AFFORDABLE RESIDENTIAL COMMUNITIES INC
Form S-3
June 16, 2005

As filed with the U.S. Securities and Exchange Commission on June 16, 2005

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Affordable Residential Communities Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

84-1477939

(I.R.S. Employer Identification Number)

600 Grant Street, Suite 900

Denver, Colorado 80203

(303) 383-7500

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Scott L. Gesell

Executive Vice President and General Counsel

Affordable Residential Communities Inc.

600 Grant Street, Suite 900

Denver, Colorado 80203

(303) 383-7500

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Fred B. White III, Esq.

Skadden, Arps, Slate, Meagher & Flom LLP

4 Times Square

New York, New York 10036

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

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

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ý

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

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

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

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to Be Registered (1)	Proposed Maximum Offering Price Per Unit (2)	Proposed Maximum Aggregate Offering Price (3)	Amount of Registration Fee
Common Stock, par value $0.01 per share	700,000	$ 12.80	$ 8,960,000	$ 1,055

(1) Pursuant to Rule 416 of the Securities Act of 1933, as amended, the common stock offered hereby shall be deemed to cover additional securities to be issued to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(2) Based on the average high and low prices for shares of Registrant common stock as reported on the New York Stock Exchange on June 9, 2005.

(3) The registration fee has been computed pursuant to Rule 457(c) and Rule 457(f)(1) under the Securities Act of 1933, as amended, based on the average of the high and low prices for shares of Registrant common stock as reported on the New York Stock Exchange on June 9, 2005 ($12.80 per share) multiplied by the maximum number of such shares (700,000) that may be issued.

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

The information in this prospectus is not complete and may be changed. Neither we nor the selling securityholders may sell these securities until this registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 16, 2005

PROSPECTUS

AFFORDABLE RESIDENTIAL COMMUNITIES INC.

700,000 SHARES OF COMMON STOCK

This prospectus relates to the possible issuance by us from time to time of up to 700,000 shares of our common stock in exchange for Series B preferred partnership interests (the Series B Preferred Units) in Affordable Residential Communities LP, our operating partnership, if and to the extent that one or more of the holders of Series B Preferred Units tenders such units for redemption pursuant to their contractual rights. We are registering the shares of our common stock to provide the holders of Series B Preferred Units with freely tradable securities in the event we elect to make such an exchange. The registration of the shares of our common stock covered by this prospectus does not necessarily mean that any of the holders of Series B Preferred Units will exercise their redemption rights or that upon any such redemption we will elect, in our sole and absolute discretion, to exchange some or all of the Series B Preferred Units for shares of our common stock.

We will receive no proceeds from any issuance of the shares of our common stock covered by this prospectus, but we will pay all registration expenses.

Our common stock is listed on the New York Stock Exchange under the symbol ARC. The last reported sale price of our common stock on the New York Stock Exchange on June 15, 2005 was $13.10 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 3 OF THIS PROSPECTUS BEFORE YOU MAKE AN INVESTMENT IN OUR COMMON STOCK.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is June , 2005

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement which we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf process, the Company may from time to time issue shares of our common stock, as described in this prospectus. We will not receive any proceeds from the issuance of shares of our common stock pursuant to this prospectus. This prospectus provides you with a general description of the securities the Company may issue. You should read both this prospectus and the additional information described under the heading Where You Can Find More Information beginning on page 48.

Unless the context otherwise requires, in this prospectus the terms ARC, the Company, we, us or our refer to Affordable Residential Communities Inc. and its consolidated subsidiaries. OP or operating partnership refers to Affordable Residential Communities LP, our operating partnership subsidiary.

You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from that contained in or incorporated by reference in this prospectus. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

PROSPECTUS SUMMARY

This brief summary does not contain all of the information that may be important to you. You should carefully read this entire document and the other documents to which this prospectus refers you before making your investment decision. See Where You Can Find More Information.

The Company

We are a fully integrated, self-administered and self-managed equity real estate investment trust, or REIT, focused primarily on the acquisition, renovation, repositioning and operation of all-age manufactured home communities. We also rent and sell manufactured homes, finance sales of manufactured homes and act as agent in the sale of homeowners insurance and other related insurance products, all exclusively to residents in our communities.

As of March 31, 2005, we owned and operated 315 communities in 27 states containing 63,658 homesites.

Our properties represent 67 markets across the U.S. Our five largest markets are Dallas-Fort Worth, Texas, with 11.4% of total homesites; Atlanta, Georgia, with 7.8% of total homesites; Salt Lake City, Utah, with 6.0% of total homesites; the Front Range of Colorado, with 5.2% of total homesites; and Kansas City/Lawrence/Topeka, Kansas with 3.8% of total homesites.

On February 18, 2004, we completed our initial public offering, or IPO, of 24,508,617 shares of our common stock (including 2,258,617 shares sold by selling securityholders) and 5,000,000 shares of our 8.25% Series A cumulative redeemable preferred stock. The net proceeds to the Company (after underwriting discounts but before expenses) from our sale of common stock and preferred stock in the IPO were $517.5 million. On March 17, 2004, we issued an additional 791,592 shares of common stock pursuant to the underwriters exercise of their over-allotment option, generating net proceeds to the Company (after underwriting discounts but before expenses) of $14.0 million. In conjunction with the IPO, we also completed a financing transaction consisting of $500 million of new mortgage debt and the repayment of certain existing indebtedness. With a portion of the proceeds from our IPO and the financing transaction, we acquired 90 manufactured home communities from Hometown America, L.L.C., or Hometown, located in 24 states with 26,406 homesites. The total purchase price for these communities and related assets was approximately $615.3 million including assumed indebtedness with a fair value of $93.1 million.

We were organized in 1998 as a Maryland corporation and have elected to be taxed as a REIT under the Internal Revenue Code, commencing with our taxable year ended December 31, 1998. We conduct all of our business activities through our operating partnership, of which we are the sole general partner and in which we held a 94.4% ownership interest as of March 31, 2005. The remaining 5.6% ownership interest in the OP represents outstanding common limited partnership interests, or OP units. Each of these outstanding OP units, which were issued in our May 2002 reorganization, is part of a paired unit that includes 1.9268 shares of our special voting stock. Each of these paired units is currently exchangeable by its holder for cash or, at our election, one share of our common stock, and each paired unit entitles its holder to one vote on all matters submitted to a vote of our stockholders. Collectively, limited partners who hold these paired units have approximately 5.6% of the total voting power of our outstanding voting stock as of March 31, 2005.

Our principal executive, corporate and property management offices are located at 600 Grant Street, Suite 900, Denver, Colorado 80203, and our telephone number is (303) 383-7500. Our internet address is www.aboutarc.com. The information contained on our website is not part of this prospectus.

The Offering

Securities offered	Up to 700,000 shares of our common stock that may be issued from time to time at our election to holders of Series B Preferred Units of our operating partnership upon redemption of such Series B Preferred Units.
	Affordable Residential Communities LP issued such Series B Preferred Units on June 30, 2004 in connection with its acquisition of 36 manufactured home communities from D.A.M. Master Entity, L.P. Holders of Series B Preferred Units have the right to redeem their units for a combination of cash and a note, as more fully described in Redemption of Units beginning on page 19 of this prospectus, at any time after July 1, 2005, subject to our prior and independent right to acquire some or all of such units tendered for redemption in exchange for a number of shares of our common stock equal to the aggregate liquidation value of such units divided by the average closing market price of a share of our common stock for the ten consecutive trading days immediately preceding the date of redemption, with cash paid in lieu of any fractional share.
Use of proceeds	We will not receive any proceeds upon any issuance of shares of our common stock pursuant to this prospectus.
New York Stock Exchange symbol	ARC
Risk factors	Before investing in our common stock, you should carefully read and consider the information set forth in Risk Factors beginning on page 3 of this prospectus and all other information appearing elsewhere and incorporated by reference in this prospectus and any accompanying prospectus supplement.

RISK FACTORS

Before you invest in our common stock, you should be aware that there are various risks, including those described below. You should consider carefully these risk factors together with all of the other information included or incorporated by reference in this prospectus before you decide to redeem your Series B Preferred Units. The following Risk Factors could adversely affect our revenue, expenses, net income, cash flow, ability to pay or refinance our debt obligations, ability to make distributions to our stockholders, and/or the per share trading price of our common stock.

Risks Related to the Redemption of your Series B Preferred Units

The exchange of Series B Preferred Units for our common stock is a taxable transaction. In general, if you tender all of your Series B Preferred Units for redemption, you will recognize taxable gain or loss in an amount equal to the difference between the amount realized on the transaction and your adjusted tax basis in your tendered units. The amount realized will be an amount equal to the sum of any cash, the fair market value of any note and any shares of common stock you receive plus the allocable share of the operating partnership s liabilities allocated to your tendered Series B Preferred Units. Any tax liability resulting from such gain could exceed the amount of cash and the fair market value of any note and any shares of common stock received by you. In addition, if you tender less than all of your Series B Preferred Units and the operating partnership redeems such tendered units with cash (which is not contributed by ARC to effect the redemption), you will not recognize any taxable loss. If you exercise your redemption right with respect to Series B Preferred Units within 2 years of the date that you transferred property to the operating partnership in exchange for such units, your exchange of property for Series B Preferred Units could be treated, in whole or in part, as a disguised sale of your property to the operating partnership in the year of such transfer and must be reported to the Internal Revenue Service (the IRS). In such a case, you would be required to recognize gain or loss on such disguised sale in the year that you transferred property to the operating partnership. In addition, if you receive shares of our common stock in exchange for tendered Series B Preferred Units, you will not be able to use income and loss from your investment in our common stock to offset passive income and losses from other investments, and distributions with respect to common stock will constitute taxable income to the extent of ARC s earnings and profits.

The particular tax consequences of a redemption to you will depend upon a number of factors related to your individual tax situation, including your tax basis in your Series B Preferred Units, whether you dispose of all of your units, and whether the passive loss rules apply to your investments. Because the income tax consequences of tendering Series B Preferred Units will not be the same for everyone, you should consult your tax advisor before determining whether to tender your units for redemption.

The exchange of Series B Preferred Units for our common stock may potentially change your investment. If you exercise your Series B Preferred Unit redemption right, we will determine whether you receive cash, cash and a note, or common stock in exchange for your units. If you receive common stock, you will become a stockholder of ARC rather than a Series B Preferred Unit holder in the operating partnership. There are some differences between the ownership of Series B Preferred Units and ownership of shares of our common stock. See Comparison of Series B Preferred Units and Common Stock. Further, since the price of the common stock fluctuates, the price you receive when you sell your common stock may not equal the value of the Series B Preferred Units at the time of the redemption.

Risks Related to Investing in our Common Stock

Our current periodic cash distribution to our common stockholders may exceed our funds from operations (FFO) available to our common stockholders in the future. For the twelve months ended December 31, 2004, our annual cash distribution to our common stockholders exceeded our FFO available to our common stockholders. We funded our annual cash distribution for the year ended December 31, 2004 from our operating cash flow, from cash generated from our senior fixed and variable rate mortgage debt incurred in connection with the completion of our IPO in February 2004, and from other borrowings. On May 23, 2005 we announced that our Board of Directors declared a quarterly cash dividend of $0.1875 per share of our common stock payable to stockholders of record on June 30, 2005. For the quarter ended March 31, 2005, we reported FFO available to common stockholders of $0.04 per share.

Unless our FFO available to common stockholders increases substantially in the future, we will be required to fund future cash distributions to our common stockholders from other borrowings, from sales of some of our properties, or from other available financing sources or we will have to reduce further such distributions. If we use working capital or proceeds from such other borrowings, from sales of some of our properties, or from other available financing sources to fund these distributions, this will reduce the availability of these funds for other purposes, including the purchase of homes necessary to implement our programs for increasing our occupancy, which could negatively impact our financial condition and results from operations and our ability to expand our business and further fund our growth initiatives.

An increase in interest rates may have an adverse effect on the price of our common stock. One of the factors that may influence the price of our common stock in the public market will be the annual distributions to stockholders relative to the prevailing market price of our common stock. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our common stock to expect a higher dividend yield and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could adversely affect the market price of our common stock.

Risks Related to Our Properties and Operations

Adverse economic or other conditions in the markets in which we do business, including our five largest markets of Dallas-Fort Worth, Texas; Atlanta, Georgia; Salt Lake City, Utah; the Front Range of Colorado; and Kansas City/Lawrence/Topeka, Kansas could negatively affect our occupancy and results of operations. Our operating results are dependent upon our ability to achieve and maintain a high level of occupancy in our communities. Adverse economic or other conditions in the markets in which we do business, and specifically in metropolitan areas of those markets, may negatively affect our occupancy and rental rates, which in turn, may negatively affect our revenues. If our communities do not generate revenues sufficient to meet our cash requirements, including operating and other expenses, debt service and capital expenditures, our net income, FFO, cash flow, financial condition, ability to make distributions to stockholders and common stock trading price could be adversely affected. The following factors, among others, may adversely affect the occupancy of our communities and/or the revenues generated by our communities:

the national economic climate and the local or regional economic climate in the markets in which we operate, which may be adversely impacted by, among other factors, plant closings, industry slowdowns, relocation of businesses, and changing demographics;

competition from other available manufactured housing sites or available land for the placement of manufactured homes outside of established communities and alternative forms of housing (such as apartment buildings and site-built single-family homes);

local real estate market conditions such as the oversupply of manufactured housing sites or a reduction in demand for manufactured housing sites in an area;

the residential rental market, which may limit the extent to which our rents, whether for homes or homesites, may be increased to meet increased expenses without decreasing our occupancy rates;

perceptions by prospective tenants of the safety, convenience and attractiveness of our communities and the neighborhoods where they are located;

our ability to provide adequate management, maintenance and insurance; or

increased operating costs, including insurance premiums, real estate taxes and utilities.

Our communities located in Dallas-Fort Worth, Texas; Atlanta, Georgia; Salt Lake City, Utah; the Front Range of Colorado; and Kansas City/Lawrence/Topeka, Kansas contain approximately 11.4%, 7.8%, 6.0%, 5.2% and 3.8%, respectively, of our total homesites. As a result of the geographic concentration of our communities in these markets, we are particularly exposed to the risks of downturns in these local economies as well as to other local real estate market conditions or other conditions which could adversely affect our occupancy rates, rental rates and the values of communities in these markets.

Our results of operations also would be adversely affected if our tenants are unable to pay rent or if our homesites or our rental homes are unable to be rented on favorable terms. If we are unable to promptly relet our homesites and rental homes or renew our leases for a significant number of our homesites or rental homes, or if the rental rates upon such renewal or reletting are significantly lower than expected rates, then our business and results of operations would be adversely affected. In addition, certain expenditures associated with each community (such as real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in income from such community and could increase without a corresponding increase in rental or other income. Furthermore, real estate investments are relatively illiquid and, therefore, will tend to limit our ability to vary our portfolio promptly in response to changes in economic or market conditions.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increase in defaults under existing leases, which would adversely affect our net income, FFO, cash flow, financial condition, ability to pay or refinance our debt obligations, ability to make distributions to our stockholders and the per share trading price of our common stock.

We may not be able to maintain and improve our occupancy through expansion of our home lease with option to purchase program and our rental home program, which could negatively affect our revenue and our results of operations. We have responded to the challenging operating environment for manufactured home communities by developing and implementing a range of programs and initiatives aimed at increasing and maintaining our occupancy, including our home lease with option to purchase program and our rental home program. Our ability to maintain and increase occupancy and improve our operating margins in our existing communities in the future will depend to a large degree upon the success of these programs.

Pursuant to our rental home program, we acquire manufactured homes, place them on unoccupied homesites in selected communities in our portfolio and lease them, typically for a one-year lease term. For the year ended December 31, 2004, rental income received from residents of our rental homes totaled $40.3 million. Our overall occupancy at March 31, 2005 was 82.1% with homeowners occupying 71.8% of our total homesites and tenants in our rental homes occupying approximately 10.3% of our total homesites. If we are unable to improve and maintain occupancy in our communities through expansion of our lease with option to purchase program and our rental home program, our operating results may be negatively affected. Our ownership of rental homes also increases our capital requirements and our operating expenses and subjects us to greater exposure to risks such as re-leasing risks and mold-related claims. In addition, our increased sales and leasing activities increase our exposure to these matters as well as to legal and regulatory compliance costs and risks and to litigation and claims arising out of the same.

Our lease with option to purchase program is a new program which differs significantly from the lease-to-own programs offered by certain of our competitors, and we are not aware of any lease-to-own program structured in a manner similar to ours. Accordingly, while we believe our program has been structured and is being implemented in compliance with applicable legal and regulatory requirements in all material respects, we have no significant past experience operating this program and neither the structure and terms of the program nor our management and implementation of the program have been subject to review by any court or regulatory agency or authority in any suit or proceeding. There can be no assurance, if any such review were to occur, that the structure and terms of the program and our management and implementation of the program will be found to be in compliance with all such applicable legal and regulatory requirements. Any determination by a court or other agency or authority of competent jurisdiction finding a violation of any applicable legal or regulatory requirements, or the threat of such a determination, could subject us to material fines, penalties, judgments or other payments, which could have an adverse effect on our financial condition and results of operations, and also could result in significant changes to the structure and terms of the program, which could increase the costs to us of continuing the

program or otherwise adversely affect our ability to continue to maintain the program, which could have an adverse effect on our ability to maintain or increase occupancy and improve our results of operations.

We may not be able to maintain and improve our occupancy through expansion of our in-community home sales and financing initiative, which could negatively affect our revenue and our results of operations. We have responded to the challenging operating environment for manufactured home communities by developing and implementing a range of programs and initiatives aimed at increasing and maintaining our occupancy, including our in-community home sales and financing initiative. Our ability to maintain and increase occupancy and improve our operating margins in our existing communities in the future will depend to some degree upon the success of this initiative. Through our in-community home sales and financing initiative, we intend to significantly expand our capability both to acquire for-sale manufactured home inventory and sell these homes to customers in our communities at reasonable prices and to finance sales of these homes to customers in our communities. We have obtained a multi-year debt facilitypursuant to which we will be able to fund up to $125.0 million to support loan originations in connection with the sale of homes in our communities. If we are not able to maintain this debt facility, we do not expect to be able to fully fund this initiative, which could significantly impair our ability to maintain or increase our occupancy in our communities and to achieve growth in our revenue and operating margins.

The availability of advances under our retail home sales and consumer finance debt facility is subject to certain conditions that are beyond our control. Conditions that could result in our inability to draw on these facilities include a downgrade of the lender s credit rating and the absence of certain markets for financing debt obligations secured by securities or mortgage loans. Funding under this facility may also be denied if the lender determines that the value of the assets serving as collateral would be insufficient to maintain the required 75% loan-to-value ratio upon giving effect to a request for funding. The lender can also at any time require that we prepay amounts funded or provide additional collateral if in its judgment this is necessary to maintain the 75% loan-to-value ratio.

We have no significant operating history in the consumer finance business and we cannot assure you that we will be able to successfully expand this initiative and manage this business. Loans produced by our in-community home sales and financing initiative may have higher default rates than we anticipate, and demand for consumer financing may not be as great as we anticipate or may decline. Our in-community home sales and financing initiative operates in a regulated industry with significant consumer protection laws, and the regulatory framework may change in a manner which may adversely affect our operating results. The regulatory environment and associated consumer finance laws create a risk of greater liability from our in-community home sales and financing initiative and could subject us to private claims and awards. This initiative is dependent on licenses granted by state and federal regulatory bodies, which may be withdrawn or which may not be renewed and which could have an adverse impact on our ability to achieve our operating objectives. We have obtained many, and are in the process of obtaining all of the remaining state and local licenses and permits necessary for us to implement this initiative in all of the markets in which we operate**.**

We continue to work to integrate the Hometown communities, and we may not realize the improvements in occupancy and operating results that we anticipate from this acquisition. The Hometown acquisition was significantly larger than the largest portfolio acquisition of manufactured home communities we had completed previously, and there can be no assurance that we will in fact be able to effectively integrate all of the Hometown communities and fully realize the anticipated benefits of this acquisition. In evaluating these communities following the acquisition, we have encountered and continue to address various issues associated with integrating them into our operations, including significant employee turnover and replacement, higher than anticipated deferred maintenance costs and issues relative to resident quality of life. Because we do not have the same operating experience with the Hometown communities as we do with our other manufactured home communities, we have not been able to fully anticipate operating difficulties with the Hometown communities, such as lease-related issues, zoning issues, environmental issues, personnel issues or mold-related issues, to the same degree that we can anticipate similar operating difficulties with the other manufactured home communities we currently operate. In addition, as a result of the Hometown acquisition, we now operate manufactured home communities in 27 new markets in which we did not previously have experience operating, and our lack of experience in these markets may hinder our ability to operate the Hometown communities in these markets successfully and to achieve our anticipated operating results.

We also must continue to address the existing vacancies in the Hometown communities through our programs and initiatives aimed at increasing occupancy, including our rental home program and our in-community retail home sales and consumer financing initiative. Delays in completing the integration of the Hometown communities resulting from the issues described above have resulted in delays in implementing these programs and initiatives at the Hometown communities. If we are not successful in implementing our rental home program and other initiatives in managing the Hometown communities, we may not be able to achieve the improvements in occupancy and operating results that we anticipate from the Hometown acquisition, which could adversely affect our financial condition, results of operations, cash flow, per share trading price of our common stock and our ability to satisfy our debt service obligations and to pay distributions to our shareholders.

The terms of our acquisition agreement with Hometown may cause us to incur additional costs and liabilities. Pursuant to the acquisition agreement with Hometown, we have assumed all liabilities and obligations of Hometown with respect to the Hometown communities and the other acquired assets, whether known or unknown, absolute or contingent, and whether arising before or after the date we acquired the Hometown communities, subject to limited exceptions. In addition, Hometown is not required to indemnify us for any inaccuracy in or breach of any of its representations or warranties in the agreement. As a result of these provisions, we are responsible for liabilities and obligations with respect to the Hometown communities and the other acquired assets for which we have no recourse to Hometown or anyone else, and we may incur unanticipated costs in connection with completion of the Hometown acquisition and the integration of the Hometown communities in excess of our expected costs.

The manufactured housing industry continues to face a challenging operating environment marked by a shortage of available financing for home purchases and a significant decrease in manufactured home shipments, which has put downward pressure on occupancy in manufactured home communities and may continue to do so. The manufactured housing industry continues to face a challenging operating environment which has resulted in losses, exits from the industry and significant curtailment of activity among manufacturers, retailers and consumer finance companies. According to Manufactured Housing Institute, or MHI, industry shipments (a measure of manufacturing production and wholesale sales) have declined from 372,843 homes in 1998 to 130,937 in 2003. We believe this ongoing period of challenging industry conditions was the result of an over-supply of consumer credit from 1994 to 1999, which led to over-stimulation in the manufacturing, retail home sales and financing sectors of the industry. When compared to the manufacturing, retail home sales and consumer finance sectors of the manufactured housing industry, the manufactured home community sector has been relatively less affected than the other three sectors but is also facing challenging conditions, including an increase in the number of repossessed and abandoned homes, a shortage of consumer financing to support new manufactured home sales and move-ins and resale of existing homes in manufactured home communities, and historically low mortgage interest rates and favorable credit terms for traditional entry-level, site-built housing, all of which has put downward pressure on occupancy levels in our manufactured home communities and may continue to do so. We expect industry conditions will remain difficult for the foreseeable future, based partly on overall economic conditions throughout the U.S. and a continued shortage of consumer financing for manufactured home buyers.

We have reported historical accounting losses on a consolidated basis since our inception, and we may continue to report accounting losses in the future. We have had net losses attributable to common stockholders of $15.9 million, $94.7 million, $34.4 million, $40.8 million and $13.1 million for the three months ended March 31, 2005 and the years ended December 31, 2004, 2003, 2002, and 2001, respectively. As of March 31, 2005, our retained deficit was $280.6

million. There can be no assurance that we will not continue to incur net losses in the future.

We may not be successful in identifying suitable acquisitions that meet our criteria or in completing such acquisitions and successfully integrating and operating acquired properties, which may impede our growth and negatively affect our results of operations. Our ability to expand through acquisitions is a part of our business strategy and requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable real estate properties or other assets that meet our acquisition criteria or in consummating acquisitions or investments on satisfactory terms. Failure to identify or consummate acquisitions will reduce the number of acquisitions we complete and slow our growth, which could in turn adversely affect our stock price.

We continue to evaluate available manufactured home communities in select markets when strategic opportunities arise. Our ability to acquire properties on favorable terms and successfully integrate and operate them may be exposed to the following significant risks:

we may be unable to acquire a desired property because of competition from local investors and other real estate investors with significant capital, including other publicly traded REITs and institutional investment funds;

even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price which could reduce our profitability;

even if we enter into agreements for the acquisition of manufactured home communities, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction;

we may be unable to finance the acquisition at all or on favorable terms;

we may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired properties;

we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and consequently our results of operations and financial condition could be adversely affected;

market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and

we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

The availability of competing housing alternatives in our markets could negatively affect occupancy levels and rents in our communities, which could adversely affect our revenue and our results of operations. All of our properties are located in markets that include other manufactured home communities. The number of competing manufactured home communities in a particular market could have a material effect on our ability to lease our homes and/or homesites and to maintain or raise rents. Other forms of multifamily residential properties and single family housing, including rental properties, represent competitive alternatives to our communities. The availability of a number of other housing options, such as apartment units and new or existing site-built housing stock, as well as more favorable financing alternatives for the same, could have an adverse effect on our occupancy and rents, which could adversely affect our cash flow and financial condition and ability to make distributions to our shareholders.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow. We maintain comprehensive liability, fire, flood (where appropriate), extended coverage and rental loss insurance with respect to our properties with policy specifications, limits and deductibles customarily carried for similar properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, riots and acts of war or terrorism. Should an uninsured loss occur, we could lose both our investment in, and anticipated profits and cash flow from, a property, which could adversely affect our financial condition and our ability to make distributions to our shareholders. In addition, if any such loss is insured, we may be required to pay a significant deductible on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss or the amount of the loss may exceed our coverage for the loss.

Environmental compliance costs and liabilities associated with operating our communities may affect our results of operations. Under various federal, state and local laws, ordinances and regulations, owners and operators of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner s or operator s ability to lease, sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials.

In connection with the ownership (direct or indirect), operation, management and development of real properties, we may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, potentially liable for removal or remediation costs, as well as certain other related costs, including governmental fines and injuries to persons and property. All but one of our properties have been subject to a Phase I or similar environmental audit (which involves general inspections without soil sampling or ground water analysis) completed by independent environmental consultants. These environmental audits have not revealed any significant environmental liability that we believe would have a material adverse effect on our business or results of operations. No assurances can be given that existing environmental studies with respect to any of our properties reveal all environmental liabilities, that any prior owner or operator of our properties did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any one or more of our properties. Furthermore, material environmental conditions, liabilities, or compliance concerns may have arisen after the review was completed or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability, which would adversely affect our financial condition, results from operations and ability to make distributions to stockholders.

Increases in taxes and regulatory compliance costs may reduce our revenue. Costs resulting from changes in real estate tax laws generally are not passed through to tenants directly and will affect us. Increases in income, service or other taxes generally are not passed through to tenants under leases and may adversely affect our net income, FFO, cash flow, financial condition, ability to pay or refinance our debt obligations, ability to make distributions to stockholders, and the per share trading price of our common stock. Similarly, changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures, which would adversely affect our business and results of operations.

Rent control or rent stabilization legislation and other regulatory restrictions may limit our ability to increase rents or dispose of our properties. Certain states and municipalities have adopted laws and regulations specifically regulating the ownership and operation of manufactured home communities. These laws and regulations include provisions imposing restrictions on the timing or amount of rent increases and granting to community residents a right of first refusal on a sale of their community by the owner to a third party. Enactments of similar laws and regulations have been or may be considered from time to time in other jurisdictions. We currently own 8,504 homesites in two states that have rent control regulations, Florida and California. These communities represent 9.8% of our total communities and 13.4% of our total homesites. We presently expect to continue to operate manufactured home communities, and may in the future acquire manufactured home communities, in areas that either are subject to one or more of these types of laws or regulations or in which legislation with respect to such laws or regulations may be enacted in the future. Laws and regulations regulating landlord/tenant relationships or otherwise relating to the ownership and operation of manufactured home communities, whether existing law or enacted in the future, could limit our ability to increase rents or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances.

Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses. Under the Americans with Disabilities Act of 1990, or ADA, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional federal, state and local laws may also require modifications to our properties, or restrict certain further renovations of the properties, with respect to access thereto by disabled persons. For example, the Fair Housing Amendments Act of 1988, or FHAA, requires apartment properties first occupied after March 13, 1990 to be accessible to the handicapped. Noncompliance with the ADA or the FHAA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. Although we believe that our properties are substantially in compliance with present requirements, we have not conducted an audit or investigation of all of our properties to determine our compliance and we cannot predict the ultimate cost of compliance with the ADA, the FHAA or other legislation. If one or more of our communities is not in compliance with the ADA, the FHAA or other legislation, then we would be required to incur additional costs to bring the community into compliance. If we incur substantial costs to comply with the ADA, the FHAA or other legislation, our financial condition, results of operations, cash flow, per share trading price of our common stock and our ability to satisfy our debt service obligations and to pay distributions could be adversely affected.

We may incur significant costs complying with other regulations applicable to our business. The properties in our portfolio are subject to various federal, state and local regulatory requirements, such as state and local fire, life-safety and utility compliance requirements. If we fail to comply with these various requirements, we might incur governmental fines or private damage awards. We believe that the properties in our portfolio are currently in material compliance with all applicable regulatory requirements. However, we do not know whether existing requirements will change or whether future requirements will require us to make significant unanticipated expenditures that could adversely affect our net income, FFO, cash flow and financial condition, ability to satisfy our debt service obligations, the per share trading price of our common stock and ability to make distributions to our stockholders.

Expansion of our existing communities entails certain risks which may negatively affect our operating results. We may expand our existing communities where a community contains adjacent undeveloped land and where the land is zoned for manufactured housing. The manufactured home community expansion business involves significant risks in addition to those involved in the ownership and operation of established manufactured home communities, including the risks that financing may not be available on favorable terms for expansion projects, that the cost of construction may exceed estimates or budgets, that construction and lease-up may not be completed on schedule resulting in increased debt service expense and construction costs, that long-term financing may not be available on completion of construction, and that homesites may not be leased on profitable terms or at all. In connection with any expansion of our existing communities, if any of the above occurred our financial condition, results of operations and ability to make expected distributions to stockholders could be adversely affected.

Exposure to mold and contamination-related claims could adversely affect our results of operations. We own a significant number of rental homes, which we lease to third parties. In each of these rental homes, we run a risk of mold, mildew and/or fungus related claims if these items are found in any home. In addition, we provide water and sewer systems in our communities and we run the risk that if a home is not properly connected to a system, or if the integrity of the system is breached, mold or other contamination can develop. If this were to occur, we could incur significant remedial costs and we may also be subject to private damage claims and awards, which could be material. If we become subject to claims in this regard, it could adversely affect our financial condition, results of operations and insurability, which could adversely affect our stock price and our ability to make distributions to our stockholders.

Risks Related to Our Debt Financings

We are subject to the risks normally associated with debt financing, including the risk that payments of principal and interest on borrowings may leave us with insufficient cash to operate our communities or to pay our current quarterly distributions or any distributions necessary to maintain our REIT status. As of March 31, 2005, we had approximately $1.0 billion of outstanding indebtedness, all of which was secured. We expect to incur additional debt in the future to the extent necessary to fund our future cash needs, including making additional borrowings under our revolving credit facility or additional borrowings pursuant to other available financing sources. Additionally, we do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity and, therefore, we expect to repay our indebtedness through refinancing and equity offerings. Further, we may need to borrow funds to maintain our current rate of quarterly cash distributions or to make distributions required to maintain our REIT status.

Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

our cash flow may be insufficient to meet our required principal and interest payments;

we may be unable to borrow additional funds, either on favorable terms or at all, as needed, including to make acquisitions or to maintain our current quarterly dividend rate or make distributions required to maintain our REIT status;

we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;

because a portion of our debt bears interest at variable rates, an increase in interest rates could materially increase our interest expense;

we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;

after debt service, the amount available for distributions to our stockholders is reduced;

our debt level could place us at a competitive disadvantage compared to our competitors with less debt;

we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;

we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;

we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and

our default under any one of our mortgage loans with cross-default or cross-collateralization provisions could result in default on other indebtedness or result in the foreclosures of other properties.

We could become more highly leveraged because our organizational documents contain no limitation on the amount of debt we may incur. Our organizational documents contain no limitations on the amount of indebtedness that we or our operating partnership may incur. Although we intend to maintain a balance between our total outstanding indebtedness and the value of our portfolio, we could alter this balance at any time. If we become more highly leveraged, then the resulting increase in debt service could adversely affect our ability to make payments on our outstanding indebtedness and to pay our anticipated distributions and/or any distributions required to maintain our REIT status.

Increases in interest rates may increase our interest expense, which would adversely affect our cash flow, our ability to service our indebtedness and our ability to make distributions to our stockholders. As of March 31, 2005, approximately 25% of our debt was subject to variable interest rates. An increase in interest rates could increase our interest expense, which would adversely affect our cash flow, our ability to service our indebtedness and our ability to make distributions to our stockholders. As of March 31, 2005, we had a total of $259.1 million of variable rate debt bearing a weighted average interest rate of approximately 6.11% per annum. On February 26, 2004 we entered into a two-year interest rate swap agreement pursuant to which we effectively fixed the base rate portion of the interest rate with respect to $100.0 million of our variable rate debt. As a result, as of March 31, 2005, approximately 15% of our total indebtedness wa