SUN COMMUNITIES INC
Form 424B5
January 09, 2012
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 9, 2012

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus Dated May 14, 2009)

4,000,000 Shares

Common Stock

We are selling 4,000,000 shares of our common stock.

We have granted the underwriters an option to purchase up to 600,000 additional shares of our common stock.

Our common stock is listed on the New York Stock Exchange under the symbol SUI. The last reported sale price of our common stock on the New York Stock Exchange on January 6, 2012 was $37.50 per share.

To assist us in complying with certain federal income tax requirements applicable to real estate investment trusts, our charter contains certain restrictions relating to the ownership and transfer of our stock, including an ownership limit of 9.8% on our common stock. See Description of Common Stock Restrictions on Ownership beginning on page S-27 of this prospectus supplement.

Investing in our common stock involves a high degree of risk. Before buying any of these shares you should carefully read the discussion of material risks of investing in our common stock in Risk Factors beginning on page S-17 of this prospectus supplement, page 3 of the accompanying prospectus and page 7 of our Annual Report on Form 10-K for the year ended December 31, 2010.

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.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to us (before expenses)	$	$

The underwriters expect to deliver the shares to purchasers on or about January , 2012 through the book-entry facilities of The Depository Trust Company.

Joint Book-Running Managers

Citigroup **BofA Merrill Lynch**

January , 2012

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Prospectus Supplement

Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of our common stock. The second part, which is the accompanying prospectus, provides more general information about us and our securities, some of which may not apply to this offering. Both this prospectus supplement and the accompanying prospectus include important information about us and our common stock, and other information of which you should be aware before investing in our common stock. This prospectus supplement and the information incorporated by reference in this prospectus supplement also adds to, updates and changes information contained or incorporated by reference in the accompanying prospectus. If information in this prospectus supplement or the information incorporated by reference in this prospectus supplement is inconsistent with the accompanying prospectus or the information incorporated by reference therein, then this prospectus supplement or the information incorporated by reference in this prospectus supplement will apply and will supersede the information in the accompanying prospectus and the documents incorporated by reference therein.

You should read this prospectus supplement, the accompanying prospectus and the additional information described under the headings Where You Can Find More Information and Incorporation of Certain Documents by Reference before you make a decision to invest in our common stock.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus prepared by or on behalf of us. Neither we nor the underwriters have authorized anyone to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. Neither we nor the underwriters are making an offer of these securities under any circumstance or in any jurisdiction where the offer is not permitted or unlawful. You should assume that the information contained in this prospectus supplement, the accompanying prospectus and any free writing prospectus prepared by or on behalf of us is accurate only as of their respective dates, and that any information in documents that we have incorporated by reference is accurate only as of the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since those dates.

This prospectus supplement, the accompanying prospectus, and the information incorporated herein and therein by reference includes trademarks, service marks and trade names owned by us or other companies. All trademarks, service marks and trade names included or incorporated by reference into this prospectus supplement or the accompanying prospectus are the property of their respective owners.

Unless otherwise mentioned or unless the context requires otherwise, all references in this prospectus supplement and the accompanying prospectus to Sun, we, us, our or similar references mean Sun Communities, Inc., a Maryland corporation, and its subsidiaries, including Sun Communities Operating Limited Partnership, a Michigan limited partnership, or the Operating Partnership, and Sun Home Services, Inc., a Michigan corporation, or SHS.

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SUMMARY

This summary highlights certain information about us, this offering and information appearing elsewhere in this prospectus supplement, in the accompanying prospectus and in the documents we incorporate by reference. This summary is not intended to be a complete description of the matters covered in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference, and does not contain all of the information that you should consider before investing in our securities. To fully understand this offering and its consequences to you, you should read and consider this entire prospectus supplement and the accompanying prospectus carefully, including the information referred to under the heading Risk Factors in this prospectus supplement beginning on page S-17, in the accompanying prospectus beginning on page 3 and in our Annual Report on Form 10-K for the year ended December 31, 2010 beginning on page 7, and the financial statements and other information incorporated by reference in this prospectus supplement and the accompanying prospectus when making an investment decision. You should also read and consider the information in the documents to which we have referred you in Where You Can Find More Information on page S-58 of this prospectus supplement.

Company Overview

We are a self-administered and self-managed real estate investment trust, or REIT. We own, operate, and develop manufactured housing communities concentrated in the midwestern, southern and southeastern United States. We are a fully-integrated real estate company which, together with our affiliates and predecessors, have been in the business of acquiring, operating and expanding manufactured housing communities since 1975. As of September 30, 2011, we owned and operated a portfolio of 155 properties located in 18 states, which we collectively refer to herein as the Properties, and individually as a Property, including 140 manufactured housing communities, five recreational vehicle, or RV, communities, and 10 properties containing both manufactured housing and RV sites. As of September 30, 2011, the Properties contained an aggregate of 53,713 developed sites comprised of 47,574 developed manufactured home sites and 6,139 RV sites and approximately 6,200 manufactured home sites suitable for development. We lease individual parcels of land, or sites, with utility access for placement of manufactured homes and RVs to our customers. The Properties are designed to offer affordable housing to individuals and families, while also providing certain amenities.

We are engaged through SHS, a taxable REIT subsidiary, in the marketing, selling, and leasing of new and pre-owned homes to current and future residents in our communities. The operations of SHS support and enhance our occupancy levels, property performance and cash flows.

Structured as an umbrella partnership REIT, or UPREIT, the Operating Partnership is the entity through which we conduct substantially all of our operations, and which owns, either directly or indirectly through SHS and other subsidiaries, all of our assets. This UPREIT structure enables us to comply with certain complex requirements under the Federal tax rules and regulations applicable to REITs, and to acquire manufactured housing communities in transactions that defer some or all of the sellers tax consequences. We are the sole general partner of, and, as of September 30, 2011, held approximately 91.3% of the interests (not including preferred limited partnership interests) in, the Operating Partnership. The interests in the Operating Partnership held by the partners are referred to herein as OP Units. See Structure of the Company.

Recent Developments

Florida Acquisition

On December 16, 2011, we acquired from Club Naples RV Resort LLC, Kountree RV Resort LLC and North Lake RV Resort LLC three RV communities, which we refer to as the Acquired Florida Properties, as well as certain personal property and other associated intangibles, and entered into customary non-competition agreements with the principals of the sellers, for an aggregate purchase price of $25.0 million. The Acquired

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Florida Properties, two of which are located in Naples, Florida and one of which is located in Moore Haven, Florida, consist of an aggregate of 770 RV sites. We funded $8.0 million of the purchase price with borrowings from our senior secured revolving credit facility with Bank of America, N.A., an affiliate of one of the underwriters of this offering, and certain other lenders, including Citibank, N.A., an affiliate of one of the underwriters of this offering, as further described below. We funded the remainder of the purchase price from the proceeds of a $17.0 million loan secured by the Acquired Florida Properties, which we refer to as the Florida Acquisition Loan, and which is described in more detail below.

In addition, we entered into three separate purchase agreements, dated as of November 16, 2011, as amended on November 29, 2011, with Blue Berry Hill RV LLC, Blue Berry Hill RV SPE LLC, Grand Lake RV and Golf Resort LLC and Three Lakes RV Park, LLC, to acquire three additional RV communities, which we refer to as the Remaining Florida Properties, as well as certain personal property and other associated intangibles. The Remaining Florida Properties are located in central Florida and consist of an aggregate of 1,124 RV sites. At the closing, we will enter into customary non-competition agreements with the principals of the sellers and enter into an asset purchase agreement with Morgan RV Park Management, LLC and Ideal Cottage Sales LLC, which are management companies affiliated with the sellers, pursuant to which we will acquire substantially all of the assets of those entities. We will pay an aggregate purchase price of $25.0 million for all of the assets in these transactions. In addition to the customary closing conditions, the closing of these transactions is also subject to the approval of a third-party investor and the approval of the senior lender of a loan facility secured by an asset base that includes, but is not limited to, the Remaining Florida Properties. If these conditions are satisfied, we expect to close these transactions in January 2012. We intend to fund $6.0 million to $7.0 million of the purchase price for the Remaining Florida Properties with a portion of the proceeds of this offering and the balance of the purchase price with proceeds from the Florida Acquisition Loan, as further described below.

We refer to the acquisition of the Acquired Florida Properties and the Remaining Florida Properties collectively as the Florida Acquisition.

Kentland Acquisition

In June 2011, we acquired 17 manufactured home communities and one RV community from certain entities controlled by Kentland Corporation and its principals. We refer to these communities collectively as the Kentland Communities. In connection with the acquisition of the Kentland Communities, we assumed $52.4 million of existing debt, borrowed an aggregate of $22.9 million under two mortgage financings with Bank of America, N.A., an affiliate of one of the underwriters of this offering, issued $45.5 million of Series A-1 preferred OP Units and paid $23.4 million in cash. The Series A-1 preferred OP Units carry an annual yield of 5.1% until June 23, 2013 and 6.0% thereafter and are exchangeable for shares of our common stock at a conversion price of $41 per share with $100 par value. The acquisition includes $1.2 million in inventory of manufactured homes and $3.5 million of chattel notes collateralized by manufactured homes. The 18 Kentland Communities are located in western Michigan and comprise 5,437 developed sites.

Orange City Acquisition

On May 27, 2011, we acquired Orange City RV Resort, a Florida RV community, for a purchase price of $6.5 million paid in cash. The RV resort contains 525 developed RV sites and is located in Orange City, Florida, 25 miles from Daytona area beaches and approximately 50 miles from Disney World and other Orlando area attractions.

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Debt Financings

In connection with the Florida Acquisition, on December 16, 2011, we entered into the Florida Acquisition Loan with Bank of America, N.A., an affiliate of one of the underwriters of this offering, and another lender. Under the terms of the Florida Acquisition Loan, the lenders loaned us $17.0 million to finance the acquisition of the Acquired Florida Properties. If we acquire the Remaining Florida Properties on or before March 31, 2012, the lenders have committed to lend us up to an additional $19.0 million to fund the acquisition of the Remaining Florida Properties, subject to the satisfactory results of property appraisals and other customary closing conditions. The unpaid principal amount owing under the loan bears interest at a rate equal to LIBOR plus 250 basis points per annum. Beginning February 1, 2012 and on the first day of each calendar month thereafter until July 1, 2012, we are obligated to repay all accrued and unpaid interest. Beginning July 1, 2012, the loan will be amortized on a 25-year amortization schedule. All unpaid principal and interest on the loan is due on December 15, 2014; provided, however, that we have the right to extend the loan for up to two additional one-year terms subject to the satisfaction of certain terms and conditions. The loan is currently secured by mortgages encumbering the Acquired Florida Properties. If we acquire the Remaining Florida Properties and additional funds are advanced under the loan agreement, the loan will also be further secured by mortgages encumbering the Remaining Florida Properties.

On March 1, 2011, through 11 of our indirect operating subsidiaries, we completed a $115.0 million collateralized mortgage backed security financing with JPMorgan Chase Bank, National Association. The unpaid principal amount owing under the loan bears interest at a rate equal to 5.837% per annum. Beginning April 1, 2011, and on the first day of each calendar month thereafter until the loan is paid in full, the borrowers are obligated to repay $677,478.04. All unpaid principal and interest on the loan is due on March 1, 2021. Subject to certain conditions, we may prepay the loan in full (but not in part) at any time after April 1, 2013; provided that if such prepayment is more than three months before the maturity date, the borrowers must also pay a yield maintenance premium in an amount specified in the loan agreement. The loan is secured by mortgages encumbering 11 manufactured housing communities comprised of real and personal property owned by the borrowers. Additionally, the Operating Partnership provided a guaranty of certain non-recourse carveout obligations of the borrowers. We used $104.8 million of the proceeds of the loan to repay interest and principal on existing mortgage loans from Bank of America, N.A. to our subsidiaries. Approximately $8.3 million was used to pay down our prior revolving line of credit. The remaining proceeds were used to pay closing costs and expenses and fund escrows.

On May 10, 2011, three of our indirect operating subsidiaries completed a $23.6 million collateralized mortgage backed security financing by entering into a Loan Agreement with Bank of America, N.A. The unpaid principal amount owing under the loan bears interest at a rate equal to 5.38% per annum. Beginning June 1, 2011, and on the first day of each calendar month thereafter until the loan is paid in full, the borrowers are obligated to repay $132,366.86. All unpaid principal and interest on the loan is due on June 1, 2021. Subject to certain conditions, after the earlier of the third anniversary of the loan closing date or the second anniversary of the closing of a securitization of the loan through a REMIC trust, the borrowers may prepay the loan in full, or in part to obtain a release of the mortgage as to the three manufactured housing communities described below; provided that if such prepayment is more than three months before the maturity date, the borrowers must also pay a yield maintenance premium in an amount specified in the loan agreement. Additionally, subject to certain conditions, after the earlier of the third anniversary of the loan closing date or the second anniversary of the closing of a securitization of the loan through a REMIC trust, the borrowers may defease all or a portion of the loan. The loan is secured by mortgages encumbering three manufactured housing communities comprised of real and personal property owned by the borrowers. Additionally, the Operating Partnership provided a guaranty of certain non-recourse carveout obligations of the borrowers. We used $18.0 million of the proceeds of the loan to repay interest and principal on existing mortgage loans from Bank of America, N.A. to our subsidiaries. Approximately $5.3 million of the proceeds was used to pay down our prior revolving line of credit. The remaining proceeds were used to pay closing costs and expenses, stub interest and fund escrows.

On July 27, 2011, we and certain of our subsidiaries entered into a Second Amended and Restated Master Credit Facility Agreement with PNC Bank, National Association, and Fannie Mae, as amended on October 3, 2011. The agreement was entered into in connection with the settlement of litigation we commenced over certain fees charged when the variable rate loan facility was extended in April 2009. On January 3, 2012, the agreement became effective and the litigation was dismissed. Pursuant to the agreement, we have a $152.4 million variable rate facility and a $10.0 million variable rate facility, each of which matures on May 1, 2023 and provides for interest-only payments until May 1, 2014, after which principal and interest payments will be due based on a 30-year amortization. The interest rate for the $152.4 million variable rate facility is equal to the 90-day LIBOR index, plus an investor spread equal to 97 basis points, plus a variable facility fee equal to 90 basis points through maturity. The interest rate for the $10.0 million variable rate facility is equal to the 90-day LIBOR index, plus an investor spread equal to 95 basis points, plus a variable facility fee equal to 172 basis points through maturity. The 90-basis point variable facility fee applicable to the $152.4 million variable rate facility was retroactively applied to the variable rate facility as of January 1, 2011, which resulted in a reduction in the facility fee charged on our variable rate facility, the effect of which reduced interest expense by $1.7 million through December 31, 2011. We have the option to convert the variable rate facility into a fixed-rate facility after the one-year anniversary of the effective date of the agreement pursuant to the terms of the agreement. Pursuant to the agreement, PNC Bank will complete a full underwriting of the three existing fixed-rate facility notes which mature in 2013 and 2014, and pursuant to which we have borrowed an aggregate of $211.5 million as of January 3, 2012, and the three existing fixed-rate facility notes may be extended, at our option, to provide for maturity dates of May 1, 2023, subject to the satisfaction of certain conditions. We have the option to convert the fixed-rate facility notes, in whole or in part, into variable or fixed rate components, pursuant to the terms of the agreement. The credit facility is secured by mortgages encumbering 34 manufactured housing communities comprised of real and personal property owned by the borrowers. Additionally, Sun has provided a guaranty of the recourse carve-out obligations of the borrowers under the credit facility. As of January 9, 2012, there were $152.4 million of borrowings under the $152.4 million variable rate facility and $10.0 million of borrowings under the $10.0 million variable rate facility.

On September 28, 2011, we, the Operating Partnership and certain of our other subsidiaries entered into a senior secured revolving credit facility with Bank of America, N.A., an affiliate of one of the underwriters of this offering, and certain other lenders, including Citibank, N.A., an affiliate of one of the underwriters of this offering. Bank of America, N.A. has a participation percentage of approximately 28.8% in the credit facility. Citibank, N.A. has a participation percentage of approximately 11.5% in the credit facility. The credit facility replaced our prior $115.0 million revolving line of credit which was scheduled to mature on October 1, 2011. Under the credit facility, the Operating Partnership may borrow up to $130.0 million, subject to certain borrowing base calculations. The credit facility s maturity date is October 1, 2014. The credit facility has a built-in increase feature allowing up to $20.0 million in additional borrowings and a one year extension option, in each case subject to certain conditions. The credit facility is guaranteed by Sun and 10 of its subsidiaries. The credit facility is secured by (i) first priority liens on all of our equity interests in certain of our subsidiaries that directly or indirectly own 29 manufactured home communities, and (ii) the collateral assignment of senior and mezzanine secured debt owing from certain of our subsidiaries that own 11 manufactured home communities. The credit facility bears interest at a floating rate based on Eurodollar plus a margin, which can range from 2.25% to 2.95%, that is determined based on our leverage ratio calculated in accordance with the credit agreement. Based on our current leverage ratio, the current margin is 2.75%. As of December 1, 2011, there were $109.9 million of borrowings under the credit facility, including letters of credit issued in the normal course of our business.

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Equity Offerings

On August 27, 2009, we entered into an at-the-market Sales Agreement with Brinson Patrick Securities Corporation, or the ATM Program, to issue and sell shares of our common stock from time to time pursuant to our existing shelf registration statement on Form S-3. In 2011, we issued 782,521 shares of our common stock pursuant to the sales agreement. The shares of common stock were sold at a weighted average sale price of $37.53. We received net proceeds of approximately $28.8 million from the sales of these shares of common stock. On January 9, 2012, we suspended the ATM Program pending completion of this offering.

On August 6, 2010, we entered into a Common Stock Purchase Agreement with REIT Opportunity, Ltd., or REIT Ltd., which provides that, upon the terms and subject to the conditions set forth in the purchase agreement, REIT Ltd. is committed to purchase up to the lesser of $100,000,000 of our common stock, or 3,889,493 shares of our common stock, which is equal to one share less than 20% of our issued and outstanding shares of common stock on the effective date of the purchase agreement. From time to time over the two year term of the purchase agreement, and at our sole discretion, we may present REIT Ltd. with draw down notices to purchase our common stock. Any and all issuances of shares of common stock to REIT Ltd. pursuant to the purchase agreement were or will be registered on our shelf registration statement on Form S-3. In January 2011, we sold 915,827 shares of common stock under the purchase agreement at a weighted average sale price of $32.76 and received net proceeds of approximately $30.0 million. We have not sold any other shares of common stock under the REIT Ltd. purchase agreement.

We have agreed with the underwriters of this offering not to sell shares of our common stock, including pursuant to the ATM Program or the REIT Ltd. purchase agreement, for a period of 90 days from the date of this prospectus supplement, subject to certain exceptions. See Underwriting.

Structure of the Company

The Operating Partnership is structured as an UPREIT. In 1993, we contributed our net assets to the Operating Partnership in exchange for the sole general partner interest in the Operating Partnership and the majority of all of the Operating Partnership s initial capital. We substantially conduct our operations through the Operating Partnership. The Operating Partnership owns, either directly or indirectly through other subsidiaries, all of our assets. This UPREIT structure enables us to comply with certain complex requirements under the Federal tax rules and regulations applicable to REITs, and to acquire manufactured housing communities in transactions that defer some or all of the sellers tax consequences. The financial results of the Operating Partnership and our other subsidiaries are consolidated in our consolidated financial statements. The financial results include certain activities that do not necessarily qualify as REIT activities under the Internal Revenue Code of 1986, as amended, or the Code. We have formed taxable REIT subsidiaries, as defined in the Code, to engage in such activities. We use taxable REIT subsidiaries to offer certain services to our residents and engage in activities that would not otherwise be permitted under the REIT rules if provided directly by us or by the Operating Partnership. The taxable REIT subsidiaries include our home sales business, SHS, which provides manufactured home sales, leasing and other services to current and prospective tenants of the Properties.

We do not own all of the OP Units. As of January 9, 2012, the Operating Partnership had issued and outstanding 23,923,772 common OP Units, 1,325,275 preferred OP Units, 455,476 Series A-1 preferred OP Units, and 122,400 Series B-3 preferred OP Units. As of January 9, 2012, we held 21,852,050 common OP Units, or approximately 91.3% of the issued and outstanding common OP Units, and no preferred OP Units, Series A-1 preferred OP Units or Series B-3 preferred OP Units.

Subject to certain limitations, the holder of each common OP Unit at its option may convert such common OP Unit at any time into one share of our common stock. The holders of common OP Units receive distributions on the same dates and in amounts equal to the dividends paid to holders of our common stock.

Subject to certain limitations, at any time prior to January 1, 2024, the holder of each preferred OP Unit at its option may convert such preferred OP Unit into: (a) if the market price of our common stock is $68.00 per share or less, 0.397 common OP Units, or (b) if the market price of our common stock is greater than $68.00 per share, that number of common OP Units determined by dividing (i) the sum of (A) $27.00 plus (B) 25% of the amount by which the market price of our common stock exceeds $68.00 per share, by (ii) the per-share market price of our common stock. The holders of preferred OP Units generally receive distributions on the same dates as distributions are paid to holders of common OP Units. Each preferred OP Units is entitled to received distributions in an amount equal to the product of (x) $27.00, multiplied by (y) an annual rate equal to the 10-year United States Treasury bond yield plus 239 basis points; provided, however, that the aggregate distribution rate shall not be less than 6.5% nor more than 9%. On January 2, 2024, we are required to redeem all preferred OP Units that have not been converted to common OP Units. In addition, we are required to redeem the preferred OP Units of any holder thereof within five days after receipt of a written demand during the existence of certain uncured preferred OP Unit defaults, including our failure to pay distributions on the preferred OP Units when due and our failure to provide certain security for the payment of distributions on the preferred OP Units. We may also redeem preferred OP Units from time to time if we and the holder thereof agree to do so.

Subject to certain limitations, the holder of each Series A-1 preferred OP Unit at its option may exchange such Series A-1 preferred OP Unit at any time on or after December 31, 2013, into 2.439 shares of our common stock (which exchange rate is subject to adjustment upon stock splits, recapitalizations and similar events). The holders of Series A-1 preferred OP Units generally receive distributions on the same dates as distributions are paid to holders of common OP Units. Each Series A-1 preferred OP Unit is entitled to received distributions in an amount equal to the product of $100.00 multiplied by an annual rate equal to 5.1% until June 23, 2013, and an annual rate equal to 6.0% thereafter.

Series B-3 preferred OP Units are not convertible. The holders of Series B-3 preferred OP Units generally receive distributions on the same dates as distributions are paid to holders of common OP Units. Each Series B-3 preferred OP Unit is entitled to received distributions in an amount equal to the product of $100.00 multiplied by an annual rate equal to 8.0%. As of January 9, 2012, there were outstanding 46,700 Series B-3 preferred OP Units which were issued on December 1, 2002, 33,450 Series B-3 preferred OP Units which were issued on January 1, 2003, and 42,250 Series B-3 preferred OP Units which were issued on January 5, 2004. Subject to certain limitations, (x) during the 90-day period beginning on each of the tenth through fifteenth anniversaries of the issue date of the applicable Series B-3 preferred OP Units, (y) anytime after the fifteenth anniversary of the issue date of the applicable Series B-3 preferred OP Units, or (z) after our receipt of notice of the death of the electing holder of a Series B-3 preferred OP Unit, each holder of Series B-3 preferred OP Units may require us to redeem such holder s Series B-3 preferred OP Units at the redemption price of $100.00 per unit. In addition, anytime after the fifteenth anniversary of the issue date of the applicable Series B-3 preferred OP Units we may redeem, at our option, all of the Series B-3 preferred OP Units of any holder thereof at the redemption price of $100.00 per unit.

The Manufactured Housing Community

A manufactured housing community is a residential subdivision designed and improved with sites for the placement of manufactured homes and related improvements and amenities. Manufactured homes are detached, single-family homes which are produced off-site by manufacturers and installed on sites within the community. Manufactured homes are available in a wide array of designs, providing owners with a level of customization generally unavailable in other forms of multi-family housing.

Modern manufactured housing communities, such as the Properties, contain improvements similar to other garden-style residential developments, including centralized entrances, paved streets, curbs and gutters, and parkways. In addition, these communities also often provide a number of amenities, such as a clubhouse, a swimming pool, shuffleboard courts, tennis courts and laundry facilities.

The owner of each home on our Properties leases the site on which the home is located. We own the underlying land, utility connections, streets, lighting, driveways, common area amenities and other capital improvements and are responsible for enforcement of community guidelines and maintenance. Some of the Properties provide water and sewer service through public or private utilities, while others provide these services to residents from on-site facilities. Each owner of a home within our Properties is responsible for the maintenance of the home and leased site. As a result, capital expenditure needs tend to be less significant relative to multi-family rental apartment complexes.

Property Management

Our property management strategy emphasizes intensive, hands-on management by dedicated, on-site district and community managers. We believe that this on-site focus enables us to continually monitor and address tenant concerns, the performance of competitive properties and local market conditions. As of September 30, 2011, we employed 724 full and part time employees, of which 598 were located on-site as property managers, support staff or maintenance personnel.

Our community managers are overseen by John B. McLaren, our Chief Operating Officer, who has over 15 years of manufactured housing and related financing experience, three Senior Vice Presidents of Operations and 14 Regional Vice Presidents. The Regional Vice Presidents are responsible for semi-annual market surveys of competitive communities, interaction with local manufactured home dealers and regular property inspections.

Each district or community manager performs regular inspections in order to continually monitor the Property s physical condition and provides managers with the opportunity to understand and effectively address tenant concerns. In addition to a district or community manager, each district or property has on-site maintenance personnel and management support staff. We hold mandatory training sessions for all new property management personnel to ensure that management policies and procedures are executed effectively and professionally. All of our property management personnel participate in on-going training to ensure that changes to management policies and procedures are implemented consistently. We offer over 275 courses for our team members through our internally developed Sun University, which has led to increased knowledge and accountability of daily operations and policies and procedures.

Home Sales and Leasing

SHS is engaged in the marketing, selling and leasing of new and pre-owned homes to current and future residents in our communities. Since tenants often purchase a home already on-site within a community, such services enhance occupancy and property performance. Additionally, because many of the homes on the Properties are sold through SHS, better control of home quality in our communities can be maintained than if sales services were conducted solely through third-party brokers. SHS also leases homes to prospective tenants. At September 30, 2011, SHS had 6,737 occupied leased homes in its portfolio. Homes for this rental program are purchased at discounted rates from finance companies that hold repossessed homes within our communities. New homes are purchased as necessary to supplement these repossessed home purchases. Leases associated with the rental program generally have a term of one year. This program requires intensive management of costs associated with repair and refurbishment of these homes as the tenants vacate and the homes are re-leased, similar to apartment rentals. We have added repair and service supervisors in areas with high concentrations of rental homes to aggressively pursue cost containment programs. The program is a strategic response to capture the value inherent in the purchase of substantially discounted repossessed homes in our communities. We receive approximately 23,000 applications each year to live in our Properties, providing a significant resident boarding system allowing us to market purchasing a home to the best applicants and to rent to the remainder of approved applicants. Through the rental program we are able to demonstrate our product and lifestyle to the renters, while monitoring their payment history and converting qualified renters to owners.

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Regulations and Insurance

General

Manufactured housing community properties are subject to various laws, ordinances and regulations, including regulations relating to recreational facilities such as swimming pools, clubhouses and other common areas. We believe that each Property has the necessary operating permits and approvals.

Insurance

Our management believes that the Properties are covered by adequate fire, flood (where appropriate), property and business interruption insurance provided by reputable companies with commercially reasonable deductibles and limits. We maintain a blanket policy that covers all of our Properties. We have obtained title insurance insuring fee title to the Properties in an aggregate amount which we believe to be adequate. Claims made to our insurance carriers that are determined to be recoverable are classified in other receivables as incurred.

Site Leases or Usage Rights

The typical lease we enter into with a tenant for the rental of a manufactured home site is month-to-month or year-to-year, renewable upon the consent of both parties, or, in some instances, as provided by statute. A small number of our leases, mainly Florida properties, are tied to consumer price index or other indices as it relates to rent increase. Generally, market rate adjustments are made on an annual basis. These leases are cancelable for non-payment of rent, violation of community rules and regulations or other specified defaults. During the five calendar years ended December 31, 2010, on average 2.8 % of the homes in our communities have been removed by their owners and 6.0 % of the homes have been sold by their owners to a new owner who then assumes rental obligations as a community resident. The cost to move a home is approximately $4,000 to $10,000. The average resident remains in our communities for approximately 16 years, while the average home, which gives rise to the rental stream, remains in our communities for approximately 35 years.

At Properties zoned for RV use, our customers have short-term, or seasonal, usage rights or long-term, or permanent, usage rights. The seasonal RV customers typically prepay for their stay or leave deposits to reserve a site for the following year. Many of these RV customers do not live full-time on the Property.

Properties

As of September 30, 2011, the Properties consisted of 140 manufactured housing communities, five RV communities, and 10 properties containing both manufactured housing and RV sites located in 18 states. As of September 30, 2011, the Properties contained an aggregate of 53,713 developed sites comprised of 47,574 developed manufactured home sites, 3,502 permanent RV sites, 2,637 seasonal RV sites, and approximately 6,200 additional manufactured home sites suitable for development. Most of the Properties include amenities oriented toward family and retirement living. Of the 155 Properties, 73 have more than 300 developed manufactured home sites, with the largest having 1,003 developed manufactured home sites.

As of September 30, 2011, the Properties had an occupancy rate of 85.4% excluding seasonal RV sites. Since January 1, 2011, the Properties have averaged an aggregate annual turnover of homes (where the home is moved out of the community) of approximately 2.2% and an average annual turnover of residents (where the resident-owned home is sold and remains within the community, typically without interruption of rental income) of approximately 4.9%. The average renewal rate for residents in our rental program was 60.9% for the nine-months ended September 30, 2011.

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We believe that our Properties high amenity levels contribute to low turnover and generally high occupancy rates. All of the Properties provide residents with attractive amenities, with most offering a clubhouse, a swimming pool and laundry facilities. Many of the Properties offer additional amenities such as sauna/whirlpool spas, tennis, shuffleboard and basketball courts and/or exercise rooms.

We have concentrated our communities within certain geographic areas in order to achieve economies of scale in management and operation. The Properties are principally concentrated in the midwestern, southern and southeastern United States. We believe that geographic diversification helps to insulate the portfolio from regional economic influences.

The following tables set forth certain information relating to the properties owned as of September 30, 2011. The occupancy percentage includes manufactured home sites, or MH Sites, and permanent RV sites, or RV Sites, and excludes seasonal RV sites.

Property	City	State	MH and Permanent RV Sites as of 9/30/11	Seasonal RV Sites as of 9/30/11	Occupancy as of 9/30/11	Occupancy as of 12/31/10	Occupancy as of 12/31/09
MIDWEST							
Michigan							
Academy/West Pointe (1)	Canton	MI	441		89%	88%	88%
Allendale Meadows Mobile Village	Allendale	MI	352		78%	74%	74%
Alpine Meadows Mobile Village	Grand Rapids	MI	403		87%	83%	82%
Bedford Hills Mobile Village	Battle Creek	MI	339		73%	73%	76%
Brentwood Mobile Village	Kentwood	MI	195		98%	98%	94%
Byron Center Mobile Village	Byron Center	MI	143		97%	92%	92%
Candlewick Court	Owosso	MI	211		72%	74%	76%
College Park Estates	Canton	MI	230		73%	70%	68%
Continental Estates	Davison	MI	385		39%	38%	37%
Continental North	Davison	MI	474		53%	54%	53%
Country Acres Mobile Village	Cadillac	MI	182		86%	84%	85%
Country Meadows Mobile Village	Flat Rock	MI	577		92%	91%	90%
Countryside Village	Perry	MI	359		59%	67%	70%
Creekwood Meadows	Burton	MI	336		67%	63%	59%
Cutler Estates Mobile Village	Grand Rapids	MI	259		98%	93%	90%
Davison East	Davison	MI	190		42%	45%	45%
Falcon Pointe (2)	East Lansing	MI	142		13%(2)	15%(2)	17%(2)
Fisherman s Cove	Flint	MI	162		88%	87%	85%
Grand Mobile Estates	Grand Rapids	MI	230		76%	73%	72%
Hamlin (3)	Webberville	MI	209		77%(3)	73%(3)	72%(3)
Holly Village/Hawaiian Gardens (1)	Holly	MI	425		98%	98%	97%
Hunters Glen (2)	Wayland	MI	280		59%(2)	59%(2)	53%(2)
Kensington Meadows	Lansing	MI	290		89%	85%	81%
Kings Court Mobile Village	Traverse City	MI	639		100%	98%	98%
Knollwood Estates	Allendale	MI	161		81%	81%	79%
Lafayette Place	Metro Detroit	MI	254		67%	65%	65%
Lakeview	Ypsilanti	MI	392		98%	93%	91%

Property	City	State	MH and Permanent RV Sites as of 9/30/11	Seasonal RV Sites as of 9/30/11	Occupancy as of 9/30/11	Occupancy as of 12/31/10	Occupancy as of 12/31/09
Lincoln Estates	Holland	MI	191		90%	85%	88%
Meadow Lake Estates	White Lake	MI	425		87%	84%	81%
Meadowbrook Estates	Monroe	MI	453		93%	92%	92%
Presidential Estates Mobile Village	Hudsonville	MI	364		91%	88%	84%
Richmond Place	Metro Detroit	MI	117		84%	83%	82%
River Haven Village	Grand Haven	MI	721		59%	57%	58%
Scio Farms Estates	Ann Arbor	MI	913		94%	93%	95%
Sheffield Estates	Auburn Hills	MI	228		98%	98%	99%
Sherman Oaks	Jackson	MI	366		74%	72%	72%
St. Clair Place	Metro Detroit	MI	100		77%	74%	77%
Sunset Ridge (2)	Portland Township	MI	190		95%(2)	95%(2)	92%(2)
Timberline Estates	Grand Rapids	MI	296		82%	80%	79%
Town & Country Mobile Village	Traverse City	MI	192		99%	98%	98%
Village Trails (3)	Howard City	MI	100		99%(3)	92%(3)	82%(3)
White Lake Mobile Home Village	White Lake	MI	315		97%	98%	98%
White Oak Estates	Mt. Morris	MI	480		67%	68%	70%
Windham Hills Estates (3)	Jackson	MI	402		76%(3)	70%(3)	62%(3)
Woodhaven Place	Metro Detroit	MI	220		97%	95%	97%
Apple Carr Village	Muskegon	MI	529		71%	N/A	N/A
Holiday West Village	Holland	MI	340		91%	N/A	N/A
Tamarac Village	Ludington	MI	399	10	95%	N/A	N/A
Waverly Shores Village	Holland	MI	326		97%	N/A	N/A
Hickory Hills Village	Battle Creek	MI	286		83%	N/A	N/A
Oak Island Village	East Lansing	MI	250		82%	N/A	N/A
Sycamore Village	Mason	MI	396		86%	N/A	N/A
Brookside Village	Kentwood	MI	196		90%	N/A	N/A
Cider Mill Village	Middleville	MI	258		65%	N/A	N/A
Country Meadows Village	Caledonia	MI	307		74%	N/A	N/A
Dutton Mill Village	Caledonia	MI	307		88%	N/A	N/A
Pinebrook Village	Grand Rapids	MI	185		89%	N/A	N/A
Southwood Village	Grand Rapids	MI	394		93%	N/A	N/A
Country Hills Village	Hudsonville	MI	239		73%	N/A	N/A
Leisure Village	Belmont	MI	237		97%	N/A	N/A
Warren Dunes Village	Bridgman	MI	188		76%	N/A	N/A
Windsor Woods Village	Wayland	MI	314		78%	N/A	N/A
Hidden Ridge RV Resort	Hopkins	MI		276	N/A	N/A	N/A
Michigan Total			***19,484***	***286***	***81%***	***79%***	***78%***

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Property	City	State	MH and Permanent RV Sites as of 9/30/11	Seasonal RV Sites as of 9/30/11	Occupancy as of 9/30/11	Occupancy as of 12/31/10	Occupancy as of 12/31/09
MIDWEST							
Indiana							
Brookside Mobile Home Village	Goshen	IN	570		67%	64%	61%
Carrington Pointe (3)	Ft. Wayne	IN	320		81%(3)	79%(3)	78%(3)
Clear Water Mobile Village	South Bend	IN	227		76%	73%	74%
Cobus Green Mobile Home Park	Elkhart	IN	386		66%	64%	60%
Deerfield Run (3)	Anderson	IN	175		66%(3)	64%(3)	68%(3)
Four Seasons	Elkhart	IN	218		83%	80%	79%
Holiday Mobile Home Village	Elkhart	IN	326		76%	75%	71%
Liberty Farms	Valparaiso	IN	220		99%	98%	99%
Maplewood	Lawrence	IN	207		68%	70%	74%
Meadows	Nappanee	IN	330		51%	51%	51%
Pebble Creek (2) (4)	Greenwood	IN	257		93%(2)	89%(2)	88%(2)
Pine Hills	Middlebury	IN	129		91%	88%	88%
Roxbury Park	Goshen	IN	398		85%	85%	85%
Timberbrook	Bristol	IN	567		56%	56%	56%
Valley Brook	Indianapolis	IN	798		54%	53%	54%
West Glen Village	Indianapolis	IN	552		72%	71%	70%
Woodlake Estates	Ft. Wayne	IN	338		53%	50%	47%
Woods Edge Mobile Village (3)	West Lafayette	IN	598		52%(3)	53%(3)	54%(3)
Indiana Total			***6,616***		***68%***	***66%***	***66%***
Ohio							
Apple Creek Manufactured Home Community and Self Storage	Amelia	OH	176		99%	100%	92%
Byrne Hill Village	Toledo	OH	236		90%	86%	86%
Catalina	Middletown	OH	462		59%	56%	61%
East Fork (2) (4)	Batavia	OH	215		97%(2)	94%(2)	93%(2)
Oakwood Village	Miamisburg	OH	511		92%	89%	84%
Orchard Lake	Milford	OH	147		96%	96%	95%
Westbrook Senior Village	Toledo	OH	112		99%	98%	99%
Westbrook Village	Toledo	OH	344		95%	95%	95%
Willowbrook Place	Toledo	OH	266		92%	95%	94%
Woodside Terrace	Holland	OH	439		81%	82%	84%
Worthington Arms	Lewis Center	OH	224		99%	96%	97%
Ohio Total			***3,132***		***87%***	***86%***	***86%***
SOUTH							
Texas							
Boulder Ridge(2)	Pflugerville	TX	527		89%(2)	79%(2)	73%(2)
Branch Creek Estates	Austin	TX	392		99%	100%	99%
Casa del Valle	Alamo	TX	222	175	100%(5)	100%(5)	100%(5)

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Chisholm Point Estates	Pflugerville	TX	416		99%	100%	95%
Comal Farms (2) (4)	New Braunfels	TX	351		97%(2)	91%(2)	80%(2)
Kenwood RV and Mobile Home Plaza	LaFeria	TX	86	194	100%(5)	100%(5)	99%(5)
Oak Crest (2)	Austin	TX	335		97%(2)	88%(2)	74%(2)
Pecan Branch (2)	Georgetown	TX	69		94%(2)	99%(2)	93%(2)
Pine Trace (2)	Houston	TX	406		98%(2)	98%(2)	81%(2)
River Ranch (2) (4)	Austin	TX	121		99%(2)	99%(2)	99%(2)
River Ridge (2)	Austin	TX	416		84%(2)	99%(2)	96%(2)
Saddle Brook (2)	Austin	TX	261		96%(2)	87%(2)	75%(2)
Snow to Sun	Weslaco	TX	312	165	100%(5)	100%(5)	100%(5)
Stonebridge (2) (4)	San Antonio	TX	335		100%(2)	98%(2)	96%(2)
Summit Ridge (2) (4)	Converse	TX	250		98%(2)	98%(2)	100%(2)
Sunset Ridge (2) (4)	Kyle	TX	170		98%(2)	100%(2)	96%(2)
Woodlake Trails (2) (4)	San Antonio	TX	134		98%(2)	97%(2)	96%(2)
Texas Total			***4,803***				