors and officers. Our directors and executive officers and members of their family owned approximately 17.9% of our common shares as of December 1, 2004. 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. Mr. Jeffrey I. Friedman, Associated Estates Chairman of the Board, President and Chief Executive Officer, is a party to an employment agreement with Associated Estates. We do not hold key-man life insurance on any of our key personnel.

The market value of the depositary shares could be substantially affected by various factors. Prior to this offering, there has been no public market for our depositary shares representing Class B Series II Preferred Shares. Although we have applied for listing of the depositary shares on the New York Stock Exchange, our listing application may not be approved. Even if the depositary shares are approved for listing on the New York Stock Exchange, an active trading market for the depositary shares may never develop or be sustained following this offering. The initial public offering price of the depositary shares may vary from the market price of the depositary shares after the offering. Investors may not be able to sell their depositary shares at or above the initial offering price. As with other publicly traded securities, the trading price of the depositary shares will depend on many factors, which may change from time to time, including:

the market for similar securities;

the additional issuance of other classes or series of our preferred shares;

general economic and financial market conditions; and

our financial condition, performance and prospects.

We could be prevented from paying dividends on Class B Series II Preferred Shares and the depositary shares, which may negatively impact your investment. We will pay dividends on the Class B Series II Preferred Shares, and, consequently, you will only receive cash dividends on the depositary shares if we have funds legally available for the payment of dividends and such payment is not restricted or prohibited by law. Our business may not generate sufficient cash flow from operations to enable us to pay dividends on Class B Series II Preferred Shares when payable. Accordingly, there is no guarantee that we will be able to pay any cash dividends on our Class B Series II Preferred Shares or the depositary shares.

Under certain circumstances, we may pay dividends in the form of shares or purchase, retire or redeem shares while accrued dividends on the Class B Series II Preferred Shares are unpaid. Our Articles permit us to pay dividends in common shares or other shares ranking junior to the Class B Series II Preferred Shares on such junior shares, and to purchase, retire or redeem common shares or other shares ranking junior to the

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Class B Series II Preferred Shares with the proceeds of the sale of such junior shares, even if we have not paid all accrued dividends on the Class B Series II Preferred Shares or our other shares ranking on parity with the Class B Series II Preferred Shares.

Holders of Class B Series II Preferred Shares and depositary shares have limited voting rights. Except as required by applicable law or as expressly stated in our Articles, as a holder of depositary shares representing Class B Series II Preferred Shares, you will not have any relative, participating, optional or other special voting rights and powers and your approval will not be required for the taking of any corporate action. For example, your approval would not be required for any merger or consolidation in which we are involved or a sale of all or substantially all of our assets, except to the extent such transaction materially adversely affects the express powers, preferences, rights or privileges of the holders of Class B Series II Preferred Shares. See Description of Class B Series II Preferred Shares and Depositary Shares below.

USE OF PROCEEDS

The net proceeds from the sale of the 2,320,000 depositary shares offered hereby are estimated to be approximately $56.7 million. The net proceeds from this offering will be used primarily to redeem all 225,000 of our 9 3/4% Class A Preferred Shares, with no stated maturity, held by the depositary, and, as a result, the depositary will redeem outstanding depositary shares representing interests in the underlying 9 3/4% Class A Preferred Shares, for an assumed aggregate redemption price of approximately $56.3 million. The balance of the proceeds from this offering, if any, will be used for general corporate purposes, which may include the repayment of indebtedness, the acquisition of properties and the expansion and improvement of certain properties in our portfolio.

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CAPITALIZATION

The following table sets forth our capitalization (a) as of September 30, 2004, and (b) as adjusted to give effect to the sale of the 2,320,000 depositary shares offered hereby at the offering price of $25.00 per depositary share, the redemption of all 225,000 issued and outstanding 9 3/4% Class A Preferred Shares for an assumed aggregate redemption price of $56.3 million and the repayment of $0.5 million of secured debt, as if each had occurred on September 30, 2004.

	As of September 30, 2004	
	Actual	As adjusted
	(In thousands)	
Cash and cash equivalents	$ 1,591	$ 1,591
Debt:		
Secured debt	557,327	556,877
Unsecured debt	105	105
Total debt	557,432	556,982
Shareholders equity:		
Preferred Shares, without par value; 9,000,000 shares authorized:		
9 3/4% Class A Cumulative Preferred Shares, 225,000 shares issued and outstanding	56,250	
8.70% Class B Series II Cumulative Preferred Shares, 232,000 shares issued and outstanding as adjusted		58,000
Common Shares, without par value, $0.10 stated value; 41,000,000 authorized;		
22,995,763 shares issued and 19,653,906 shares outstanding	2,300	2,300
Capital in excess of par value	278,206	276,906
Treasury shares	(29,792)	(29,792)
Cumulative net income	113,471	113,471
Cumulative distributions	(306,997)	(306,997)
Total shareholders equity	113,438	113,888
Total capitalization	$ 670,870	$ 670,870

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SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data for the five years ended December 31, 2003 are derived from our audited consolidated financial statements. The selected consolidated financial data for the nine month periods ended September 30, 2004 and September 30, 2003 are derived from our unaudited financial statements. The unaudited financial statements include all adjustments that we consider necessary for a fair presentation of our financial position and results of operation for these periods. Operating results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2004. The data should be read in conjunction with our consolidated financial statements, related notes and other financial information incorporated by reference herein.

	Associated Estates Realty Corporation						
	Nine Months Ended September 30,		Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(In thousands, except per share amounts)						
Operating Data:							
Revenues							
Rental	$ 101,855	$ 100,772	$ 134,617	$ 135,567	$ 139,087	$ 140,457	$ 140,227
Property and asset management, acquisition and disposition fees and reimbursements	9,728	10,295	14,053	20,142	23,471	21,675	23,075
Painting services	5,770	1,417	2,827	1,642	2,196	1,530	1,524
Other	3,701	2,970	3,635	3,497	4,122	3,191	2,884
Total revenues	121,054	115,454	155,132	160,848	168,876	166,853	167,710
Expenses and charges	125,234	126,590	167,029	167,837	170,270	169,393	169,107
(Loss) income before gain on disposition of properties and land, net, equity in net (loss) income of joint ventures, gain on sale of partnership interest, minority interest, income from discontinued operations, and cumulative effect of a change in accounting principle	(4,180)	(11,136)	(11,897)	(6,989)	(1,394)	(2,540)	(1,397)
Gain on disposition of properties and land, net				227	7,047	7,512	19,630
Equity in net (loss) income of joint ventures	(657)	(873)	(1,157)	(1,627)	(328)	(164)	585
Gain on sale of partnership interest			1,314				
Minority interest expense	(48)	(58)	(75)	(324)	(478)	(400)	(241)
(Loss) income from continuing operations	(4,885)	(12,067)	(11,815)	(8,713)	4,847	4,408	18,577
Income from discontinued operations:							
Operating income	245	625	902	532	60	534	813
Gain on disposition of properties, net	9,682			9,660			

Income from discontinued operations	9,927	625	902	10,192	60	534	813
Cumulative effect of a change in accounting principle							4,319
Net income (loss)	5,042	(11,442)	(10,913)	1,479	4,907	4,942	23,709
Preferred share dividends	(4,113)	(4,114)	(5,484)	(5,485)	(5,484)	(5,484)	(5,484)
Net income (loss) applicable to common shares	$ 929	$ (15,556)	$ (16,397)	$ (4,006)	$ (577)	$ (542)	$ 18,225

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	Associated Estates Realty Corporation						
	Nine Months Ended September 30,		Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(In thousands, except per share amounts)						
Earnings per common share Basic:							
(Loss) income from continuing operations applicable to common shares	$ (.46)	$ (.83)	$ (.89)	$ (.73)	$ (.03)	$ (.05)	$ .59
Income from discontinued operations	.51	.03	.04	.52		.02	.04
Cumulative effect of a change in accounting principle							.20
Net income (loss) applicable to common shares	$ .05	$ (.80)	$ (.85)	$ (.21)	$ (.03)	$ (.03)	$ .83
Weighted average number of common shares outstanding	19,508	19,397	19,401	19,343	19,415	19,733	22,051
Earnings per common share Diluted:							
(Loss) income from continuing operations applicable to common shares	$ (.46)	$ (.83)	$ (.89)	$ (.73)	$ (.03)	$ (.05)	$ .59
Income from discontinued operations	.51	.03	.04	.52		.02	.04
Cumulative effect of a change in accounting principle							.20
Net income (loss) applicable to common shares	$ .05	$ (.80)	$ (.85)	$ (.21)	$ (.03)	$ (.03)	$ .83
Weighted average number of common shares outstanding	19,508	19,397	19,401	19,343	19,415	19,733	22,053
Dividends declared per common share	$ .51	$ .51	$ .68	$ .92	$ 1.25	$ 1.25	$ 1.125

	As of September 30,	As of December 31,				
Balance Sheet Data:	2004	2003	2002	2001	2000	1999
	(In thousands)					
Real estate assets, net	$ 668,492	$ 661,585	$ 683,058	$ 716,079	$ 742,183	$ 777,072
Total assets	712,350	704,793	735,303	775,624	819,559	882,810
Total debt	557,432	543,496	540,498	552,069	568,177	579,186
Total shareholders equity	113,438	121,428	150,865	171,996	196,456	238,182

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RATIOS OF EARNINGS TO COMBINED FIXED CHARGES

AND PREFERRED SHARE DIVIDENDS

The following table sets forth our ratios of earnings to combined fixed charges and preferred share dividends for the periods indicated. The ratio of earnings to combined fixed charges and preferred share dividends was computed by dividing earnings by our combined fixed charges and preferred share dividends. For purposes of computing this ratio, earnings have been calculated by adding fixed charges (excluding capitalized interest) to income before taxes and extraordinary items. Fixed charges consist of preferred dividends accrued, interest costs, whether expensed or capitalized, the interest component of rental expense, the interest component of ground rent and the amortization of debt discounts and issue costs, whether expensed or capitalized.

	Nine Months Ended September 30,	Year Ended December 31,				
	2004	2003	2002	2001	2000	1999
Consolidated ratio of earnings to combined fixed charges and preferred share dividends	0.80	0.68	0.74	1.00	1.00	1.21

During the nine months ended September 30, 2004 and the twelve months ended December 31, 2003 and 2002, the total dollar amount of the deficiency in the ratio of earnings to combined fixed charges and preferred dividends was $7.2 million, $15.4 million, and $12.7 million, respectively.

On July 25, 1995, we issued 225,000 9 3/4% Class A Preferred Shares, all of which are outstanding as of December 1, 2004. We expect to use the proceeds of this offering to redeem all such outstanding shares held by the depositary, and, as a result, the depositary will redeem the outstanding depositary shares representing interests in the underlying 9 3/4% Class A Preferred Shares.

DESCRIPTION OF CLASS B SERIES II PREFERRED SHARES AND DEPOSITARY SHARES

This description of the particular terms of the Class B Series II Preferred Shares and the depositary shares supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of the preferred shares and depositary shares set forth in the accompanying prospectus, to which description reference is hereby made.

General

Pursuant to our Articles, we are authorized to issue 50,000,000 shares of all classes of shares, each share without par value, of which 41,000,000 are common shares and 9,000,000 are preferred shares. Of our preferred shares:

3,000,000 shares have been designated as Class A preferred shares, of which 225,000 have been designated as 9 3/4% Class A Cumulative Redeemable Preferred Shares;

3,000,000 shares have been designated as Class B preferred shares, of which 400,000 have been designated as Class B Series I Cumulative Preferred Shares and 232,000 have been designated as 8.70% Class B Series II Cumulative Redeemable Preferred Shares; and

3,000,000 shares have been designated as noncumulative preferred shares.

Our Board of Directors may issue the preferred shares of each class in one or more series consisting of such numbers of shares and having such preferences, conversion and other rights, voting powers, restrictions and limitations as to dividends, qualifications and terms and conditions of redemption of shares as our Board of Directors may from time to time determine when designating such series. Our Board of Directors also may classify or reclassify any unissued shares from time to time by setting or changing the preferences, conversion and other rights, voting powers, restrictions and limitations as to dividends, qualifications, and terms and conditions of redemption of the shares.

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As of December 1, 2004, 19,654,360 common shares and 225,000 9 3/4% Class A Preferred Shares were outstanding. We expect to redeem all 225,000 of such 9 3/4% Class A Preferred Shares with the proceeds of this offering.

Each depositary share represents a 1/10 fractional interest in a Class B Series II Preferred Share. The Class B Series II Preferred Shares will be deposited with National City Bank, Cleveland, Ohio, as Depositary (the Preferred Shares Depositary), under a deposit agreement between us, the Preferred Shares Depositary and the holders from time to time of the depositary receipts (the Depositary Receipts) issued by the Preferred Shares Depositary thereunder. The Depositary Receipts will evidence the depositary shares. Subject to the terms of the deposit agreement, each holder of a Depositary Receipt evidencing a depositary share will be entitled to all the rights and preferences of a fractional interest in a Class B Series II Preferred Share (including dividend, voting, redemption and liquidation rights and preferences). See Description of Depositary Shares in the accompanying prospectus.

Maturity

The Class B Series II Preferred Shares and the depositary shares have no stated maturity and are not subject to any sinking fund.

Rank

The Class B Series II Preferred Shares rank, with respect to dividend rights (subject to dividends on noncumulative preferred shares being noncumulative) and rights upon liquidation, dissolution or winding up:

- on parity with all of our other preferred shares, including our 9 3/4% Class A Preferred Shares, our Class B Series I Cumulative Preferred Shares and our noncumulative preferred shares, and all other equity securities to be issued by us, the terms of which specifically provide that such equity securities rank on parity with the Class B Series II Preferred Shares;

- senior to all classes or series of our common shares; and

- junior to all of our equity securities the terms of which specifically provide that such equity securities rank senior to the Class B Series II Preferred Shares.

As defined in our Articles, an equity security will be deemed to rank senior to the Class B Series II Preferred Shares if the rights of the holders of such security as to the payment of dividends or as to distributions in the event of liquidation, dissolution or winding up of our affairs are given preference over the rights of the holders of Class B Series II Preferred Shares. For example, a security will be deemed senior if dividends (other than certain dividends payable in shares) may be paid or set aside with respect to such security at a time when any accrued dividends on the Class B Series II Preferred Shares have either not been (a) paid or (b) declared and a sum sufficient for the payment of such accrued dividends has been set aside. For further information regarding the respective rank of our preferred shares, see Description of Preferred Shares Rank in the accompanying prospectus.

Dividends

Holders of Class B Series II Preferred Shares are entitled to receive, when and as declared by the Board of Directors or a duly authorized committee thereof, out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 8.70% per annum of the liquidation preference per share, equivalent to a fixed annual amount of $2.175 per depositary share.

Dividends on the Class B Series II Preferred Shares offered hereby are cumulative from and including December 10, 2004 and will be payable quarterly in arrears for the period covering the preceding quarter on or before the fifteenth day of March, June, September and December of each year, or, if that fifteenth day is not a business day, the next succeeding business day. Such dividend and any dividend payable on the Class B Series II Preferred Shares for any partial dividend period is computed on the basis of a 360-day year consisting of twelve 30-day months. The Preferred Share Depositary will distribute dividends received in respect of the

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Class B Series II Preferred Shares to the holders of record of Depositary Receipts at the close of business on the applicable record date, which is the last day of the calendar month next preceding the applicable dividend payment date, or on such other date designated by our Board of Directors for the payment of dividends that is not more than 30 nor less than 10 days prior to such dividend payment date.

No dividends on Class B Series II Preferred Shares will be declared by our Board of Directors or any committee thereof or paid or set apart for payment by us at such time as any agreement by which we are bound, including any agreement relating to our indebtedness, prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

Notwithstanding the foregoing, dividends on the Class B Series II Preferred Shares accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Class B Series II Preferred Shares do not bear interest and holders of the Class B Series II Preferred Shares are not entitled to any distributions in excess of the full cumulative distributions described above.

No dividends may be paid upon or declared or set apart for any Class B Series II Preferred Shares for any dividend period unless, at the same time, a like proportionate dividend for the dividend periods terminating on the same or any earlier date for all shares then issued and outstanding, ranking on parity with the Class B Series II Preferred Shares and entitled to receive such dividend (but, if such shares are noncumulative preferred shares then only with respect to the current dividend period), ratably in proportion to the respective annual dividend rates fixed therefor, has been paid upon or declared or set apart for such shares. Likewise, no dividends may be paid upon or declared or set apart for any other class or series of preferred shares ranking on parity with the Class B Series II Preferred Shares with respect to dividends, unless at the same time, a like proportionate dividend has been paid upon or declared or set apart for the Class B Series II Preferred Shares.

So long as any Class B Series II Preferred Shares are outstanding, no dividend, except a dividend payable in common shares or other shares ranking junior to the Class B Series II Preferred Shares, may be paid or declared or any distribution made, in respect of the common shares or any other shares ranking junior to the Class B Series II Preferred Shares, and no common shares or any other shares ranking junior to the Class B Series II Preferred Shares may be purchased, retired or otherwise acquired by us, except out of the proceeds of the sale of common shares or other shares ranking junior to the Class B Series II Preferred Shares received by us subsequent to the date of first issuance of the Class B Series II Preferred Shares, unless:

all accrued and unpaid dividends on the Class B Series II Preferred Shares and all classes of preferred shares ranking on a parity with the Class B Series II Preferred Shares then outstanding, including the full dividends for all current dividend periods (except, with respect to noncumulative preferred shares, for the then current dividend period only), have been declared and paid or a sufficient sum for payment of such dividends has been set apart, and

there are no arrearages with respect to the redemption of any class or series of preferred shares ranking on a parity with the Class B Series II Preferred Shares from any sinking fund provided for such class or series in accordance with the Articles.

The foregoing restrictions on the payment of dividends or other distributions on, or on the purchase, redemption, retirement or other acquisition of, common shares or any other shares ranking on a parity with or junior to the Class B Series II Preferred Shares will not apply to:

any payments in lieu of issuance of fractional shares, whether upon any merger, conversion, share dividend or otherwise;

the conversion of preferred shares into common shares; or

the exercise by us of our right to repurchase shares in order to preserve our status as a REIT under the Code.

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When dividends upon the Class B Series II Preferred Shares and any other preferred shares ranking on a parity as to dividends with the Class B Series II Preferred Shares cannot be paid in full, or a sufficient sum for such full payment cannot be set apart, all dividends declared upon the Class B Series II Preferred Shares and any other preferred shares ranking on a parity as to dividends with the Class B Series II Preferred Shares will be declared pro rata based on their respective accrued and unpaid dividends. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Class B Series II Preferred Shares which may be in arrears.

Any dividend payment made on the Class B Series II Preferred Shares will first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

For further information regarding the dividend rights of the Class B Series II Preferred Shares, see Description of Preferred Shares Dividends and Description of Depositary Shares Dividends and Other Distributions in the accompanying prospectus.

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of Class B Series II Preferred Shares are entitled to be paid out of our assets legally available for distribution to our shareholders a liquidation preference of $250.00 per Class B Series II Preferred Share (equivalent to $25.00 per depositary share), plus an amount equal to any accrued and unpaid dividends to the date of payment, but without interest, before any distribution of assets is made to holders of common shares or any other class or series of our capital stock that ranks junior to the Class B Series II Preferred Shares as to liquidation rights. Holders of Class B Series II Preferred Shares are entitled to prompt written notice by us of any event triggering the right to receive such liquidation preference. After payment of the full amount of this liquidation preference, plus any accrued and unpaid dividends to which they are entitled, the holders of Class B Series II Preferred Shares will have no right or claim to any of our remaining assets.

If our legally available assets are insufficient to pay the full amount due to the holders of Class B Series II Preferred Shares and the corresponding amounts due to the holders of all shares ranking on parity with the Class B Series II Preferred Shares as to liquidation, all of such holders will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

The consolidation or merger of the company with or into any other corporation, trust or entity or of any other corporation with or into our company, or the sale, lease or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding up of the company.

For further information regarding the rights of the Class B Series II Preferred Shares and depositary shares upon liquidation, dissolution or winding up, see Description of Preferred Shares Liquidation Preference and Description of Depositary Shares Liquidation Preference in the accompanying prospectus.

Redemption

Except in circumstances relating to our qualification as a REIT (See Restrictions on Ownership and Transfer below and Description of Preferred Shares Restrictions on Ownership in the accompanying prospectus), the Class B Series II Preferred Shares are not redeemable prior to December 15, 2009.

On or after December 15, 2009, we, at our option, upon not less than 30 nor more than 60 days written notice, may redeem the Class B Series II Preferred Shares (and the Preferred Shares Depositary will redeem the number of depositary shares representing the Class B Series II Preferred Shares so redeemed upon not less than 30 days written notice to the holders thereof), in whole or in part, at any time or from time to time, for cash at a redemption price of $250.00 per Class B Series II Preferred Share (equivalent to $25.00 per depositary share), plus all accrued and unpaid dividends thereon to the date fixed for redemption (except with respect to Excess Shares, See Restrictions on Ownership and Transfer below and Description of Preferred Shares Restrictions on Ownership in the accompanying prospectus), without interest.

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Holders of Depositary Receipts evidencing depositary shares to be redeemed will be required to surrender such Depositary Receipts at the place designated in the redemption notice and will be entitled to the redemption price and any accrued and unpaid dividends payable upon such redemption following such surrender. If notice of redemption of any Class B Series II Preferred Shares and depositary shares has been given and if the funds necessary for such redemption have been set aside by us in trust for the benefit of the holders of such shares called for redemption, then from and after the redemption date, dividends will cease to accrue on such Class B Series II Preferred Shares, such Class B Series II Preferred Shares and depositary shares will no longer be deemed outstanding and all rights of the holders of such Class B Series II Preferred Shares and depositary shares will terminate, except the right to receive the redemption price. If less than all of the outstanding depositary shares are to be redeemed, the depositary shares to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional depositary shares) or by any other equitable method determined by us or the Preferred Shares Depositary that will not result in the issuance of Excess Preferred Shares.

Unless full cumulative dividends on all Class B Series II Preferred Shares have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all dividend periods ending prior to or on the most recent past dividend payment date, no Class B Series II Preferred Shares or depositary shares will be redeemed unless all outstanding Class B Series II Preferred Shares are simultaneously redeemed, and we will not purchase or otherwise acquire directly or indirectly any Class B Series II Preferred Shares or depositary shares except by exchange for our capital stock ranking junior to the Class B Series II Preferred Shares as to dividends and upon liquidation.

The foregoing restrictions will not prevent our purchase of Excess Shares in order to ensure that we continue to meet the requirements for qualification as a REIT, or the purchase or acquisition of Class B Series II Preferred Shares or depositary shares pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Class B Series II Preferred Shares or depositary shares.

We will give the Preferred Shares Depositary not less than 40 nor more than 60 days prior written notice of redemption of the deposited Class B Series II Preferred Shares. A similar notice will be mailed by the Preferred Shares Depositary, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the depositary shares to be redeemed at their respective addresses as they appear on the records of the Preferred Shares Depositary. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any Class B Series II Preferred Share except as to the holder to whom notice was defective or not given.

Each notice will state:

the redemption date;

the redemption price;

the number of Class B Series II Preferred Shares and the number of depositary shares to be redeemed;

the place or places where the Depositary Receipts are to be surrendered for payment of the redemption price; and

that dividends on the shares to be redeemed will cease to accrue on such redemption date.

If less than all of the Class B Series II Preferred Shares are to be redeemed, the notice mailed to such holder will be required to also specify the number of depositary shares held by such holder to be redeemed.

Immediately prior to any redemption of Class B Series II Preferred Shares, we will pay, in cash, any accumulated and unpaid dividends to the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of depositary shares at the close of business on such dividend record date will be entitled to the dividend payable with respect to the underlying Class B Series II Preferred Shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date.

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In order to ensure that we continue to meet the requirements for qualification as a REIT, Class B Series II Preferred Shares and depositary shares acquired by a shareholder in excess of the ownership limit will automatically become Excess Shares, and we will have the right to purchase such Excess Shares from the holder. In addition, Excess Shares may be redeemed, in whole or in part, at any time when outstanding Class B Series II Preferred Shares or depositary shares are being redeemed, for cash at a redemption price of $250.00 per Class B Series II Preferred Share (equivalent to $25.00 per depositary share), but excluding accrued and unpaid dividends on such Excess Shares, without interest. Such Excess Shares will be redeemed in such proportion and in accordance with such procedures as Class B Series II Preferred Shares and depositary shares are being redeemed.

For further information regarding the redemption of the Class B Series II Preferred Shares and depositary shares, see Description of Preferred Shares Redemption and Restrictions on Ownership and Description of Depositary Shares Redemption of the Depositary Shares in the accompanying prospectus.

Going Private Transaction

In the event of a Going Private Transaction (as defined below), each holder of Class B Series II Preferred Shares will have the right, at the holder s option, to require us to repurchase all or any part of the holder s Class B Series II Preferred Shares (and the depositary will repurchase the number of depositary shares representing the Class B Series II Preferred Shares repurchased) for cash at a repurchase price of $250.00 per share (equivalent to $25.00 per depositary share), plus all accrued and unpaid dividends, if any, up to the date fixed for repurchase (except with respect to Class B Series II Preferred Shares which have been converted into Excess Shares pursuant to our Articles), without interest pursuant to the procedures described below (the Going Private Put Option), subject to the Ohio General Corporation Law. A Going Private Transaction means the occurrence of any merger or other transaction or series of transactions as a consequence of which a majority of our outstanding common shares are owned or acquired by the merging or acquiring person, entity or group and, following the transaction(s), the common shares of our company or its successor are not listed for trading on a national stock exchange or NASDAQ.

In connection with any Going Private Transaction, we will be required to mail (or cause the depositary to mail) to each holder of Class B Series II Preferred Shares and depositary shares, not later than the date of the occurrence of the Going Private Transaction, a notice of such occurrence, which will specify the purchase price and the purchase date, which will be no fewer than 30 business days and no more than 40 business days from the date the notice is mailed (the Put Option Payment Date), and describe the procedure that must be followed by the holder to tender the holder s Class B Series II Preferred Shares or depositary shares. We will be required to deliver (or cause the depositary to deliver) a copy of this notice to each record holder of Class B Series II Preferred Shares as of the date that is 15 days prior to the date the notice is mailed. To exercise the Going Private Put Option, a holder of Class B Series Preferred Shares or depositary shares must deliver, on or before the third business day preceding the Put Option Payment Date, written notice to us or to the depositary, as applicable, or to a paying agent designated by us for such purpose, of the holder s exercise of the Going Private Put Option, indicating the number of Class B Series II Preferred Shares to be repurchased by us or depositary shares to be repurchased by the depositary, as applicable. Holders of Class B Series II Preferred Shares or depositary shares will be entitled to withdraw, in whole or in part, any tender of Class B Series II Preferred Shares or depositary shares pursuant to an exercise of the Going Private Put Option by delivering to us or the depositary, as applicable, or to a paying agent designated by us for such purpose, on or before the second business day preceding the Put Option Payment Date, a telegram, telex, facsimile transmission or letter stating the name of the holder, the number of Class B Series II Preferred Shares or depositary shares initially to be delivered for purchase, and a statement that the holder is withdrawing its exercise of the Going Private Put Option as to all or part of the tendered Class B Series II Preferred Shares or depositary shares.

We will comply, to the extent applicable, with Sections 13 and 14 of the Exchange Act and the provisions of Regulation 14E promulgated thereunder and any other securities laws and regulations applicable to a repurchase of our Class B Series II Preferred Shares pursuant to a Going Private Transaction.

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Voting Rights

Holders of the Class B Series II Preferred Shares do not have any voting rights, except as set forth below. In any matter in which the Class B Series II Preferred Shares may vote, each Class B Series II Preferred Share will be entitled to one vote. As a result, each depositary share will be entitled to 1/10 of a vote. For further information regarding the voting rights of the Class B Series II Preferred Shares and depositary shares, see Description of Preferred Shares Voting Rights and Description of Depositary Shares Voting of the Underlying Preferred Shares in the accompanying prospectus.

Whenever dividends on the Class B Series II Preferred Shares are in arrears for six or more consecutive quarterly periods, the number of directors then constituting the Board of Directors will be increased by two. The holders of Class B Series II Preferred Shares, voting separately as a class, together with any other classes of preferred shares with like voting rights that are then exercisable, will then be entitled to vote for such two additional directors until all dividends accumulated on such Class B Series II Preferred Shares for the past dividend periods and the dividend for the then current dividend period have been either (a) fully paid or (b) declared and a sufficient sum for the payment of such dividends has been set aside.

So long as any Class B Series II Preferred Shares remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of each series of Class B preferred shares outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a single class):

- authorize, create or increase the authorized number of any shares, or any security convertible into shares, ranking senior to the Class B Preferred Shares; or

- amend, alter or repeal, whether by merger, consolidation or otherwise, any of the provisions of the Articles or the Code of Regulations which affects adversely and materially the preferences or voting or other rights of the holders of the Class B preferred shares which are set forth in the Articles.

In addition, to the extent permitted by Ohio law, when Class B preferred shares of more than one series have been issued, the affirmative vote of the holders of at least two-thirds of the Class B Series II Preferred Shares, voting separately as a class, given in person or by proxy either in writing or at a meeting called for the purpose of voting on such matters, will be required for any amendment, alteration or repeal, whether by merger, consolidation or otherwise, of any of the provisions of the Articles or the Code of Regulations which affects adversely and materially the preferences or voting or other rights of the holders of Class B Series II Preferred Shares which are set forth in the Articles. However, no consent of the holders of the shares of each series of Class B preferred shares, voting as a single class, or the Class B Series II Preferred Shares, voting as a single class, is required to amend the Articles so as to authorize, create or change the authorized or outstanding number of Class B preferred shares or a class of shares ranking on a parity with or junior to the Class B preferred shares, or to amend the provisions of the Code of Regulations so as to change the number or classification of our directors.

For further information regarding the shares which may be deemed to rank senior to the Class B Series II Preferred Shares, see Rank above.

Without limiting the provisions described above, under Ohio law, holders of shares of each series of Class B preferred shares are entitled to vote together as a single class, by a two-thirds vote, on any amendment to the Articles, whether or not they are entitled to vote thereon by the Articles, if the amendment would:

- increase or decrease the par value of the Class B preferred shares;

- change the issued Class B preferred shares into a lesser number of shares of such class or into the same or different number of shares of another class;

- change the express terms or add express terms of the Class B preferred shares in any manner substantially prejudicial to the holders of Class B preferred shares;

- change the express terms of issued shares of any class senior to the Class B preferred shares in any manner substantially prejudicial to the holders of Class B preferred shares;

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authorize shares of another class that are convertible into, or authorize the conversion of shares of another class into, Class B preferred shares, or authorize the directors to fix or alter conversion rights of shares of another class that are convertible into Class B preferred shares;

reduce or eliminate our stated capital;

substantially change the purposes of our company; or

change us into a nonprofit corporation.

The Class B Series II Preferred Shares will have no right to vote, however, if, at or prior to the time when the act with respect to which such vote would be required shall be effected, all outstanding Class B Series II Preferred Shares have been redeemed or called for redemption and sufficient funds have been deposited in trust to effect such redemption.

Conversion

The Class B Series II Preferred Shares and the depositary shares are not convertible into or exchangeable for any of our other property or securities.

Restrictions on Ownership and Transfer

In addition to other qualifications, for us to qualify as a REIT, (1) not more than 50% in value of our outstanding capital stock may be owned, actually or constructively, by five or fewer individuals during the last half of our taxable year, and (2) such capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year.

To ensure that we continue to meet the requirements for qualification as a REIT, our Articles, subject to some exceptions, provide that no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, Class B Series II Preferred Shares or depositary shares in excess of 9.8% of the number of then outstanding Class B Series II Preferred Shares or depositary shares, as applicable. Our Board of Directors may waive this ownership limit with respect to a shareholder if evidence satisfactory to the Board of Directors and our tax counsel is presented that the changes in ownership limit with respect to such shareholder will not then or in the future jeopardize our status as a REIT. Any transfer of capital stock or any security convertible into capital stock that would result in actual or constructive ownership of capital stock by a shareholder in excess of the ownership limit or that would result in our failure to meet the requirements for qualification as a REIT, including any transfer that results in the capital stock being owned by fewer than 100 persons or results in our company being closely held within the meaning of section 856(h) of the Code, notwithstanding any provisions of our Articles to the contrary, will be null and void, and the intended transferee will acquire no rights to the capital stock. The foregoing restrictions on transferability and ownership will not apply if the Board of Directors determines that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT.

Any shares of our capital stock or depositary shares held by a shareholder in excess of the applicable ownership limit become Excess Shares. We have the right to redeem all or any portion of the Excess Shares from the holder at the redemption price, which will be equal to the lesser of (a) the price in a proposed transaction that would cause a holder to exceed the ownership limit, and (b) the fair market value of such shares reflected in the last reported sales price for the Class B Series II Preferred Shares or the depositary shares, as applicable, on the trading day immediately preceding the date on which we determine to exercise our repurchase right, if the shares are then listed on a national securities exchange, or such price for the shares on the principal exchange if the shares are then listed on more than one national securities exchange, or, if the shares are not then listed on a national securities exchange, the latest bid quotation for the shares if the shares are then traded over-the-counter, or, if such quotation is not available, the fair market value as determined by the Board of Directors in good faith, on the last trading day immediately preceding the day on which notice of such proposed purchase is sent by us. From and after the date fixed for purchase of such Excess Shares by us, the holder of such shares will cease to be entitled to distribution, voting rights and other benefits with respect to such shares except the right to payment of the purchase price for the shares. Any dividend or distribution

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paid to a proposed transferee on Excess Shares must be repaid to us upon demand. If the foregoing transfer restrictions are determined to be void or invalid by virtue of any legal decision, statute, rule or regulation, then the intended transferee of any Excess Shares may be deemed, at our option, to have acted as an agent on behalf of us in acquiring such Excess Shares and to hold such Excess Shares on behalf of us.

Each holder who, directly or indirectly, holds more than 5% of the outstanding Class B Series II Preferred Shares or depositary shares, will upon demand be required to disclose to us in writing any information with respect to the actual and constructive ownership of shares of our capital stock or depositary shares as our Board of Directors deems necessary to comply with the provisions of the Code applicable to REITs, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

The ownership limit may have the effect of precluding the acquisition of control of our company unless the Board of Directors determines that maintenance of REIT status is no longer in our best interests.

Transfer and Dividend Disbursing Agent and Preferred Shares Depositary

National City Bank acts as the transfer agent, registrar and dividend disbursing agent for the 9 3/4% Class A Preferred Shares, Class B Series II Preferred Shares and common shares. National City Bank also acts as depositary for the 9 3/4% Class A Preferred Shares and will act as the Preferred Shares Depositary for the Class B Series II Preferred Shares.

FEDERAL INCOME TAX CONSIDERATIONS

General

The following summary of material federal income tax considerations regarding our company and the securities we are registering is based on current law, is for general information only and is not tax advice. The tax treatment to holders of securities will vary depending on a holder s particular situation, and this discussion does not purport to deal with all aspects of taxation that may be relevant to a holder of securities in light of his or her personal investments or tax circumstances, or to certain types of shareholders subject to special treatment under the federal income tax laws. Shareholders subject to special treatment include, without limitation, insurance companies, financial institutions or broker-dealers, tax-exempt organizations, shareholders holding securities as part of a conversion transaction, or a hedge or hedging transaction or as a position in a straddle for tax purposes, foreign corporations or partnerships and persons who are not citizens or residents of the United States. In addition, the summary below does not consider the effect of any foreign, state, local or other tax laws that may be applicable to holders of our securities.

The information in this section is based on the Code, current, temporary and proposed Treasury Regulations promulgated under the Code, the legislative history of the Code, current administrative interpretations and practices of the Internal Revenue Service (the IRS) (including its practices and policies as expressed in certain private letter rulings which are not binding on the IRS except with respect to the particular taxpayers who requested and received such rulings), and court decisions, all as of the date of this prospectus supplement. Future legislation, Treasury Regulations, administrative interpretations and practices and court decisions may adversely affect, perhaps retroactively, the tax considerations described herein. We have not requested, and do not plan to request, any rulings from the IRS concerning our tax treatment and the statements in this prospectus supplement are not binding on the IRS or any court. Thus, we can provide no assurance that these statements will not be challenged by the IRS or sustained by a court if challenged by the IRS.

You are advised to consult your tax advisor regarding the specific tax consequences to you of the acquisition, ownership and sale of our securities, including the federal, state, local, foreign and other tax consequences of such acquisition, ownership and sale and of potential changes in applicable tax laws.

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Taxation of the Company

General. We elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 1993. We believe we have been organized and have operated in a manner which allows us to qualify for taxation as a REIT under the Code commencing with our taxable year ended December 31, 1993. We intend to continue to operate in this manner.

The law firm of Baker & Hostetler LLP has acted as our tax counsel in connection with our election to be taxed as a REIT. It is the opinion of Baker & Hostetler LLP that we have qualified as a REIT under the Code for our taxable years ended December 31, 1993 through December 31, 2003, we are organized in conformity with the requirements for qualification as a REIT, and our current and proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT under the Code for our taxable year ended December 31, 2004 and for future taxable years. The opinion of Baker & Hostetler LLP is based upon certain representations made by our management as to factual matters as set forth herein and in registration statements previously filed with the SEC. In addition, we have provided a representation letter and certificate to Baker & Hostetler LLP certifying, among other things, that we have made a timely election to be taxed as a REIT under the Code commencing with our initial taxable year ended December 31, 1993, and that commencing with the first taxable year that we have elected to be taxed as a REIT, we have operated and will continue to operate in accordance with the terms and provisions of our Articles and Code of Regulations and in accordance with the method of operation described herein and in registration statements previously filed with the SEC. Baker & Hostetler LLP has not attempted to verify independently such representations and statements, but in the course of its representation nothing has come to its attention that would cause it to question the accuracy thereof.

The opinions of Baker & Hostetler LLP are based on existing law as contained in the Code and regulations promulgated thereunder, in effect on the date hereof, and the interpretations of such provisions and regulations by the IRS and the courts having jurisdiction over such matters, all of which are subject to change either prospectively or retroactively, and to possibly different interpretations. Also, any variation from the factual statements set forth herein, in registration statements previously filed with the SEC, or in the representation letter and certificate we have provided to Baker & Hostetler LLP may affect the conclusions upon which its opinion is based. Moreover, our qualification and taxation as a REIT depends upon our ability, through actual annual operating results and methods of operation, to satisfy various qualification tests imposed under the Code, such as distributions to shareholders, asset composition levels, and diversity of share ownership. Baker & Hostetler LLP will not review our compliance with these tests. Accordingly, no assurance can be given that the actual results of our operations for any one taxable year will satisfy such requirements. Baker & Hostetler LLP will have no obligation to advise us or the holders of our securities of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. You should be aware that the opinion represents Baker & Hostetler LLP s best judgment of how a court would decide if presented with the issues addressed therein but, because opinions of counsel are not binding upon the IRS or any court, there can be no assurance that contrary positions may not successfully be asserted by the IRS.

Our ability to qualify as a REIT also depends in part upon the operating results, organizational structure and entity classification for federal income tax purposes of certain affiliated entities, including affiliates that have made elections to be taxed as REITs, the status of which may not have been reviewed by Baker & Hostetler LLP. Our ability to qualify as a REIT also requires that we satisfy certain asset tests, some of which depend upon the fair market values of assets directly or indirectly owned by us. Such values may not be susceptible to a precise determination. Accordingly, no assurance can be given that the actual results of our operations for any one taxable year will satisfy such requirements for qualification and taxation as a REIT. Similarly, we have significant subsidiaries that have elected to be taxed as REITs and are therefore subject to the same qualification tests. See Failure to Qualify below.

The following summarizes the material aspects of the tax laws that govern the federal income tax treatment of a REIT and its shareholders.

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If we qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our taxable income that is currently distributed to our shareholders. This treatment substantially eliminates the double taxation (once at the corporate level when earned and once again at the shareholder level when distributed) that generally results from investment in a corporation. However, we will be subject to federal income tax as follows:

First, we will be taxed at regular corporate rates on any undistributed REIT taxable income, including undistributed net capital gains.

Second, we may be subject to the alternative minimum tax on our items of tax preference under certain circumstances.

Third, if we have (a) net income from the sale or other disposition of foreclosure property (defined generally as property we acquired through foreclosure or after a default on a loan secured by the property or a lease of the property) which is held primarily for sale to customers in the ordinary course of business or (b) other nonqualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on this income.

Fourth, we will be subject to a 100% tax on any net income from prohibited transactions (which are, in general, certain sales or other dispositions of property held primarily for sale to customers in the ordinary course of business other than foreclosure property).

Fifth, we will be subject to a 100% tax on an amount equal to (a) the gross income attributable to the greater of the amounts by which we fail the 75% or 95% gross income tests multiplied by (b) a fraction intended to reflect our profitability, if we fail to satisfy the 75% or 95% gross income tests (as discussed below), but have maintained our qualification as a REIT because we satisfied certain other requirements.

Sixth, we would be subject to a 4% excise tax on the excess of the required distribution over the amounts actually distributed if we fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for the year, (b) 95% of our REIT capital gain net income for the year (other than certain long-term capital gains for which we make a Capital Gains Designation (defined below) and on which we pay the tax), and (c) any undistributed taxable income from prior periods.

Seventh, we may elect to retain and pay income tax on our net long-term capital gain. In that case, a U.S. Shareholder (as defined below in Taxation of Taxable U.S. Shareholders) would be taxed on its proportionate share of our undistributed long-term capital gain and would receive a credit or refund for its proportionate share of the tax we paid.

Eighth, if we acquire any asset (a Built-In Gain Asset) from a corporation which is or has been a C corporation (i.e., generally a corporation subject to full corporate-level tax) in a transaction in which the basis of the Built-In Gain Asset in our hands is determined by reference to