

Home Properties
1998 Annual Report

Locations of Wholly Owned Communities

Corporate Headquarters:

▲ Rochester, NY

★ Regional Offices:

Rochester, NY
 Buffalo, NY
 Syracuse, NY
 Detroit, MI
 Philadelphia, PA
 Albany, NY
 Baltimore, MD
 Englewood, NJ
 Erie, PA

- Core Communities
27 communities with 6,552 units
- ▲ 1997 Aquisition Communities
35 communities with 7,496 units
- 1998 Aquisition Communities
35 communities with 9,888 units

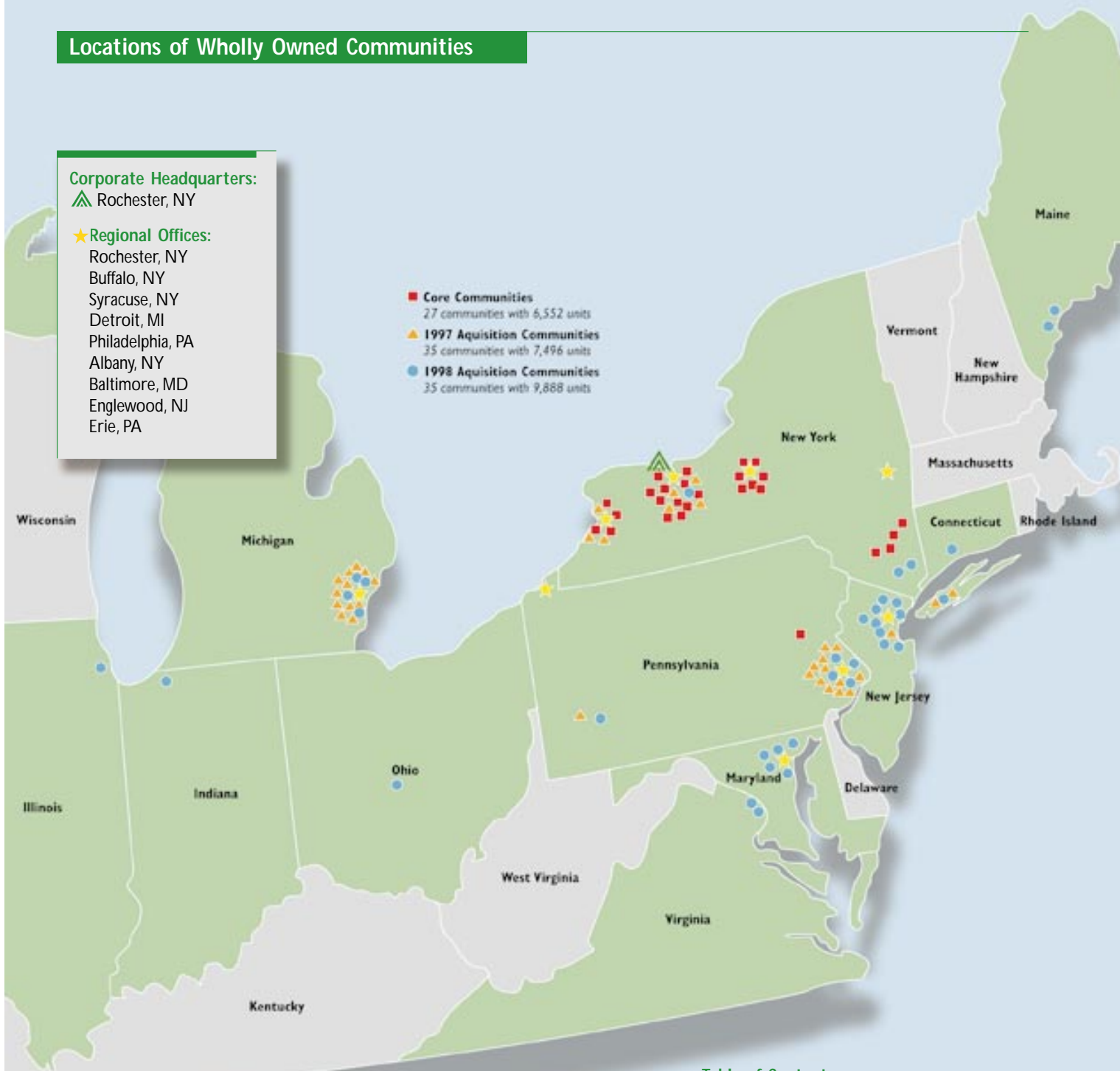


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Company Profile

Home Properties is a real estate investment trust (REIT) that owns, manages, acquires, and develops apartment communities in the Northeastern, Mid-Atlantic and Midwestern United States. Our communities, which generally have brick exteriors and mature landscaping, are typically located in established suburban neighborhoods. With a commitment to customer service and the ability to provide quality housing at affordable prices, our communities appeal to a broad range of middle income and senior residents. Headquartered in Rochester, New York, Home Properties and its predecessors have operated multifamily properties since 1967.

Our mission is to provide investors with dependable financial returns that exceed those of comparable investments. While pursuing our mission, we remain committed to improving the quality of life for our residents, enhancing the broader communities in which we operate, providing

employees with opportunities for growth and accomplishment, and demonstrating personal integrity and dedication at all times.

Our business strategy includes:

- aggressively managing and improving our communities to achieve increased net operating income;
- acquiring additional apartment communities with attractive returns at prices significantly below replacement costs;
- selectively developing and rehabilitating government-assisted apartment communities to maximize development fee income while increasing the number of communities under management; and
- maintaining a conservative capital structure with efficient access to the capital markets.

Apartments Owned and Managed at 12/31/98

Market Area	Apts. Owned	Apts. Managed As General Partner	Apts. Fee Managed	Apt. Total
Detroit, MI	4,294	0	1,020	5,314
Eastern PA	3,169	0	0	3,169
Rochester, NY	2,975	1,359	668	5,002
Northern NJ	2,913	0	0	2,913
Buffalo, NY	2,519	156	0	2,675
Baltimore, MD	1,733	0	56	1,789
Downstate NY	1,605	235	0	1,840
Syracuse, NY	1,564	1,274	260	3,098
Chicago, IL	672	0	0	672
Portland, ME	596	0	0	596
Northern VA	548	0	0	548
Hamden, CT	498	0	0	498
South Bend, IN	310	168	0	478
Western PA	298	2,036	225	2,559
Northern/Central OH	242	1,124	0	1,366
Other NYS Areas	0	1,130	582	1,712
Total	23,936	7,482	2,811	34,229

As of December 31, 1998, Home Properties operated 259 communities with 34,229 apartments. Of these, 23,936 apartments in 97 communities are wholly-owned by the Company, 7,482 apartments in 123 communities are managed and partially owned by the Company as general partner, and 2,811 apartments in 39 communities are managed for other owners. Our Company also fee manages 1.7 million square feet of office and retail properties. Since going public in August of 1994, we have increased the size of our operating portfolio tenfold and expanded our geographic presence from Upstate New York to ten additional states. The apartments we own and manage are presented in the table above.



During 1998, Home Properties generated some of the best results we have had in over thirty years of operations. Our same property net operating income grew at several times the inflation rate. We expanded the size of our owned portfolio by 70% and entered seven new market areas, providing additional geographic diversification. A total of 1,766 housing units were in the process of being developed or rehabilitated by our Company with the support of government assistance. Our balance sheet remained strong, providing continuous access to capital.

Bottom line, we increased our earnings per share (as measured by Funds From Operations, or “FFO”) by 15.7% in addition to paying shareholders a dividend yield of 6.7%.

Stormy Weather

In a typical year, these accomplishments would have translated into favorable stock price performance for shareholders. However, this was not a typical year. In fact, 1998 proved to be the worst year on record for REIT stocks relative to other stock indexes. The average equity REIT investor realized a negative total return of 16.9%, compared with a positive 28.7% return for the S&P 500 Index. This is despite the fact that REITs generally met or exceeded earnings expectations with double-digit earnings growth. With a positive total return of 1.4% including dividends, our shareholders fared much better in 1998 than those of our peers.

Raising the Standard for Apartment Living

Despite the capital market turmoil that surrounded our industry, we were able to weather the storm by maintaining our focus on repositioning properties and improving the quality of life for our residents. During 1998, we developed 12 new community centers for our residents to enjoy. We remodeled approximately 1,000 kitchens and replaced approximately 20,000 windows in our owned communities. Our Home Properties Pledge of customer satisfaction was implemented for the first time for residents in 5,704 apartment units. Our “flag” was raised at 101 additional owned and managed communities.

In total, \$41 million was invested in capital expenditures during 1998 as part of our strategy to upgrade and reposition our owned communities. These investments will support sustained growth in operating performance for many years to come.

Internal Growth

During 1998, our team was again able to generate same property results that outperformed our peers. We achieved nearly 7% growth in net operating income at the 6,552 apartment units owned consistently throughout 1997 and 1998 (our “core communities”). This compares to an average same property growth rate of about 6% for all apartment REITs. Once again, we have proven that healthy levels of internal growth can be generated in stable markets, without relying on job growth to generate new demand. This achievement is even more remarkable, considering that we were busy digesting a substantial number of acquisitions during the same period.



Norman Leenhouts and Nelson Leenhouts

External Growth from Acquisitions

We acquired 9,888 apartment units in 35 communities during 1998. The cost of these acquisitions totaled \$383 million, averaging \$39,000 per unit. We entered new geographic regions in Connecticut, Illinois, Indiana, Maine, Maryland, Ohio and Virginia. With an average yield on acquisitions made in 1997 and 1998 of 10.6%, (after allocating overhead costs), we earned a solid positive return on these investments in excess of our cost of capital.

Development and Management Activities

While new market rate development is not economically feasible in most of our markets, various forms of government assistance encourage the development and redevelopment of apartments to help meet critical shortages of affordable housing. During 1998, development fee revenues related to our affordable housing activities increased by 52% to \$5.5 million.

As of December 31, 1998, Home Properties was the Managing General Partner for 123 communities with 7,482 apartment units. This increase of 56% resulted primarily from the Company's completed developments and purchases of general partnership interests in government-assisted housing communities. We also expanded our multifamily fee management business by 13%, to a total of 2,811 units at the end of 1998. Additionally, our Company manages 1.7 million square feet of commercial space. Management fee revenues increased by 42% to \$4.9 million during 1998.

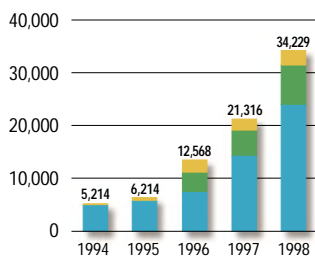
Altogether, we operated 34,229 apartment units at year end 1998, an increase of 61% over the prior year.

Continued Access to Capital

Thanks to a sound balance sheet and a pipeline of worthy acquisition opportunities, we continued to enjoy access to both debt and equity capital throughout the year. In fact, we raised more capital during 1998 than in any other year in our history and surpassed the \$1 billion mark in total market capitalization for the first time.

During 1998, we raised approximately \$275 million of new equity capital through a variety of creative methods, including \$10 million of new investment from officers and directors. In addition, we closed on \$188 million of new mortgage debt financing at some of the most favorable terms we have witnessed in decades. We also increased our financial flexibility by doubling the availability on our unsecured revolving credit facilities to \$100 million.

Total Units Operated at Year End



The Future

As we look towards 1999, we see many acquisition opportunities, although we will continue to be very selective. We will have a full year to benefit from the many accretive acquisitions that closed during 1998. In addition, due to the favorable impacts of repositioning activities at our communities, we expect to continue to generate same property improvements in net operating income at rates that exceed the rate of inflation and our peer group average. Over the long term, we are confident that the market will appropriately recognize and value Home Properties' track record for dependable current returns and sustainable earnings growth*.

Our fifth Annual Meeting of shareholders will be held at the Strong Museum in Rochester, New York on Tuesday, May 4, 1999 at 2:00 PM, EDT. We hope you will join us.

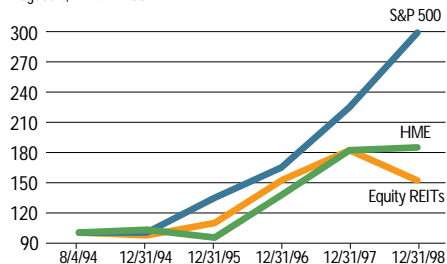
Thank you for your confidence in our team. We welcome your comments and suggestions at any time.

Norman Leenhouts
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 Normanl@homeproperties.com

Nelson B. Leenhouts
President/Co-Chief Executive Officer
 Nelsonl@homeproperties.com

Comparison of Cumulative Returns

August 4, 1994 = 100



***This annual report contains forward-looking statements.** Although the Company believes expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Factors that may cause actual results to differ include general economic and local real estate conditions, the weather and other conditions that might affect operating expenses, the timely completion of repositioning activities, the actual pace of acquisitions, and continued access to capital to fund growth.

Dependable returns

An investment in Home Properties stock generates a high current dividend yield, offers appreciation potential through internal and external growth, and provides diversification benefits within a balanced portfolio — all with relatively low risk. In over 30 years of providing residents with quality housing at affordable rents, our average net operating income per apartment has increased every single year.

Stable markets

Home Properties focuses on stable markets with little new construction, where we can purchase properties well below their replacement cost.

Value added

Home Properties has a proven track record for acquiring and repositioning under-managed properties.

Market rate and government-assisted housing

With expertise in market rate and government-assisted housing, Home Properties has the flexibility to react to changing economic conditions and the ability to flourish through all phases of economic cycles. This also provides us with a thorough understanding of the housing markets where we operate.

Solid properties which appeal to a broad range of residents

Our communities provide quality housing at affordable prices, which appeal to a broad range of senior and middle income residents. Our properties are typically 20-40 years old, and are located in established suburban neighborhoods. Over 80% of our apartments have brick exteriors.

Commitment to customer service

“The Pledge”, our written customer satisfaction commitment to our residents, includes a money back guarantee. The Pledge is more than just a marketing tool. It has proven to be a powerful way to reinforce our commitment to quality and customer service throughout our organization.

Cater to senior residents

The level of customer service we provide is particularly appealing to seniors, a growing segment of our population. Many communities feature community centers, with programs and activities organized by and for the benefit of our retired residents.

Proven customer loyalty

Building customer loyalty is vital to any business today. In our case, this is demonstrated by low resident turnover. In 1998, resident turnover at our owned communities averaged only 39% — well below the national average of over 60% for apartment REITs.

Access to capital

Our Company has demonstrated its ability to raise equity capital efficiently through a variety of sources and market environments. We have a strong balance sheet and access to both secured and unsecured debt to fund future investment opportunities.

Motivated leadership team

Our decentralized organization provides employees with the appropriate tools, authority, and motivation to achieve the goals of our communities and our investors. Employees own approximately 7% of the Company.



Quality training enables employees to sharpen property management skills and achieve career goals.

Residents enjoy a summer day in a beautifully landscaped setting.

Operating Results

Internal Growth

In 1998, rental revenues at our core properties increased 2.3%, while operating expenses decreased by 1.9%, resulting in net operating income growth of 6.9%. Rental revenue growth reflected a slight decrease in average economic occupancies (from 94.7% in 1997 to 94.1% in 1998), offset by increases in rental rates (which grew an average of 2.9%).

Our growth in rental revenues, which exceeded inflationary growth, can be partially attributed to physical upgrades made to our properties, increased marketing efforts, and repositioning activities. While demand for apartments was relatively stable in our primary markets, the continued absence of significant new construction generally kept our markets tight and in equilibrium.

Operating expense reductions at our core properties were primarily a result of reduced utility costs and snow removal expenses due to the mild weather. Operating expenses, excluding utilities, increased at an average rate of 2.0%, approximately in line with inflation.

By definition, same property results for core communities only reflect the 6,552 apartment units owned consistently by the Company for all of 1997 and 1998, thereby excluding the performance of properties containing 17,384 apartments acquired during these two years. Most of these recent acquisitions are in the process of repositioning, leading to

opportunities for exceptional same property results. As an example, for the 7,496 apartment units acquired during 1997, rental revenues for December, 1998 were 6.9% higher than the prior year. As we look forward into 1999, the outlook for same property results is very encouraging.

External Growth

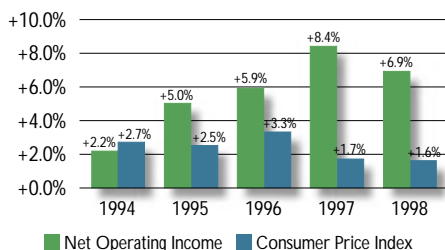
Favorable internal operating results were augmented in 1998 by external sources, including increased management and development activities and positive spreads from acquisitions of apartment communities.

Other income, net of related expenses, increased by 133% to \$3.0 million in 1998, primarily as a result of increasing development and redevelopment activities in government-assisted housing.

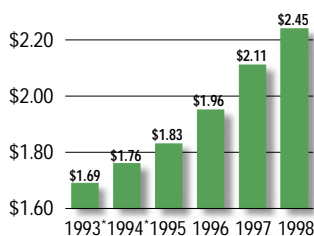
During 1998, approximately \$383 million was invested in acquisitions which are expected to generate returns in excess of the Company's long-term cost of capital. Although the operating performance of acquisitions is often initially depressed while these properties undergo repositioning efforts, operating results from non-core properties provided a 10.6% return in 1998 on the average amount invested to acquire these communities (after providing an allowance for overhead costs at 3% of revenues). In total, Funds From Operations increased by 131% in 1998, or by 15.7% when calculated on a per share basis.

Core Property

Net Operating Income vs.
Consumer Price Index
(% growth over prior year)



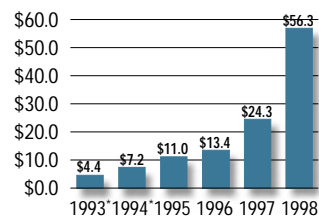
Funds From Operations Per Share



Funds From Operations is calculated on a fully diluted basis and in conformance with NAREIT guidelines issued in 1996.

*Pro forma results are presented as if the transactions related to the initial public offering and the Company's formation had occurred on January 1, 1993.

Total Funds From Operations (millions)



A Review of FFO and CAD

Generally Accepted Accounting Principles include a significant non-cash expense for depreciation of real property which may have little or no direct relationship to the operating performance or valuation of the property. Therefore, the National Association of Real Estate Investment Trusts has adopted Funds From Operations (FFO) as an alternative to Net Income for measuring the performance of REITs. FFO is calculated by adding real property depreciation expense back to Net Income and adjusting for other extraordinary events.

While a standardized definition of FFO has gone a long way towards differentiating the relative performance of REITs, it is generally acknowledged that FFO is not an adequate proxy for a Company's dividend paying ability, as it does not reflect the ongoing repairs and replacements necessary to maintain a property's

condition. Due to the multi-year useful life of some of these replacements (such as appliances, carpets, paving, etc.), these expenditures are capitalized and not expensed immediately.

Therefore, a reserve for such recurring capital expenditures should be deducted from FFO, resulting in Cash Available for Distribution (CAD).

Our management currently estimates that for 1999 an appropriate capital replacement reserve for its apartment portfolio totals approximately \$375 per unit annually, although additional funds are being invested to upgrade communities. This adjustment for recurring capital expenditures would result in CAD approximately 32 cents per share below reported FFO.

Additional amenities at our properties include community centers, with organized programs and activities for residents.

Market Environment

At year end, Home Properties owned 97 apartment communities located in fifteen market areas. A map of all owned properties is included on the inside front cover of this Annual Report.

During 1998, the Company entered seven new market areas, including Baltimore, Maryland; Chicago, Illinois; Northern/Central Ohio; Hamden, Connecticut; Portland, Maine; South Bend, Indiana; and Northern Virginia. We substantially increased our holdings in Northern New Jersey, Eastern Pennsylvania and Detroit, Michigan. These markets possess many characteristics which are similar to the housing environments in the Company's original markets. Our expanded market area provides the Company with broader geographic diversification and a platform for further expansion.

The markets in which Home Properties operates continue to be characterized as stable, with modest levels of job growth. Occupancies are relatively high, and new apartment construction activity is low relative to the existing multifamily housing stock. After considering the obsolescence of older communities and the conversion of rental housing to condominiums or co-ops, the net increase in the multifamily rental housing stock in our markets represents only a fraction of the estimated number of new units needed to satisfy increased demand.

In fact, new construction in our markets has been minimal for the past two decades, with most of the existing housing stock built prior to 1980. In 1998, Home Properties' markets represented 16.9% of the total U.S. estimated multifamily housing stock, but only 7.7% of the country's estimated net new supply of multifamily housing units.

Despite relatively tight markets, Company management believes its markets will continue to be fairly insulated from construction of new market rate apartments for middle income residents. To justify the cost of constructing a comparable property today, rental rates ranging from 25% to 35% above our rental rates are typically required. In our experience, these rates are not in the price range of our typical middle income residents and do not provide enough added value to attract those residents who can afford higher rents. Most new communities being built today cater to specialized groups and do not draw substantially from our current resident base. They are typically luxury properties which cater to a thin slice of the rental market, tax credit properties that cater to residents with incomes lower than required at our market rate properties, or senior communities which offer additional levels of living assistance.

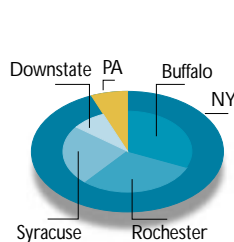
We believe our markets are further protected from new construction because existing communities can be acquired and rehabilitated for significantly less than their replacement cost. In most cases, by upgrading and repositioning a newly acquired property, the value of the property is enhanced. As a result, a repositioned property can compete favorably against a new community — as it represents a better value for the resident.

Below is a summary of market demographic information for Home Properties' markets compared to the U.S. average. (Detailed market information is contained in the Annual Report on Form 10-K for the Year Ended 12/31/98 located in the back cover pocket.)

Market Demographics Summary

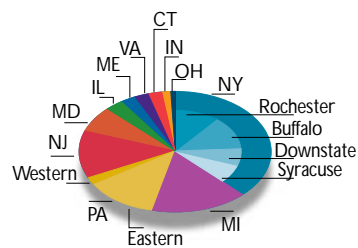
	Company Markets	U.S. Average
December 1998 — 12-month Job Growth	1.4%	2.3%
December 1998 — Unemployment	3.2%	4.0%
Median Home Value	\$129,000	\$101,000
Net New Multifamily Supply as Percentage of Existing Stock	0.5%	1.2%
Net New Multifamily Supply as Percentage of Estimated Demand	44%	72%

Core Communities



Core		Total	
Units	%	Location	Units %
6,168	94.1%	New York	8,663 36.2%
384	5.9%	Michigan	4,294 17.9%
		Pennsylvania	3,467 14.5%
		New Jersey	2,913 12.2%
		Maryland	1,733 7.2%
		Illinois	672 2.8%
		Maine	596 2.5%
		Virginia	548 2.3%
		Connecticut	498 2.1%
		Indiana	310 1.3%
		Ohio	242 1.0%
6,552	100.0%	Total	23,936 100.0%

Total Owned Communities



Established communities in suburban infill locations can be acquired and rehabilitated at prices well below the cost of new construction.

Since our initial public offering in 1994, Home Properties has pursued an aggressive pace of growth through acquisitions. During 1998, we purchased 35 communities with 9,888 apartment units at an average price of \$39,000 per unit. A summary of our 1998 acquisitions is listed on page 22. By year-end, our owned portfolio was six times the size of our owned portfolio at the time we went public less than five years ago. The primary reason for acquisitions is to supplement earnings growth for our shareholders by investing in properties which will generate returns in excess of our average cost of capital, both initially and over the long term. We aim to acquire strategically located communities which will also increase the geographic diversification and operating efficiencies of our portfolio.

We cannot control the price and availability of properties offered for sale, nor can we dictate the cost of capital. As a result of general market conditions, positive spread investing opportunities tend to come and go, and are somewhat hard to predict. When the window of opportunity is open, (as in 1997 and early 1998), we plan to work to digest as much as possible. However, when the window is closed, (as in 1995, 1996 and the end of 1998), we have the discipline to sit on the sidelines and avoid making acquisitions just for growth's sake.

Outlook

As we enter a new year, our pipeline of acquisition opportunities under negotiation is as great as it has ever been. However, the spread between asking prices from sellers and the prices we are willing to pay are larger than they have been in the past. We have chosen to be patient and extremely selective on acquisitions until sellers become more realistic in their expectations or until stock prices improve, thereby reducing our effective cost of capital.

We expect that the majority of our acquisitions in 1999 will include some component of operating partnership (or "UPREIT") units. A growing number of private owners are becoming familiar with the tax and estate planning advantages of tax-deferred UPREIT exchanges. We do not have a set goal for acquisitions in 1999, although we are optimistic that we will achieve a moderate pace of acquisitions.

Target Markets

Our target markets continue to include select metropolitan areas within the Northeast, Mid-Atlantic and Midwest United States. We have already been successful in establishing footholds in most of our primary targeted markets. Management expects to focus on expanding its presence in these markets while gradually entering new geographic regions with similar climates, easy access to Company headquarters, enough apartments to achieve a critical mass, and minimal ownership from other apartment REITs.

Targeted markets will also possess characteristics similar to the Company's existing markets, including a limited amount of new construction, acquisition opportunities well below replacement costs, a mature housing stock, and a stable or growing job market.

Acquisition Candidates

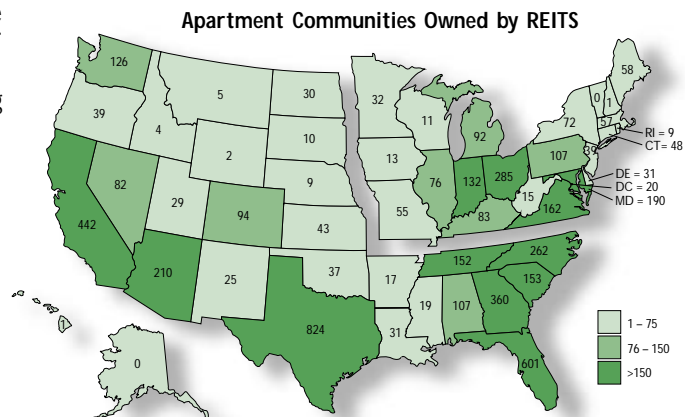
Typical candidates for acquisition are well located, over 20 years old, built with brick exteriors, and possibly needing \$3,000 to \$5,000 per unit in improvements. We feel we can continue to achieve better long-term results with less risk by acquiring, upgrading, and repositioning mature properties, rather than by building or buying newer properties at prices which approach their replacement values. By increasing services and catching up on deferred maintenance, we can successfully raise rents and/or occupancy levels.

We believe that solidly constructed and well located older communities with new roofs, new windows, remodeled kitchens and bathrooms, and added amenities, like community centers, offer lasting value — and perhaps have a brighter long-term outlook than many more recently constructed properties.

We typically target an initial yield of 9.5% to 10% on acquisitions, with additional opportunity for growth as a property is repositioned. However, targeted returns may vary, depending on the long-term potential for each property and its contribution to the Company's overall growth strategy. We will continue to pursue acquisitions of individual properties as well as larger portfolios. In addition, we may consider strategic investments in other apartment companies.

Development Plans

As in the past, Home Properties intends to emphasize acquisitions over development in pursuing growth in its wholly-owned portfolio. However, through its development subsidiary, Conifer Realty Corporation, the Company intends to continue to develop and rehabilitate apartment communities utilizing various government programs. (A section describing our affordable housing activities can be found on page 13 of this Annual Report.) Home Properties' development capabilities could also position the Company to build market rate communities for its own portfolio, when and if market factors warrant.



Source: SNL DataSource
Data as of 02/03/1999

Solidly constructed, mature communities provide attractive initial returns plus upside potential through repositioning activities.

Approximately 5 million US families, representing one-third of all renter households, spend more than half their income on housing.* The development and management of government-assisted apartments helps to satisfy a tremendous need in our markets for affordable rental housing, while also providing a growing source of earnings for Home Properties. In 1998, we earned \$5.5 million in fees from development activities supported by the Low-Income Housing Tax Credit (LIHTC) Program, an increase of 52%. This was achieved despite an increasingly competitive environment for tax credit allocations.

Through affiliated partnerships, we commenced development or redevelopment of 762 units in five communities, completed two communities with 136 units, and continued progress on 868 units being rehabilitated with the support of tax credits. Our pipeline of potential projects continues to expand.

Low Income Housing Tax Credit Program

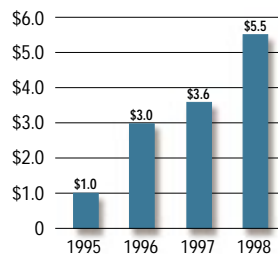
Since its inception twelve years ago, the LIHTC Program has created over 1,000,000 multifamily apartment units for low and moderate-income households. The program provides a consistent, cost effective, and highly efficient source of assistance that should continue to stimulate production of affordable rental housing units. Legislation has been introduced to increase the housing credit allocations.

Since each state has a limited allocation of tax credits available to them, our strategy has been to carefully expand our activities into other states. We now own and manage affordable housing developments in New York, Pennsylvania, Ohio and Indiana. In 1999, we will start construction on two projects in New Jersey and also expect to expand into Maryland. To our knowledge, we are the only public apartment REIT which supplements its earnings through tax credit development. Home Properties is committed to affordable housing and has the development expertise, financial resources, and management skills to continually expand this business.

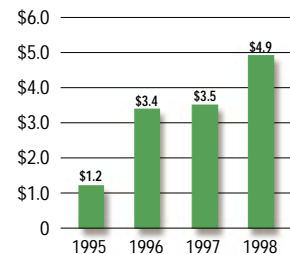
Although REITs do not pay income taxes at the corporate level, we benefit from the tax credits by structuring transactions where we serve as a managing general partner, and limited partners contribute substantial equity in exchange for the tax credits. Most of the economic benefits of ownership and management remain with Home Properties, including:

- Substantial development fee income;
- Receipt of a majority of the project cash flow after debt service, as “incentive management fees”;
- Reasonable property management fees;
- A participation in future equity build-up, and
- Control of the real estate as the managing general partner.

Development Fee Revenues
1995-1998 (in millions)



Management Fee Revenues
1995-1998 (in millions)



Tax-Exempt Bond Financing

The increased competition for tax credits has led developers to the tax-exempt bond market for financing. Projects financed with tax-exempt bonds provide a reduced level of tax credits automatically, without going through the competitive allocation process for tax credits. During 1998, we secured tax-exempt bond financing totaling \$34 million for four developments in three different states.

Property Management

Home Properties is the general partner of each affordable housing development and is responsible for the maintenance and operation of the communities. We have an experienced and professional housing management team, which is essential to meet the stringent government regulation and compliance requirements. The management company is entitled to management fees to carry out its responsibilities. In 1998, affordable housing management fee revenue increased by 36% to \$2.6 million, a significant portion of our total management fee revenues. This is expected to be an increasingly profitable source of revenue as we continue to bring on line newly constructed or acquired affordable housing communities.

*Source: Joint Center for Housing Studies of Harvard University from 1995 American Housing Survey

1998 Government-Assisted Development Activities

Development Commenced

Isabella Estates -	26	units new construction, Saxonberg, PA
Lenox Landing -	32	units new construction, Canastota, NY
200 East Avenue -	77	units new construction, Rochester, NY
Millstream Apartments -	96	units new construction, Washington Township, NJ
Green Meadows Phase I -	531	units rehabilitation, Pittsburgh, PA

762 total units commenced

Development Completed

St. Bernard's II -	88	units total rehabilitation, Rochester, NY
Terrace View Apartments -	48	units new construction, Yonkers, NY

136 total units completed

Continuing Development

Briggs/Wedgewood -	868	units rehabilitation, Columbus, OH
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868 total units continuing

Our social responsibility to provide quality affordable housing is a priority consistent with our mission as an owner and developer of multifamily housing.

Capital Market Activities

Real estate is a capital intensive industry. However, capital markets are cyclical, and many public companies saw their access to debt and equity capital abruptly closed off during much of 1998. Home Properties' management was fortunate to have anticipated this possibility and, through conservative balance sheet management, was able to maintain favorable access to capital throughout the year.

Management could be comfortable operating a stable portfolio of properties with higher leverage, perhaps because we have never had a "down" year in 30 years of operating multifamily properties. However, as we continue our aggressive pace of external growth through acquisitions, a strong balance sheet has given us the financial flexibility to commit to large purchases, without relying on raising new equity. This has allowed us to continue acquiring properties at times when values have been compelling and other buyers have been shut out of the market.

Equity Capital

We accessed \$275 million of new equity capital through a variety of methods during 1998. Perhaps the most exciting was our first public offering of stock since our IPO. Although changing capital markets led us to cut back the size of the offering to \$49 million, it was still one of the largest successful public REIT offerings completed since last Spring.

Our dividend reinvestment and direct stock purchase program ("DRIP") continued to be a significant source of capital in 1998. During the year, over \$72 million of common stock was issued under this plan, approximately twice the level of last year. The program remains very attractive to both individual and institutional investors, even though the Company recently reduced its discounts to large buyers from 3% to 2%.

We continued to use UPREIT Units as currency for acquisitions in 1998. (UPREIT Units are limited partnership interests in our "umbrella" or "operating" partnership, which can later be exchanged for Home Properties stock on a one-for-one basis.) During 1998, the value of UPREIT Units issued totaled \$71 million.

During 1998, the Company also issued stock under its shelf registration, including \$36 million of common shares sold directly to an institutional investor and \$37 million of stock sold to Unit Investment Trusts. Officers and Directors of the Company purchased \$10 million of newly issued common stock during 1998 at market prices and through the exercise of stock options.

Debt Capital

Our access to unsecured revolving credit facilities was doubled during 1998, from \$50 million to \$100 million, and the credit group was expanded, thereby providing additional resources if capital needs should suddenly increase. In addition, \$188 million of new mortgage financing secured by owned communities was closed. Proceeds were used to refinance existing mortgages on more favorable terms, as well as to fund acquisitions, capital improvements, and cash reserves.

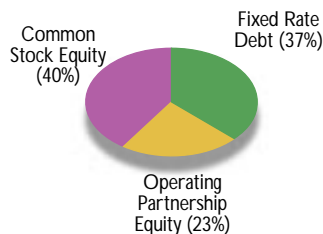
Despite a "credit crunch" in many sectors of the debt markets, apartment mortgage financing remained competitive throughout the year. Borrowing terms were more favorable than we have witnessed in decades for low loan-to-value borrowers. For example, during the latter half of 1998, the Company borrowed a total of \$159 million under a non-recourse Fannie Mae facility. One hundred million bears a fixed interest rate of 6.475% for fifteen years, while \$59 million bears interest at 6.16% for twelve years. The facility can be expanded to \$200 million, and provides for the substitution of collateral.

At year end 1998, the Company's ratio of debt to total market capitalization was 37%. All of the debt was at fixed rates of interest, with maturities staggered. The average interest rate was 7.2%, with an average maturity of ten years. Only \$17 million (or 4%) of total mortgage debt of \$419 million matures over the next three years. Twenty-three properties, with 3,709 apartment units, were unencumbered by debt. The Company closed the year with over \$33 million of unrestricted cash on hand and there were no outstandings on its \$100 million of revolving credit facilities.

Dividends

Our efficient access to capital has allowed us to increase our dividend without incurring significant transaction costs to "re-raise" those dollars to fund our growth. By keeping our dividend yield above that of our peers, our stock and UPREIT units become more attractive to yield sensitive investors. Since 1994, we have annually increased our dividend, but at a slower pace than our growth in Funds From Operations (FFO), thereby reducing our payout ratio. With a payout ratio equal to 75% of FFO in 1998 and expected to decline in 1999 as FFO grows, the Board of Directors may consider future dividend increases which more closely match our rate of FFO growth.

Capitalization

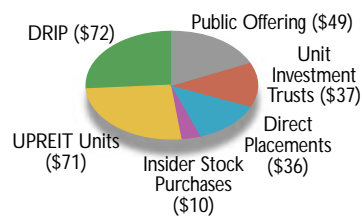


\$1.1 Billion Total Market Capitalization

\$25.75/Share at 12/31/98 closing.

Sources of Equity Capital in 1998

(\$ in millions)



Total \$275 Million

Continued access to debt and equity capital throughout 1998 enabled us to acquire properties and to expand our owned portfolio by seventy percent.

Property Management

At Home Properties, we aggressively manage our communities to achieve each property's full potential. Continuous attention is focused on enhancing the quality of living for our residents and improving the physical condition of each community. By maintaining this discipline, we have continued to generate increases in net operating income at our communities that exceed inflationary growth and exceed results achieved by our peers in the industry. During 1998, internal growth in net operating income from our core communities averaged 6.9%.

These results were particularly noteworthy during a year when we increased the number of apartment units under management by 61% — a substantial undertaking following on the heels of 1997, when we grew our operated portfolio by 70%. Our decentralized management structure allowed us to digest this expansion without significant sacrifice to quality or attention to details at our existing communities.

The Property Management Team

Twelve regional property managers provide support for the on-site property management teams. Regional leaders meet regularly to compare strategies and successes, allowing everyone to evaluate and adopt the best practices in our industry. Through portfolio acquisitions, we have benefited greatly from the vast experiences and knowledge that the inherited management teams bring to our organization.

In addition to approximately 200 employees at our headquarters and regional offices, we currently have about 1,400 full-time employees located at 259 sites in 11 states. On-site employees are provided with the training, information, authority and incentives to achieve the goals of our communities. By delegating authority to these capable, energetic and trustworthy people, we are able to make faster decisions, which are responsive to residents and to local market conditions.

The Pledge

The Home Properties Pledge of customer satisfaction continues to reinforce our commitment to quality and customer service. It encourages our residents to be our eyes and ears in the field and to give us feedback on our performance. During 1998, 27 recently acquired communities containing 5,704 apartment units adopted The Pledge with great success. In total, \$6,094 of rent was refunded to customers during 1998, representing an average of only one day's rent for about 50 years of resident occupancy.

Capital Improvements

During 1998, we invested \$41 million in capital expenditures at our owned communities as part of our strategy to upgrade and reposition properties to realize their full potential. For example, approximately 3,400 apartment units received nearly 20,000 new windows — thereby improving resident comfort and convenience while reducing our ongoing maintenance and utility expenses. (Heat is included in the rent at nearly 85% of our units, which is customary in our markets.) Nearly 1,000 kitchens were fully remodeled, including new cabinetry, which has allowed us to generate rental premiums at these units. Twelve new community centers were developed this year.



A recently built community center prior to its Grand Opening (top). Renovations which enhance the quality of life for residents also receive premium rents and improve occupancy rates (bottom).

Community Centers

Currently, 29 of our core properties have a community center. Eleven new community centers are planned for 1999. Community centers provide facilities for meetings, activities, educational programs, exercise and recreational activities. These activities help individuals feel connected to their community, alleviate loneliness, help promote good health and foster a sense of accomplishment. These benefits are especially attractive to seniors who are extremely desirable residents and represent a growing percentage of our population. In addition to serving as an amenity for residents, the community centers house the marketing, leasing and management offices.

Landscape architecture and maintenance complement the natural surroundings and physical structure of our communities.

With more users and systems to support in 1998 and ongoing movement towards Y2K compliance, the Information Systems Department had a busy year. In 1998, we installed new computers at over 60 communities, installed networks at 18 communities, and increased the number of users on our corporate network by 50. By December, over 130 communities were transferring information to the corporate office on a weekly basis.

Coordinating the training and support of our diverse and geographically dispersed user base has been challenging but very rewarding. Improving everyone's computer skills not only benefits our current employees but makes Home Properties a very attractive workplace for new employees.



Chris Ryan, Marci Hart, Carol Ellsworth

With the upcoming installation of new help desk software, we will be better equipped to support our user base, track response rates, and proactively address potential problem areas.

Company wide e-mail continues to enhance the facilitation of information between our corporate office, regional offices, and communities. In 1999, we look to identify new ways to further improve communication channels and better access and interpret the information accumulated by our systems. Armed with improved decision-making tools, we can better serve our residents, shareholders, and employees.

We feel well prepared to face the new millennium. Home Properties relies exclusively on microcomputers (PC's). We retired, replaced, or upgraded all non-compliant computers on the corporate network in 1998. In 1999, we will do the same for our site computers. The software vendor for our property management and accounting system has assured us that

the applications we are currently running are Y2K compliant. We will continue to monitor, test, and upgrade these applications, as well as our other desktop applications, throughout the year.

We celebrated the one-year anniversary of our web site (www.homeproperties.com) this year. The site is a cost effective means for us to give current and potential residents, shareholders, apartment sellers, and employees information about our apartments and



Dariusz Swierzewski, Kris Burgess, Frank Van Deusen

Company according to their time schedule, not ours. The number of visits to our site has increased every month with apartment community descriptions, direct investment information, and job postings being the most popular areas of inquiry. As internet use continues to grow at an exponential rate, its role in our business escalates, as well.



Becky Nielsen, Chris Baldwin, Jodi Falk

We will continue to expand and modify our web site to continually exceed the expectations of our visitors.

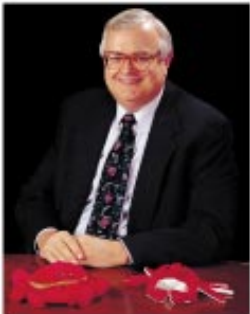
No doubt you have heard about the worldwide Year 2000 (Y2K) technology problem, also known as the millennium bug or the Y2K computer problem. Simply put, the problem is a technical glitch caused by a numeric "shortcut" originally used by many computer programmers. Years ago, programmers used just two digits to record and store the year. This was done to save memory, which was extremely expensive in the early days of computing. Unfortunately, many computers, as well as all types of microchips, still use just two numbers to represent the year; and on January 1, 2000, these computers and microchips will recognize 00, not as 2000, but as 1900. As a result, any program that relies on dates to do calculations could be confused and fail to work correctly if it is not Y2K compliant.

Community centers provide an opportunity for residents to meet and enjoy the companionship of their neighbors.

Regional Leaders

Another major contributor to our success has been our excellent regional leadership. Pictured on these two pages are our twelve Regional Leaders. Their average age is 45 with an average of 20 years of real estate experience.

Baltimore, MD



Bill Brown, 55, leads our new Baltimore, Maryland region with 1,810 units. Bill has been actively involved in construction, development, and property management for 30 years. He joined Home Properties in 1998 when the apartment portfolio of his prior company was acquired by us. The Browns have three children and are proud of their son's Internet business.

Rochester, NY/Chicago, IL

Lavonne Childs, 36, leads our Rochester, New York region of market rate communities with 3,685 units. Currently, her responsibilities include three communities with 1,150 units near Chicago, where a regional office has not yet been established. Lavonne has been with Home Properties for three years, and her prior employers include United Dominion and Walden Residential. During her 15 years in property management, Lavonne has worked at all levels including Leasing Consultant, Assistant Manager, Community Manager, Trainer, Regional Marketing Manager, and Regional Leader. The Childs have one son and enjoy numerous athletic activities.



Syracuse, NY/Washington, D.C.



Scott Doyle, 38, is the Regional Leader for market rate communities in Syracuse, New York with 1,913 units. This includes two communities with 548 units in Washington, D.C., where a regional office has not yet been established. Scott has been with Home Properties for three years and has 15 years in property management, including marketing for private owners in Syracuse and Rochester, New York and Houston, Texas. Scott's greatest contribution has been to serve as a "Buddy"

to new Regional Leaders of acquired portfolios in Philadelphia, Baltimore, New Jersey, and Detroit. The Doyles have three children.

Syracuse, NY – Affordable



Kathy Dunham, 53, leads our Syracuse, New York region for affordable housing with 2,521 units. Kathy's 47 communities are located throughout Central, Eastern, and Northern New York State. During her 16 years in real estate development and property management, Kathy has worked closely with the New York State Division of Housing and Community Renewal (DHCR), the New York State Housing Finance Agency (HFA), Rural Development

(formerly known as Farmers Home Administration), the U.S. Department of Housing and Urban Development (HUD), as well as local housing authorities and not-for-profit agencies. Kathy joined Home Properties in 1996 with the merger of Conifer Development. The Dunhams have two children and particularly enjoy their vacation home in the Adirondacks.

Albany, NY/Hudson River Valley

Rhonda Finehout, 48, is the Regional Leader in Albany, New York with 2,041 units generally located in the Hudson River Valley, south to Yonkers, with one community in Connecticut. This territory includes market rate and affordable housing, as well as, fee-managed properties. Rhonda joined Home Properties in 1996 with the Conifer merger and has 21 years' experience in property management. Rhonda enjoys returning to Clayton, her hometown along the St. Lawrence River.



Buffalo, NY/Columbus, OH



Tim Florczak, 43, is the Regional Leader in Buffalo, New York with 3,785 units. This includes two communities with 1,111 units in Columbus, Ohio, where we have not yet established a regional office. Tim has 26 years' experience which began in grounds maintenance while he was earning a degree in Accounting. Tim joined Home Properties' predecessor, Home Leasing, in 1985. The Florczaks have one daughter, and they are enthusiastic golfers.

Englewood, NJ



Carolyn Korn, 51, is the Regional Leader for New Jersey with 3,736 units. The regional office is in Englewood. Carolyn has 29 years of property management experience in the New York/New Jersey metro area. Carolyn joined Home Properties in mid-1998 when the communities she was managing were acquired by us. The Kornes have two children and enjoy vacationing with their extended family on the Jersey Shore.

Detroit, MI

Leslie Lewiston, 33, is the Regional Leader in Detroit, Michigan with 5,314 units. Leslie feels that she was born into real estate/property management as the daughter of an apartment builder and manager. However, Leslie officially started as a Community Manager 12 years ago. Leslie joined Home Properties in 1998 with a large portfolio and an excellent performance record. Leslie was the Tennis Champion for the State of Michigan throughout high school and is clearly Home Properties' Number 1 tennis player today.



Philadelphia, PA



Jim Quinn, 43, is the Leader of the Philadelphia, Pennsylvania region with 3,169 units. Jim has 20 years of real estate experience in acquisition, development, and property management. Jim joined Home Properties in 1997 when the entire holdings of his prior company were purchased. The Quinns have two children and enjoy many outdoor activities.

Long Island, NY/Pittsburgh, PA



Sharon Sanfratello, 44, is a Regional Leader based in Rochester, New York with responsibility for three communities on Long Island and three communities in Pittsburgh, Pennsylvania for a total of 2,071 units. Sharon has 18 years' experience in property management including nine years with Home Properties and its predecessor company. Sharon has a great success story having started in housekeeping and working her way up to Leasing Consultant, Community

Manager, Property Manager, and recently Regional Leader. The Sanfratellos have one child and enjoy travel. (It is a good thing considering Sharon's territory!)

Rochester, NY–Affordable

Eric Stevens, 43, is the Regional Leader in Rochester, New York responsible for 2,486 affordable housing units. Most of his properties are within a one-hour drive of the corporate office except for a community in Toledo with 176 units. Eric has 21 years' experience in property management with the last 15 years in affordable housing. Eric joined Home Properties with the Conifer merger in 1996. The Stevens have two children and enjoy returning to Eric's family homestead in Maine.



Erie, PA – Affordable



Marilyn Thomas, 48, is the Regional Leader in Erie, Pennsylvania with responsibility for 54 communities with 1,564 units located in Western New York, Western Pennsylvania, and Eastern Ohio. All properties are affordable and financed by Rural Development (formerly known as Farmers Home Administration). Marilyn has 28 years of real estate experience including both construction and management. Marilyn and her husband enjoy Erie, a resort town on Lake Erie.

Community Characteristics

1998 Acquisition Communities

Regional Area		Current # of Apts	Age In Years	Year Acq	Average Apt Size (Sq Ft)	(2) 1998 % Mature Residents	(3) 1998 % Resident Turnover	(4) 1998 Average % Occupancy	(4) 1997 Average % Occupancy	1998 Avg Mo Rent Rate per Apt	1997 Avg Mo Rent Rate per Apt	12/31/98 Total Cost (\$000)
CT - Hamden	Apple Hill Apartments	498	27	1998	789	33%	NA	96.3%	NA	\$713	NA	\$24,945
IL - Chicago	Colonies Apartments	672	25	1998	656	7%	NA	77.4%	NA	576	NA	24,408
IN - South Bend	Candlewood Apartments	310	12	1998	1,000	10%	NA	95.5%	NA	620	NA	13,735
MD - Baltimore	Carriage House Apartments	50	33	1998	786	4%	NA	92.3%	NA	502	NA	1,163
MD - Baltimore	Country Village Apartments	344	28	1998	868	37%	NA	92.6%	NA	587	NA	13,579
MD - Baltimore	Morningside Heights Apartments	1,050	26	1998	870	18%	NA	90.9%	NA	565	NA	36,429
MD - Baltimore	Rolling Park Apartments	144	26	1998	1,125	7%	NA	96.0%	NA	575	NA	5,802
MD - Baltimore	Strawberry Hill Apartments	145	34	1998	780	6%	NA	90.6%	NA	531	NA	3,551
ME - Portland	Mill Co.Gardens	96	48	1998	550	40%	NA	97.7%	NA	475	NA	2,081
ME - Portland	Redbank Village	500	55	1998	836	36%	NA	98.0%	NA	516	NA	16,180
MI - Detroit	Carriage Hill Apartments	168	33	1998	783	51%	NA	98.9%	NA	654	NA	6,870
MI - Detroit	Carriage Park Apartments	256	32	1998	777	14%	NA	97.9%	NA	615	NA	9,655
MI - Detroit	Cherry Hill Club Apartments	164	27	1998	878	44%	NA	96.2%	NA	535	NA	5,094
MI - Detroit	Cherry Hill Village Apartments	224	33	1998	742	13%	NA	98.9%	NA	592	NA	8,005
NJ - Northern	East Hill Gardens	33	41	1998	695	48%	NA	94.9%	NA	779	NA	1,883
NJ - Northern	Lakeview Apartments	106	30	1998	492	27%	NA	98.8%	NA	732	NA	5,299
NJ - Northern	Leland Gardens ⁽⁷⁾	256	26	1998	575	8%	NA	NA	NA	NA	NA	NA
NJ - Northern	Oak Manor Apartments	77	43	1998	775	37%	NA	97.9%	NA	992	NA	4,912
NJ - Northern	Pleasant View Gardens Apartments	1,142	31	1998	745	31%	NA	96.3%	NA	702	NA	53,795
NJ - Northern	Pleasure Bay Apartments	270	28	1998	667	32%	NA	97.7%	NA	606	NA	7,864
NJ - Northern	Towers, The	137	37	1998	916	60%	NA	98.5%	NA	913	NA	6,849
NJ - Northern	Wayne Village	275	34	1998	725	34%	NA	97.7%	NA	771	NA	14,981
NJ - Northern	Windsor Realty	67	46	1998	675	28%	NA	97.9%	NA	720	NA	3,818
NY - Downstate	Mountainside Apartments	227	26	1998	759	36%	NA	98.6%	NA	764	NA	8,590
NY - Downstate	Patricia Apartments	100	25	1998	770	25%	NA	99.2%	NA	796	NA	4,818
NY - Downstate	Coventry Village	94	24	1998	718	38%	NA	93.2%	NA	863	NA	3,236
NY - Rochester	Pines of Perinton	508	22	1998	818	24%	NA	99.2%	NA	489	NA	8,957
OH - Central	Weston Gardens	242	26	1998	804	11%	NA	91.3%	NA	444	NA	6,022
PA - Eastern	Beechwood Gardens	160	32	1998	775	39%	NA	95.8%	NA	578	NA	4,180
PA - Eastern	Cedar Glen Apartments	110	32	1998	726	56%	NA	97.6%	NA	433	NA	2,977
PA - Eastern	Racquet Club East Apartments	467	27	1998	850	26%	NA	96.0%	NA	742	NA	25,244
PA - Eastern	Sherry Lake Apartments	298	33	1998	811	15%	NA	97.3%	NA	785	NA	18,168
PA - Western	Payne Hill Gardens	150	18	1998	793	13%	NA	88.0%	NA	578	NA	4,716
VA - Northern	Braddock Lee Apartments	254	44	1998	758	20%	NA	97.1%	NA	744	NA	12,929
VA - Northern	Park Shirlington Apartments	294	44	1998	758	22%	NA	97.0%	NA	776	NA	14,795
1998 Total/Weighted Average		9,888	30		786	25%	NA	94.5%	NA	\$639	NA	\$385,530

1997 Acquisition Communities

Regional Area		Current # of Apts	Age In Years	Year Acq	Average Apt Size (Sq Ft)	(2) 1998 % Mature Residents	(3) 1998 % Resident Turnover	(4) 1998 Average % Occupancy	(4) 1997 Average % Occupancy	1998 Avg Mo Rent Rate per Apt	1997 Avg Mo Rent Rate per Apt	12/31/98 Total Cost (\$000)
MI - Detroit	Canterbury Square	336	27	1997	789	14%	16%	98.5%	99.3%	\$632	\$608	\$13,766
MI - Detroit	Charter Square	494	28	1997	914	21%	35%	96.3%	96.9%	693	668	22,838
MI - Detroit	Fordham Green	146	23	1997	869	24%	24%	97.0%	92.9%	701	660	6,459
MI - Detroit	Golfview Manor	44	40	1997	662	14%	16%	96.8%	99.2%	468	426	687
MI - Detroit	Greentrees Apartments	288	28	1997	863	23%	21%	95.1%	96.0%	541	528	10,122
MI - Detroit	Kingsley Apartments	328	29	1997	792	32%	36%	94.0%	94.2%	602	564	13,632
MI - Detroit	Oak Park Manor	298	44	1997	887	10%	27%	98.6%	97.9%	594	568	10,626
MI - Detroit	Parkview Gardens	483	45	1997	731	3%	13%	95.9%	95.8%	505	445	8,754
MI - Detroit	Scotsdale Apartments	376	24	1997	790	21%	44%	95.6%	97.3%	575	559	14,150
MI - Detroit	Southpointe Square	224	28	1997	776	21%	24%	95.7%	98.8%	542	528	5,778
MI - Detroit	Stephenson House	128	32	1997	668	13%	38%	98.2%	97.4%	552	534	3,212
MI - Detroit	Woodland Gardens	337	33	1997	719	9%	53%	96.0%	97.1%	622	600	12,888
NJ - Northern	Royal Gardens	550	31	1997	800	12%	30%	92.9%	96.2%	744	724	23,790
NY - Buffalo	Emerson Square	96	29	1997	650	40%	46%	89.4%	78.6%	521	484	3,223
NY - Buffalo	Fairways Apartments	32	38	1997	900	23%	22%	75.8%	39.1%	587	509	1,255
NY - Buffalo	Paradise Lane at Raintree	324	27	1997	676	11%	50%	78.0%	79.6%	534	498	10,722
NY - Downstate	Lake Grove	368	29	1997	879	15%	33%	96.2%	96.0%	820	774	22,633
NY - Downstate	Mid-Island Estates	232	34	1997	690	32%	28%	95.3%	97.2%	788	758	11,137
NY - Rochester	1600 East Avenue	164	40	1997	800	97%	48%	80.2%	83.4%	1,252	1,205	11,101
NY - Rochester	Hill Court South	95	35	1997	730	41%	27%	94.8%	95.8%	565	554	2,900
NY - Rochester	Ivy Ridge Apartments	135	35	1997	740	46%	28%	91.4%	83.2%	560	547	4,059
NY - Rochester	Woodgate Place	120	26	1997	1,100	10%	53%	97.2%	93.9%	662	637	4,915
PA - Eastern	Chesterfield Apartments	247	26	1997	812	17%	36%	94.2%	94.2%	632	616	10,169
PA - Eastern	Curren Terrace	318	28	1997	782	6%	42%	96.9%	96.0%	665	662	14,409
PA - Eastern	Executive House	100	34	1997	696	54%	49%	90.4%	90.2%	648	637	4,751
PA - Eastern	Glen Manor	174	23	1997	667	19%	32%	97.5%	99.0%	570	557	5,791
PA - Eastern	Lansdowne Group-Karen Court	49	36	1997	844	*	*	*	*	*	*	2,007
PA - Eastern	Lansdowne Group-Landon Court	44	29	1997	873	*	*	*	*	*	*	1,823
PA - Eastern	Lansdowne Group-Marshall House ⁽⁶⁾	63	70	1997	653	44%	31%	95.5%	91.7%	611	605	2,127
PA - Eastern	Lansdowne Group-Patricia Court	66	31	1997	838	*	*	*	*	*	*	2,723
PA - Eastern	New Orleans Park	308	28	1997	693	15%	40%	97.3%	96.2%	573	559	12,175
PA - Eastern	Springwood Apartments	77	25	1997	755	40%	48%	92.3%	87.9%	557	543	2,366
PA - Eastern	Valley View Apartments	176	26	1997	769	21%	59%	92.2%	88.1%	591	574	7,364
PA - Eastern	Village Square	128	26	1997	795	11%	48%	91.4%	94.7%	600	582	4,762
PA - Western	Cloverleaf Village	148	41	1997	716	32%	55%	85.8%	97.8%	489	484	3,667
1997 Total/Weighted Average		7,496	31		786	21%	35%	94.0%	94.5%	\$635	\$610	\$292,781

Community Characteristics

Communities Wholly Owned and Managed by Home Properties

Regional Area		# of Apts	Age In Years	Year Acq	Average Apt Size (Sq Ft)	(2) 1998 % Mature Residents	(3) 1998 % Resident Turnover	(4) 1998 Average % Occupancy	(4) 1997 Average % Occupancy	1998 Avg Mo Rent Rate per Apt	1997 Avg Mo Rent Rate per Apt	12/31/98 Total Cost (\$000)
Core Communities ⁽¹⁾												
NY - Buffalo	Garden Village	315	27	1994	850	79%	25%	97.8%	98.1%	\$601	\$584	\$10,278
NY - Buffalo	Idylwood	720	29	1995	700	10%	61%	95.5%	95.6%	560	539	22,002
NY - Buffalo	Raintree Island	504	27	1985	704	35%	39%	95.1%	94.9%	587	576	16,467
NY - Buffalo	Williamstowne Village	528	27	1985	708	100%	19%	92.7%	96.8%	609	592	17,739
NY - Downstate	Carriage Hill	140	26	1996	845	18%	52%	93.5%	93.1%	768	734	5,538
NY - Downstate	Cornwall Park	75	32	1996	1,320	10%	53%	88.7%	87.1%	954	827	5,681
NY - Downstate	Lakeshore Villas	152	24	1996	956	9%	43%	96.3%	95.3%	618	605	5,944
NY - Downstate	Sunset Gardens	217	28	1996	662	22%	52%	93.7%	92.9%	574	559	6,350
NY - Rochester	1600 Elmwood	210	39	1983	891	9%	50%	95.6%	95.9%	748	742	10,863
NY - Rochester	Brook Hill	192	27	1994	999	22%	56%	89.7%	96.3%	785	745	9,840
NY - Rochester	Finger Lakes Manor	153	28	1983	924	48%	44%	95.6%	96.6%	684	669	7,240
NY - Rochester	Hamlet Court	98	28	1996	696	70%	39%	93.2%	93.3%	613	595	2,953
NY - Rochester	Newcastle Apartments	197	24	1982	873	34%	51%	92.1%	91.0%	677	659	10,093
NY - Rochester	Northgate Manor	224	36	1994	800	33%	40%	92.5%	93.9%	596	579	9,106
NY - Rochester	Perinton Manor	224	29	1982	928	51%	32%	95.6%	96.1%	716	698	11,155
NY - Rochester	Riverton Knolls	240	25	1983	911	8%	69%	93.2%	97.0%	714	689	12,044
NY - Rochester	Spanish Gardens	220	25	1994	1,030	32%	33%	93.9%	94.8%	608	593	11,364
NY - Rochester	Springcreek	82	26	1984	913	70%	32%	98.7%	96.5%	540	531	2,986
NY - Rochester	The Meadows	113	28	1984	890	38%	29%	95.9%	94.4%	601	593	4,952
NY - Syracuse	Candlewood Gardens	126	28	1996	855	37%	41%	97.9%	96.7%	475	456	3,202
NY - Syracuse	Conifer Village	199	20	1994	499	95%	14%	100.0%	100.0%	566	566	9,146
NY - Syracuse	Fairview Heights	210	35	1985	798	6%	88%	94.0%	92.1%	714	704	9,793
NY - Syracuse	Harborside Manor	281	26	1995	823	10%	48%	92.8%	94.1%	562	547	8,169
NY - Syracuse	Pearl Street	60	28	1995	855	10%	53%	95.1%	94.7%	464	453	1,378
NY - Syracuse	Village Green (incl. Fairways) ⁽⁵⁾	448	11	1994	908	23%	44%	90.0%	90.7%	594	574	17,318
NY - Syracuse	Westminster Place	240	27	1996	913	7%	48%	95.3%	93.0%	541	546	7,138
PA - Eastern	Valley Park South	384	26	1996	987	13%	42%	94.0%	92.9%	724	708	19,378
Core Communities Total/Weighted Avg		6,552	27		830	34%	44%	94.1%	94.7%	\$627	\$609	\$258,117
Owned Portfolio Total/Weighted Avg		23,936	30		798	26%	39%	94.2%	94.5%	\$641	\$603	\$936,428

⁽¹⁾ "Core Communities" represents the 6,552 apartment units owned consistently throughout 1997 and 1998.

⁽²⁾ "% Mature Residents" is the percentage of residents aged 55 years or older as of December 31, 1998.

⁽³⁾ "% Resident Turnover" reflects, on an annual basis, the number of moveouts divided by the total number of apartment units.

⁽⁴⁾ "Average % Occupancy" is the average economic occupancy for the 12 months ended December 31, 1997 and 1998.

For communities acquired during 1997 and 1998, this is the average occupancy from the date of acquisition.

⁽⁵⁾ Village Green and Fairways at Village Green are consolidated figures in 1998.

⁽⁶⁾ The Lansdowne Group consolidated figures are reflected in the Marshall House line.

⁽⁷⁾ Subsequently sold to affiliate for tax credit rehabilitation.

Home Properties of New York, Inc. Consolidated Balance Sheets

December 31, 1998 and 1997

(In thousands, except share and per share data)

	1998	1997
ASSETS		
Real estate:		
Land	\$ 119,221	\$ 62,640
Buildings, improvements and equipment	821,567	462,488
	940,788	525,128
Less: accumulated depreciation	(65,627)	(46,531)
Real estate, net	875,161	478,597
Cash and cash equivalents	33,446	3,809
Cash in escrows	17,431	10,211
Accounts receivable	6,269	3,531
Prepaid expenses	6,155	5,305
Deposit	175	605
Investment in and advances to affiliates	54,229	35,585
Deferred charges	2,749	1,637
Other assets	16,620	4,543
Total assets	\$1,012,235	\$543,823
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage notes payable	\$ 418,942	\$210,096
Line of Credit	-	8,750
Accounts payable	8,300	5,082
Accrued interest payable	1,962	1,077
Accrued expenses and other liabilities	4,962	4,374
Security deposits	11,404	6,165
Total liabilities	445,570	235,544
Minority interest	204,709	156,847
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized; no shares issued	-	-
Common stock, \$.01 par value; 50,000,000 shares authorized; 17,635,000 and 9,317,556 shares issued and outstanding at December 31, 1998 and 1997, respectively	177	93
Excess stock, \$.01 par value; 10,000,000 shares authorized; no shares issued	-	-
Additional paid-in capital	401,814	176,021
Distributions in excess of accumulated earnings	(26,622)	(19,700)
Unrealized loss on available-for-sale securities	(1,607)	-
Treasury stock, at cost, 79,600 shares	(1,863)	(426)
Officer and director notes for stock purchases	(9,943)	(4,556)
Total stockholders' equity	361,956	151,432
Total liabilities and stockholders' equity	\$1,012,235	\$543,823

The complete Consolidated Financial Statements and Notes thereto and the Report of Independent Accountants thereon, Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as Selected Financial and Operating Data are included in the Annual Report on Form 10-K for the fiscal year ended December 31, 1998 located in the back cover pocket.

Home Properties of New York, Inc. Consolidated Statements of Operations

For the Years Ended December 31, 1998, 1997 and 1996
(In thousands, except share and per share data)

	1998	1997	1996
Revenues:			
Rental income	\$137,557	\$ 64,002	\$ 42,214
Property other income	3,614	2,222	1,025
Interest income	5,102	2,196	643
Other income	2,970	1,277	1,788
Total Revenues	149,243	69,697	45,670
Expenses:			
Operating and maintenance	63,136	31,317	21,859
General and administrative	6,685	2,255	1,482
Interest	23,980	11,967	9,208
Depreciation and amortization	23,191	11,200	8,077
Total Expenses	116,992	56,739	40,626
Income before loss on disposition of property, minority interest and extraordinary item	32,251	12,958	5,044
Loss on disposition of property	-	1,283	-
Income before minority interest and extraordinary item	32,251	11,675	5,044
Minority interest	12,603	4,248	897
Income before extraordinary item	19,648	7,427	4,147
Extraordinary item, prepayment penalties, net of \$595 in 1998 and \$737 in 1997 allocated to minority interest	(960)	(1,037)	-
Net Income	18,688	6,390	4,147
Adjustments needed to reconcile to Funds From Operations:			
Minority interest	12,603	4,248	897
Extraordinary item	960	1,037	-
Non-recurring interest amortization	294	-	-
Depreciation from real property	22,982	11,063	7,942
Depreciation from real property from unconsolidated entities	733	324	390
Loss on disposition of property	-	1,283	8
Funds From Operations	\$ 56,260	\$ 24,345	\$ 13,384
Weighted average shares/units outstanding:			
Basic	22,871,741	11,373,865	6,813,153
Diluted	22,995,849	11,516,144	6,845,130
Basic earnings per share data:			
Income before extraordinary item	\$ 1.41	\$ 1.00	\$.74
Extraordinary item	(\$.07)	(\$.14)	-
Net income	\$ 1.34	\$.86	\$.74
Diluted earnings per share data:			
Income before extraordinary item	\$ 1.40	\$.98	\$.74
Extraordinary item	(\$.07)	(\$.14)	-
Net income	\$ 1.33	\$.84	\$.74
Weighted average number of shares outstanding:			
Basic	13,898,221	7,415,888	5,601,027
Diluted	14,022,329	7,558,167	5,633,004

The complete Consolidated Financial Statements and Notes thereto and the Report of Independent Accountants thereon, Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as Selected Financial and Operating Data are included in the Annual Report on Form 10-K for the fiscal year ended December 31, 1998 located in the back cover pocket.

Shareholder Information

Corporate Headquarters

Home Properties
850 Clinton Square
Rochester, New York 14604
1-716-546-4900

General Counsel

Nixon, Hargrave, Devans & Doyle LLP
900 Clinton Square
Rochester, New York 14604

Transfer Agent and Dividend Disbursing Agent

ChaseMellon Shareholder Services
P.O. Box 3338
South Hackensack, NJ 07606-1938
1-888-245-0458

Auditors

PricewaterhouseCoopers LLP
1100 Bausch & Lomb Place
Rochester, New York 14604

Report and News Releases

Additional company information can be obtained over the Internet at our web site, www.homeproperties.com. Although we do not publish traditional quarterly reports (due to their expense and lack of timeliness), we maintain a supplemental mailing and fax list for those shareholders wishing to receive copies of the Company's quarterly earnings and other news releases. A shareholder information response card is attached for your convenience.

Additional copies of this Annual Report and the Annual Report on Form 10-K to the United States Securities and Exchange Commission will be furnished at no charge. Requests should be addressed to Rebecca Fountain, Investor Relations, at the Company's Corporate Headquarters.

Dividend Reinvestment & Direct Stock Purchase Plan

The Company offers its shareholders and non-shareholders the opportunity to purchase additional shares of common stock directly from the Company through its Dividend Reinvestment and Direct Stock Purchase Plan. Transactions made through the Plan by shareholders will typically receive up to a 3% discount from an average market price. For a copy of the Plan Prospectus, please contact Rebecca Fountain, Investor Relations, at the Company's Corporate Headquarters.

Additional Information

The common shares of Home Properties trade on the New York Stock Exchange under the symbol HME.

As of February 16, 1999, Home Properties had approximately 3,500 shareholders of record, 17,898,455 shares (plus operating partnership units and interests convertible into 9,927,582 shares) were outstanding, and the closing price was \$25.

The fifth Annual Meeting of Shareholders will be held at 2:00 PM EDT on Tuesday, May 4, 1999, at the Strong Museum in Rochester, New York.



Quarterly Stock Price, Dividend and FFO Information

	High	Low	Dividend Paid per share	FFO (diluted) per share
January 1, 1997 through March 31, 1997	\$25-1/4	\$22	\$.430	\$.442
April 1, 1997 through June 30, 1997	\$23-1/2	\$20-1/4	\$.430	\$.503
July 1, 1997 through September 30, 1997	\$26	\$21-9/16	\$.430	\$.560
October 1, 1997 through December 31, 1997	\$28-5/16	\$25-5/8	\$.450	\$.578
The Company's policy is to pay quarterly dividends.				
January 1, 1998 through March 31, 1998	\$28-1/16	\$24-15/16	\$.450	\$.525
April 1, 1998 through June 30, 1998	\$27-7/8	\$24-7/8	\$.450	\$.596
July 1, 1998 through September 30, 1998	\$27-3/16	\$21-3/16	\$.450	\$.636
October 1, 1998 through December 31, 1998	\$26-15/16	\$24-1/4	\$.480	\$.657

"The Pledge"

As our Company expands to new communities and new markets, "The Pledge" continues to be an important marketing tool and the foundation on which we are building our name-brand reputation. The Pledge has also proven to be a powerful way to reinforce our commitment to quality and customer service throughout our growing

organization. As recently acquired communities adopt The Pledge, the amount of pride and dedication demonstrated by site-level employees is overwhelming. Although The Pledge incorporates a money-back guarantee, the number of refunds has been minimal—only \$6,094 was refunded by our Company during 1998.

OUR PLEDGE TO YOU

At Home Properties, customer satisfaction has been our top priority since 1967. To show how much WE CARE, we pledge the following:

- ◆ You will be treated fairly, honestly, and courteously by a team of caring and qualified people.
- ◆ We will promptly respond to your maintenance requests and will correct any routine maintenance items within 24 hours or on the next business day.
- ◆ We will help you feel at "home" in your community by providing welcome packages to introduce you to area services, social activities to help you get acquainted with your neighbors, and regular newsletters to keep you in touch with community activities.
- ◆ Your apartment will be clean and prepared to your satisfaction when you move in.
- ◆ If you're not satisfied with your new Home Properties apartment for any reason, you may cancel your lease any time during the first 30 days without penalty.*
- ◆ You may transfer to another available apartment in your community, or any other Home Properties community, at any time with a new twelve-month lease.*
- ◆ You may cancel your lease at any time with two full calendar months written notice if you lose your job, experience a job transfer to a location over 30 miles from your apartment, or find it necessary to move due to health reasons. (A remarketing fee equal to one-half your monthly rent may apply if you have not been a resident for at least one year.)*

If we fail to live up to our pledge to your complete satisfaction, please let us know and we will refund your rent for that day.



800 Clinton Square, Rochester, New York 14604 (716) 546-4900

* Certain restrictions may apply at government regulated communities.

Board of Directors



Back row (l to r) Alan L. Gosule, Clifford W. Smith, Jr., Roger W. Kober, William Balderston, III Middle row (l to r) Nelson B. Leenhouts, David P. Gardner, Ann M. McCormick, Richard J. Crossed Front row (l to r) Amy L. Tait, Burton S. August, Sr., Norman P. Leenhouts, Paul L. Smith, absent: Leonard F. Helbig.

Independent Directors

Burton S. August, Sr.
*Retired Vice President of
Monroe Muffler Brake, Inc.*

William Balderston, III
*Retired Executive Vice President of
Chase Manhattan Bank*

Alan L. Gosule
Partner, Rogers & Wells

Leonard F. Helbig
*Executive Managing Director of
Financial Services Group and
Director of Cushman & Wakefield*

Roger W. Kober
*Retired Chairman of the Board
and Chief Executive Officer of
Rochester Gas & Electric*

Clifford W. Smith, Jr.
*Professor of Finance
William E. Simon Graduate School
of Business Administration of the
University of Rochester*

Paul L. Smith
*Retired Director and Chief
Financial Officer of
Eastman Kodak Company*

Directors/Officers

Norman P. Leenhouts
*Chairman/Co-Chief Executive Officer
and Director*

Nelson B. Leenhouts
*President/Co-Chief Executive Officer
and Director*

Richard J. Crossed
*Executive Vice President and
Director*

Amy L. Tait
*Executive Vice President and
Director*

David P. Gardner
*Vice President, Treasurer, and
Chief Financial Officer*

Ann M. McCormick
*Vice President, General Counsel,
and Secretary*

William E. Beach
*Vice President, Commercial
Property Management*

C. Terence Butwid
Vice President, Development

Lavonne R. Childs
*Vice President, Residential Property
Management*

Scott A. Doyle
*Vice President, Residential Property
Management*

Kathleen M. Dunham
*Vice President, Residential Property
Management*

Johanna A. Falk
*Vice President,
Information Systems*

John H. Fennessey
Vice President, Development

Rhonda Finehout
*Vice President, Residential Property
Management*

Timothy A. Florczak
*Vice President, Residential Property
Management*

Thomas L. Fountain, Jr.
*Vice President, Commercial
Property Management*

Timothy D. Fournier
Vice President, Development

Gerald B. Korn
Vice President, Mortgage Finance

Laurie A. Leenhouts
*Vice President, Residential Property
Marketing*

Leslie J. Lewiston
*Vice President, Residential Property
Management*

Robert J. Luken
Vice President, Controller

Paul O'Leary
*Vice President, Acquisitions and Due
Diligence*

John Oster
Vice President, Development

James E. Quinn
*Vice President, Residential Property
Management*

Sharon Sanfratello
*Vice President, Residential Property
Management*

John E. Smith
Vice President, Acquisitions

Eric Stevens
*Vice President, Residential Property
Management*

Richard J. Struzzi
Vice President, Development

Robert C. Tait
*Vice President, Commercial
Property Management*

HOME PROPERTIES

850 Clinton Square
Rochester, NY 14604
716-546-4900
www.homeproperties.com



Pleasure Bay, 270-units, in Long Branch, NJ



Braddock Lee Apartments, 254-units, in Alexandria, VA



Pleasantview Apartments, 1,142-units, in Piscataway, NJ



Morningside Heights Apartments, 1,050-units, in Baltimore, MD



Mountainside Apartments, 227-units, in Garnerville, NY



Weston Gardens, 242-units, in Columbus, OH