

ASSOCIATED ESTATES REALTY CORP

Form 424B5

April 12, 2013

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Shares, without par value	\$75,000,000	\$75,000,000	(1)

Calculated pursuant to Rule 457(o) of the Securities Act of 1933, as amended. Pursuant to Rule 415(a)(6), includes (1) previously paid registration fees of \$10,230, which was paid with respect to unsold shares under the Registrant's registration statement on Form S-3 (File No. 333-167472).

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PROSPECTUS SUPPLEMENT  
(To Prospectus dated April 12, 2013)

Filed Pursuant to Rule 424(b)(5)  
Registration Statement No. 333-187885

\$75,000,000  
Associated Estates Realty Corporation  
Common Shares

We have entered into a separate equity distribution agreement with each of Barclays Capital Inc., Citigroup Global Markets Inc., Jefferies LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James & Associates, Inc. (each, a “sales agent” and, collectively, the “sales agents”) relating to our common shares, without par value, offered by this prospectus supplement and the accompanying prospectus. In accordance with the terms of the equity distribution agreements, we may offer and sell up to \$75.0 million of our common shares from time to time through, at our discretion, any of the sales agents.

Sales of the common shares, if any, will be made by means of ordinary brokers’ transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. We will pay each sales agent an aggregate fee that will not exceed, but may be lower than, 2.0% of the gross sales price of all common shares sold through it as agent under the applicable equity distribution agreement.

Under the terms of each equity distribution agreement, we may also sell our common shares to a sales agent as principal for its own account at a price agreed upon at the time of sale. If we sell common shares to a sales agent as principal, we will enter into a separate terms agreement with that sales agent, and we will describe this agreement in a separate prospectus supplement or pricing supplement.

The sales agents are not required to sell any specific number or dollar amount of common shares, but each sales agent will use its reasonable efforts, as our agent and subject to the terms of the applicable equity distribution agreement, to sell the common shares offered, as instructed by us.

Our common shares are listed on the New York Stock Exchange and the Nasdaq Global Market under the symbol “AEC.” On April 11, 2013, the last reported sale price of our common shares on the New York Stock Exchange was \$18.30 per share, and on the Nasdaq Global Market was \$18.30 per share.

Subject to certain exceptions, our Second Amended and Restated Articles of Incorporation, as amended, restrict ownership of more than 4.0% of our common shares in order to protect our status as a real estate investment trust, or REIT, for federal income tax purposes. See “Description of Common Shares — Restrictions on Ownership” in the accompanying prospectus.

Investing in our common shares involves certain risks. See “Risk Factors” beginning on page S-2 of this prospectus supplement and in the reports we file with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, incorporated by reference in this prospectus supplement and the accompanying prospectus, to read about factors you should consider before buying our common shares.

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

Barclays  
Jefferies

BofA Merrill Lynch

Citigroup  
Raymond James

April 12, 2013



You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus required to be filed with the Securities and Exchange Commission, or the SEC. We have not, and the sales agents have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the sales agents are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any such free writing prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to or updates the information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information about our common shares and other securities that do not pertain to this offering of common shares. To the extent the information contained in this prospectus supplement conflicts with any information in the accompanying prospectus or any document incorporated by reference, the information in this prospectus supplement shall control. The information in this prospectus supplement 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 carefully before deciding whether to invest in our common shares.

References to “we,” “us,” “our” and “our company” in this prospectus supplement and the accompanying prospectus are to Associated Estates Realty Corporation and its consolidated subsidiaries, unless the context otherwise requires.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain or incorporate by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act. 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 forward-looking statements by the use of forward-looking words, such as “expects,” “projects,” “believes,” “plans,” “anticipates,” “estimates,” “may,” “will” or “intends” or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. For a discussion of 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 the reports we file under the Exchange Act, incorporated by reference in this prospectus supplement and the accompanying prospectus.

The following factors, among others, could cause actual results to differ from those contemplated in the forward-looking statements:

- 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;
- elimination of, or limitations on, federal government support for Fannie Mae and/or Freddie Mac that may result in significantly reduced availability of mortgage financing sources, as well as increases in interest rates for mortgage financing;
- our ability to refinance debt on favorable terms at maturity;
- risks of a lessening of demand for the multifamily units that we own;
- competition from other available multifamily units, single family units available for rental or purchase, and changes in market rental rates;
- the failure of development projects or redevelopment activities to achieve expected results due to, among other causes, construction and contracting risks, unanticipated increases in materials and/or labor, and delays in project completion and/or lease-up that result in increased costs and/or reduce the profitability of a completed project;
- increases in property and liability insurance costs;



- unanticipated increases in real estate taxes and other operating expenses;
  - weather conditions that adversely affect operating expenses;
  - expenditures that cannot be anticipated such as utility rate and usage increases, and unanticipated repairs;
  - our inability to control operating expenses or achieve increases in revenue;
  - shareholder ownership limitations that may discourage a takeover otherwise considered favorable by shareholders;
  - the results of litigation filed or to be filed against us;
  - changes in tax legislation;
  - risks of personal injury claims and property damage related to mold claims that are not covered by our insurance;
  - catastrophic property damage losses that are not covered by our insurance;
  - our inability to acquire properties at prices consistent with our investment criteria;
  - risks associated with property acquisitions such as failure to achieve expected results or matters not discovered in due diligence; and
  - risks related to the perception of residents and prospective residents as to the attractiveness, convenience and safety of our properties or the neighborhoods in which they are located.
- We do not undertake any responsibility to update any of these factors or to announce publicly any revisions to forward-looking statements, whether as a result of new information, future events or otherwise.



## THE COMPANY

We are a fully-integrated, self-administered and self-managed equity real estate investment trust, or REIT, specializing in multifamily ownership, operation, acquisition, development, construction, disposition and property management activities. As of March 31, 2013, our operating property portfolio consisted of 51 owned apartment communities containing 13,107 units located in the Midwest, Mid-Atlantic, Southeast and Southwest. Additionally, in May 2012, in conjunction with our acquisition of land for development of an apartment community, we acquired an office building in Los Angeles, California containing approximately 78,800 total square feet of office and retail space. We operate as a REIT for federal income tax purposes and own a taxable REIT subsidiary that performs construction services for our own account. Our corporate headquarters is located at 1 AEC Parkway, Richmond Heights, Ohio 44143 and our telephone number is 216-261-5000.

Additional information regarding our company is set forth in documents on file with the SEC, available at [sec.gov](http://sec.gov), and incorporated by reference in this prospectus supplement and the accompanying prospectus, as described below under the sections entitled “Where You Can Find More Information” and “Incorporation of Certain Documents by Reference.”

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## RISK FACTORS

Before making an investment decision in our company, you should carefully consider the risks described below and in our periodic reports filed with the SEC pursuant to the Exchange Act incorporated by reference herein, including the risks described in Item 1A “Risk Factors” in our most recently filed Annual Report on Form 10-K. The risks and uncertainties described below and in such filings are not the only ones facing our company, and there may be additional risks we do not presently know of or we currently consider to be immaterial. All of these risks could adversely affect our business, financial condition, results of operations and cash flows. As a result, our ability to pay dividends on, and the market price of, our common shares may be adversely affected if any of such risks is realized.

### Risks Related to This Offering

The market price of our common shares may fluctuate or decline significantly. The market price of our common shares may fluctuate or decline significantly in response to many factors, including those set forth under “Cautionary Statement Regarding Forward-Looking Statements” as well as:

- actual or anticipated changes in operating results or business prospects;
- changes in earnings estimates by securities analysts;
- an inability to meet or exceed securities analysts’ estimates or expectations;
- difficulties or inability to access capital or extend or refinance existing debt;
- decreasing (or uncertainty in) real estate valuations;
- publication of research reports about us or the real estate industry;
- changes in analyst ratings or our credit ratings;
- conditions or trends in our industry or sector;
- the performance of other multifamily residential REITs and related market valuations;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;
- shareholder ownership limitations that may discourage a takeover otherwise considered favorable by shareholders;
- hedging or arbitrage trading activity in our common shares;
- actions by institutional shareholders;
- changes in interest rates;
- capital commitments;
- additions or departures of key personnel;
- future sales of our common shares or securities convertible into, or exchangeable or exercisable for, our common shares;
- the realization of any of the other risk factors included or incorporated by reference in this prospectus supplement and the accompanying prospectus; and
- general market and economic conditions.

This offering may have a dilutive effect on our earnings per share and our funds from operations per share. The issuance of common shares from time to time pursuant to the equity distribution agreements may have a dilutive effect on our earnings per share and our funds from operations, as adjusted, per share and could cause the market price of our common shares to decline significantly. The actual amount of dilution, if any, cannot be determined at this time and will be based on numerous factors, particularly the actual number of common shares issued pursuant to the equity distribution agreements and the use of the net proceeds therefrom.

There may be future dilution of our common shares. Our board of directors is authorized under our Second Amended and Restated Articles of Incorporation, as amended, to, among other things, authorize the issuance of additional common shares or preferred shares or securities convertible or exchangeable into equity securities, without shareholder approval. We may issue such additional equity or convertible securities to raise additional capital. Holders of our common shares have no preemptive rights that entitle them to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders. We cannot predict the size of future issuances or sales of our common shares or other related equity securities into the public market or the effect, if any, that such issuances or sales may have on the market price of our common shares.

We may issue debt and equity securities or securities convertible into equity securities, any of which may be senior to our common shares as to distributions and in liquidation. In the future, we may issue additional debt or equity securities or securities convertible into or exchangeable for equity securities, or we may enter into debt-like financing that is unsecured or secured by up to all of our multifamily apartment communities. Such securities may be senior to our common shares as to distributions. In addition, in the event of our liquidation, our lenders and holders of our debt and preferred securities would receive distributions of our available assets before distributions to the holders of our common shares.

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#### USE OF PROCEEDS

We intend to use the net proceeds from the sale of our common shares, from time to time, under this prospectus supplement for general corporate purposes, which may include reducing borrowings under our \$350.0 million unsecured revolving credit facility, the repayment of other indebtedness, funding for development activities and financing for acquisitions. As of March 31, 2013, we had no borrowings outstanding under our unsecured revolving credit facility. Our unsecured revolving credit facility will mature in January 2016.

Affiliates of certain of the sales agents, including Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James & Associates, Inc., are among several lenders under our unsecured revolving credit facility, and any of the sales agents or their affiliates may, at any time, be holders of our other indebtedness. To the extent any portion of the net proceeds from this offering is used to reduce borrowings under this facility or to repay such other indebtedness, each such sales agent or its affiliate will receive its pro rata portion of such proceeds, to the extent it is a lender thereunder. See "Plan of Distribution."

## PLAN OF DISTRIBUTION

We have entered into a separate equity distribution agreement with each of the applicable sales agents under which we may issue and sell up to \$75.0 million of our common shares from time to time through, at our discretion, any of the sales agents. The sales, if any, of our common shares made under the equity distribution agreements will be made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices.

Under the terms of each equity distribution agreement, we also may sell common shares to a sales agent as principal for its own account at a price agreed upon at the time of sale. If we sell common shares to a sales agent as principal, we will enter into a separate terms agreement with that sales agent, and we will describe this agreement in a separate prospectus supplement or pricing supplement.

We will instruct each sales agent as to the amount of common shares to be sold by it. Subject to the terms and conditions of the applicable equity distribution agreement, a sales agent will use its reasonable efforts to sell on our behalf all of the designated common shares. We may instruct a sales agent not to sell our common shares if the sales cannot be affected at or above the price designated by us in any such instruction. We or a sales agent may suspend the offering of our common shares by notifying the other party.

The relevant sales agent will provide written confirmation to us following the close of trading on the New York Stock Exchange and the Nasdaq Global Market each day on which our common shares are sold under the applicable equity distribution agreement. Each confirmation will include the number of common shares sold on that day, the aggregate gross sales proceeds and net proceeds to us and the compensation payable to the relevant sales agent with respect to such sales.

We will pay each sales agent commissions for services in acting as agent in the sale of common shares. Each sales agent will be entitled to compensation that will not exceed, but may be lower than, 2.0% of the gross sales price of all common shares sold through it as agent under the applicable equity distribution agreement. The remaining sales proceeds, after deducting any expenses payable by us and any transaction fees imposed by any governmental or self-regulatory organization in connection with the sales, will equal our net proceeds from the sale of the common shares. We will report at least quarterly the number of common shares sold through the sales agents under the equity distribution agreements, the net proceeds to us and the compensation paid by us to the sales agents in connection with the sales of common shares.

Settlement for sales of our common shares will occur on the third business day following the date on which any sales were made in return for payment of the net proceeds to us. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

We have agreed to reimburse the sales agents for certain expenses in certain circumstances in connection with this offering. We estimate that the total expenses of this offering payable by us, excluding discounts, commissions and reimbursements under the equity distribution agreements, will be approximately \$250,000.

Each sales agent will act as sales agent on a reasonable efforts basis. In connection with the sale of the common shares on our behalf, a sales agent may, and in connection with the sale of common shares purchased by a sales agent as principal will, be deemed to be an "underwriter" within the meaning of the Securities Act, and the compensation of a sales agent may, or will, as applicable, be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to the sales agents against certain civil liabilities, including liabilities under the Securities Act.

The offering of our common shares pursuant to the equity distribution agreements will terminate upon the earlier of (i) the sale of all common shares subject to the equity distribution agreements and (ii) termination of the equity distribution agreements upon the occurrence of certain events.

The sales agents and their affiliates have provided from time to time, and may provide in the future, investment banking, commercial banking and other financial advisory services to us and our affiliates in the ordinary course of business, for which they have received and may continue to receive customary fees and commissions. Affiliates of certain of the sales agents, including Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James & Associates, Inc., are among several lenders under our unsecured revolving credit facility, and any of the sales agents or their affiliates may, at any time, be holders of our other indebtedness. To the extent any portion of the net proceeds from this offering is used to reduce borrowings under this facility or to repay such other indebtedness, each such sales agent or its affiliates will receive its pro rata portion of such proceeds, to the extent it is a lender thereunder.

#### EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement and the accompanying prospectus by reference to the Annual Report on Form 10-K of Associated Estates Realty Corporation for the year ended December 31, 2012, and the audited statements of revenue and certain operating expenses of The Apartments at the Arboretum, 21 Forty Medical District and The Park at Crossroads included on pages 4, 7 and 10 of Associated Estates Realty Corporation's Current Report on Form 8-K dated March 13, 2013, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

#### LEGAL MATTERS

The validity of the common shares offered hereby as well as certain legal matters described under "Material Federal Income Tax Considerations" in the accompanying prospectus have been passed upon by Baker & Hostetler LLP, Cleveland, Ohio. Albert T. Adams, a director of our company, is a partner of Baker & Hostetler LLP. Certain legal matters in connection with this offering will be passed upon for the sales agents by Sidley Austin LLP, New York, New York.

#### WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available on the Internet at the SEC's website at [sec.gov](http://sec.gov). You may also read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the public reference room and its copy charges. You may also inspect our SEC reports and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005. We also maintain a website at [AssociatedEstates.com](http://AssociatedEstates.com). Please note that all references to [AssociatedEstates.com](http://AssociatedEstates.com) in this prospectus supplement and the accompanying prospectus are inactive textual references only and that the information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus.

#### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

Information that we have previously filed with the SEC can be "incorporated by reference" into this prospectus supplement and the accompanying prospectus. The process of incorporation by reference allows us to disclose important information to you without duplicating that information in this prospectus supplement and the accompanying prospectus. The information we incorporate by reference is considered a part of this prospectus supplement and the accompanying prospectus. The information in this prospectus supplement and the accompanying prospectus, including any information that we incorporate by reference, will be updated and superseded automatically by our filings with the SEC after the date of this prospectus supplement and the accompanying prospectus and prior to our sale of the common shares covered by this prospectus supplement. We are incorporating by reference the filed information contained in the documents listed below:

- (a) Our Annual Report on Form 10-K for the year ended December 31, 2012;
- (b) Our Current Reports on Form 8-K filed with the SEC on January 2, 2013, January 24, 2013, January 25, 2013 and March 13, 2013; and
- (c) The description of our common shares contained in our Form 8-A dated October 14, 1993.

We are also incorporating by reference any filed information in filings we make with the SEC pursuant to Section 13(a), 13(c), 14, or 15(d) of the Exchange Act after the date of this prospectus supplement and prior to our sale of the common shares covered by this prospectus supplement.

We will furnish without charge to each person (including any beneficial owner) to whom a prospectus supplement is delivered, upon written or oral request, a copy of any or all of the foregoing documents incorporated herein by reference (other than certain exhibits). Requests for such documents should be made to:

Mail: Associated Estates Realty Corporation  
Attention: Investor Relations  
1 AEC Parkway  
Richmond Heights, Ohio 44143

Telephone: 216-261-5000

Website: [AssociatedEstates.com](http://AssociatedEstates.com)  
(select "Contact AEC" option)