

SUN COMMUNITIES INC  
Form 10-K  
March 13, 2009  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

Commission file number 1-12616

**SUN COMMUNITIES, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Maryland**

(State of Incorporation)

**27777 Franklin Rd.**

**Suite 200**

**Southfield, Michigan**

(Address of Principal Executive Offices)

**38-2730780**

(I.R.S. Employer Identification No.)

**48034**

(Zip Code)

**(248) 208-2500**

(Registrant's telephone number, including area code)

**Common Stock, Par Value \$0.01 per Share**

Securities Registered Pursuant to Section 12(b) of the Act

**New York Stock Exchange**

Name of each exchange on which registered

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ]

No [ X ]

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes [ ] No [ X ]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [ X ] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check one):

Large accelerated filer [ ] Accelerated filer [ X ] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [ X ]

As of June 30, 2008, the aggregate market value of the Registrant's stock held by non-affiliates was approximately \$299,178,000 (computed by reference to the closing sales price of the Registrant's common stock as of June 30, 2008). For this computation, the Registrant has excluded the market value of all shares of common stock reported as beneficially owned by executive officers and directors of the Registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the Registrant.

Number of shares of Common Stock, \$0.01 par value per share, outstanding as of March 2, 2009: 18,509,130

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's definitive Proxy Statement to be filed for its 2009 Annual Meeting of Shareholders or filed as an amendment to the Form 10-K are incorporated by reference into Part III of this Report.

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**PART I**

**ITEM 1. BUSINESS**

**GENERAL**

Sun Communities, Inc., a Maryland corporation, together with the Sun Communities Operating Limited Partnership, a Michigan limited partnership (the "Operating Partnership") and other consolidated subsidiaries (the "Subsidiaries") are referred to herein as the "Company", "us", "we", and "our". We are a self-administered and self-managed real estate investment trust ("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 December 31, 2008, we owned and operated a portfolio of 136 properties located in 18 states (the "Properties" or "Property"), including 124 manufactured housing communities, 4 recreational vehicle communities, and 8 properties containing both manufactured housing and recreational vehicle sites. As of December 31, 2008, the Properties contained an aggregate of 47,613 developed sites comprised of 42,299 developed manufactured home sites, 3,107 permanent recreational vehicle sites, 2,207 seasonal recreational vehicle sites, and an additional 6,081 manufactured home sites suitable for development. We lease individual parcels of land ("sites") with utility access for placement of manufactured homes ("MHs") and recreational vehicles ("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 a taxable subsidiary, Sun Home Services, Inc., a Michigan corporation ("SHS"), 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 the Company's occupancy levels, property performance, and cash flows.

Our executive and principal property management office is located at 27777 Franklin Road, Suite 200, Southfield, Michigan 48034 and our telephone number is (248) 208-2500. We have regional property management offices located in Austin, Texas; Dayton, Ohio; Grand Rapids, Michigan; Elkhart, Indiana; and Orlando, Florida, and we employed an aggregate of 644 people as of December 31, 2008.

Our website address is [www.suncommunities.com](http://www.suncommunities.com) and we make available, free of charge, on or through our website all of our periodic reports, including our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as soon as reasonably practicable after we file such reports with the Securities and Exchange Commission.

**RECENT DEVELOPMENTS**

*Change in Management*

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As announced on February 6, 2008, the Company appointed Karen J. Dearing, who has served as the Company's Corporate Controller since 2002, as the Company's Chief Financial Officer, and John B. McLaren, previously Senior Vice President of Home Sales and Leasing, as Chief Operating Officer. Ms. Dearing and Mr. McLaren succeed Jeffrey P. Jorissen, former Chief Financial Officer, and Brian W. Fannon, former Chief Operating Officer. Mr. Jorissen remains with the Company as Director of Corporate Development. Mr. Fannon's retirement from the Company was effective as of July 31, 2008.

### *Investment in Affiliate*

In October 2003, the Company purchased 5,000,000 shares of common stock of Origen Financial, Inc. ("Origen"). The Company owns approximately 19% of Origen as of December 31, 2008, and its investment is accounted for using the equity method of accounting.

Origen was a publicly traded real estate investment trust that originated and serviced manufactured home loans. In March 2008, Origen announced that conditions in the credit markets had adversely impacted Origen's business and financial condition. In response, Origen suspended loan originations and took steps to right-size its work force. Following this announcement, Origen executed its asset disposition and management plan and sold \$176 million of unsecuritized loans, and its servicing and origination platforms. In December 2008, Origen voluntarily delisted its common stock from the NASDAQ Global Market and deregistered its common stock under the Securities and Exchange Act of 1934. Currently, Origen is actively managing its residual interests in securitized loans, whole loans, and bond holdings which provide continuing cash flows for the organization.

**RECENT DEVELOPMENTS, CONTINUED**

The Company recorded a total loss from affiliate of \$16.5 million for the year ended December 31, 2008. This includes the Company's estimate of its portion of the anticipated loss from Origen of \$6.9 million, and an other than temporary impairment loss of \$9.6 million.

*Debt*

The Company completed a \$27.0 million financing with Bank of America (formally LaSalle Bank Midwest) in June 2008. The loan has a three year term, with a two year extension at the Company's option. The loan is secured by four properties. The terms of the loan require interest only payments for the first year, with the remainder of the term being amortized based on a 30 year table. The interest rate is 205 basis points over LIBOR, or Prime plus 25 basis points (3.5% at December 31, 2008). Prime means for any month, the prevailing "prime rate" as quoted in the Wall Street Journal on last day of such calendar month. The proceeds from the financing were used to repay an existing mortgage note of \$4.3 million with the remainder used to pay down the Company's lines of credit.

The Company completed various transactions involving its installment notes secured by manufactured homes during 2008. The Company received \$27.5 million of cash proceeds in exchange for relinquishing its right, title and interest in the installment notes. The Company is subject to certain recourse provisions requiring the Company to purchase the underlying homes collateralizing such notes in the event of a note default and subsequent repossession of the home. The Company accounted for this transaction as a transfer of financial assets. The transferred assets have been classified as collateralized receivables and the cash received from this transaction has been classified as a secured borrowing in the consolidated balance sheet. Additional information is included in Note 3 of the Company's Notes to Consolidated Financial Statements included herein.

*Investment in Property*

Rental property is recorded at cost, less accumulated depreciation. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company reviews the carrying value of long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when a long-lived asset's carrying value is not recoverable and exceeds estimated fair value. The estimated fair value of long lived assets was calculated based on discounted future cash flows associated with the asset and any potential disposition proceeds for a given asset. Forecasting cash flows requires assumptions about such variables as the estimated holding period, rental rates, occupancy and operating expenses during the holding period, as well as disposition proceeds. Management determined certain impairment reviews were required as of December 31, 2008, as decisions were made to limit development of certain assets. Due to local economic conditions, estimated costs to develop and low estimated return on investment the Company determined to limit development in three development communities. The properties are located in Michigan, Nevada and North Carolina. Each had considerable up front development costs. A fourth property, located in Indiana, was found to be impaired based on its negative cash flows and management's estimate of continued negative cash flows. The Company also made a decision to stop providing cable television service at various communities as the business line could not provide the return on investment to justify the capital investment required to keep up with the technological advances in the offered product. As a result of the impairment analysis, the Company recognized non-cash impairment charges of \$13.1million.

**STRUCTURE OF THE COMPANY**

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In 1993, Sun Communities, Inc. contributed its net assets to the Operating Partnership in exchange for the sole general partner interest in the Operating Partnership and the majority of all the Operating Partnership's initial capital. We substantially conduct our operations through the Operating Partnership. The Operating Partnership is structured as an umbrella partnership REIT, or UPREIT, and owns, either directly or indirectly through 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 the Subsidiaries are consolidated in the Company's 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 (the "Code"). The Company has 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 the interests in the Operating Partnership. Interests in the Operating Partnership held by limited partners other than Sun Communities, Inc. are referred to as "OP Units". The holders of Common OP Units receive distributions in an amount equal to the dividends paid to holders of our common stock. As of December 31, 2008, the Operating Partnership had a total of approximately 20.7 million units outstanding. We held approximately 18.5 million shares, or 89.4% of the interests (not including preferred limited partnership interests) in the Operating Partnership.



## **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 multifamily 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 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. Of the 644 Company employees, approximately 535 are located on-site as property managers, support staff, or maintenance personnel.

Throughout most of 2008, our community managers were overseen by John B. McLaren, Chief Operating Officer, who has 13 years of manufactured housing and related financing experience, 3 Senior Vice Presidents of Operations and 12 Regional Vice Presidents. In addition, 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 an on-site maintenance personnel and management support staff. We hold periodic training sessions for all property management personnel to ensure that management policies are implemented effectively and professionally.

## **HOME SALES AND LEASING**

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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 December 31, 2008, SHS had 5,517 occupied leased homes in its portfolio. Homes for this rental program are purchased at discounted rates from finance companies that hold repossessed homes within the Company's communities. New homes are purchased as necessary to supplement these repossessed home purchases. Leases associated with the rental program are, in general, one year leases. 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. The Company has 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 the Company's communities. Applications to rent homes in our Properties number over 14,000 per year, 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.

## 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, 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. Insurance proceeds received in excess of the net book value of damaged or impaired capital assets are recorded in income in the period received.

## 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. In some cases (mainly in Florida), leases are for one-year terms, with up to ten renewal options exercisable by the tenant, with rent adjusted for increases in the consumer price index. 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 past five years, on average 3.1 percent of the homes in our communities have been removed by their owners and 7.3 percent 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 above experience can be summarized as follows: the average resident remains in our communities for approximately fourteen years, while the average home, which gives rise to the rental stream, remains in our communities for approximately thirty two years.

At Properties zoned for RV use, our customers have short-term (“seasonal”) usage rights or long-term (“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.

## FORWARD-LOOKING STATEMENTS

This Form 10-K contains various “forward-looking statements” within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, and the Company intends that such forward-looking statements will be subject to the safe harbors created thereby. For this purpose, any statements contained in this filing that relate to prospective events or developments are deemed to be forward-looking statements. Words such as “believes,” “forecasts,” “anticipates,” “intends,” “plans,” “expects,” “may,” “will” and similar expressions are intended to identify forward-looking statements.

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These forward-looking statements reflect the Company's current views with respect to future events and financial performance, but involve known and unknown risks and uncertainties, both general and specific to the matters discussed in this filing. These risks and uncertainties may cause the actual results of the Company to be materially different from any future results expressed or implied by such forward looking statements. Such risks and uncertainties include the national, regional and local economic climates, the ability to maintain rental rates and occupancy levels, competitive market forces, changes in market rates of interest, the ability of manufactured home buyers to obtain financing, the level of repossessions by manufactured home lenders and those risks and uncertainties referenced under the headings entitled "Risk Factors" contained in this Form 10-K and the Company's filings with the Securities and Exchange Commission. The forward-looking statements contained in this Form 10-K speak only as of the date hereof and the Company expressly disclaims any obligation to provide public updates, revisions or amendments to any forward-looking statements made herein to reflect changes in the Company's expectations of future events.

**ITEM 1A. RISK FACTORS**

Our prospects are subject to certain uncertainties and risks. Our future results could differ materially from current results, and our actual results could differ materially from those projected in forward-looking statements as a result of certain risk factors. These risk factors include, but are not limited to, those set forth below, other one-time events, and important factors disclosed previously and from time to time in other Company filings with the Securities and Exchange Commission. This report contains certain forward-looking statements.

**REAL ESTATE RISKS**

*General economic conditions and the concentration of our properties in Michigan, Florida, Indiana, and Texas may affect our ability to generate sufficient revenue.*

The market and economic conditions in our current markets generally, and specifically in metropolitan areas of our current markets, may significantly affect manufactured home occupancy or rental rates. Occupancy and rental rates, in turn, may significantly affect our revenues, and if our communities do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay or refinance our debt obligations could be adversely affected. We derived significant amounts of rental income for the period ended December 31, 2008 from properties located in Michigan, Florida, Indiana, and Texas. As of December 31, 2008, 47 of our 136 Properties, or approximately 30% of developed sites, are located in Michigan; 19 Properties, or approximately 21% of developed sites, are located in Florida; 18 Properties, or approximately 14% of developed sites, are located in Indiana; and 17 Properties, or approximately 11% of developed site are located in Texas. As a result of the geographic concentration of our Properties in Michigan, Florida, Indiana, and Texas, we are exposed to the risks of downturns in the local economy or other local real estate market conditions which could adversely affect occupancy rates, rental rates and property values of properties in these markets.

The following factors, among others, may adversely affect the revenues generated by our communities:

- the national and local economic climate which may be adversely impacted by, among other factors, plant closings and industry slowdowns;
- 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 number of repossessed homes in a particular market;
- the lack of an established dealer network;
- the rental market which may limit the extent to which rents may be increased to meet increased expenses without decreasing occupancy rates;

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- the perceptions by prospective tenants of the safety, convenience and attractiveness of the Properties and the neighborhoods where they are located;
- zoning or other regulatory restrictions;
- competition from other available manufactured housing sites and alternative forms of housing (such as apartment buildings and site-built single-family homes);
- our ability to provide adequate management, maintenance and insurance;
- increased operating costs, including insurance premiums, real estate taxes and utilities; or
- the enactment of rent control laws or laws taxing the owners of manufactured homes.

**REAL ESTATE RISKS, CONTINUED**

Our income would also be adversely affected if tenants were unable to pay rent or if sites were unable to be rented on favorable terms. If we were unable to promptly relet or renew the leases for a significant number of the sites, or if the rental rates upon such renewal or reletting were significantly lower than expected rates, then our business and results of operations could be adversely affected. In addition, certain expenditures associated with each Property (such as real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in income from the Property. 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 other conditions.

*Competition affects occupancy levels and rents which could adversely affect our revenues.*

All of our Properties are located in developed areas that include other manufactured housing community properties. The number of competitive manufactured housing community properties in a particular area could have a material adverse effect on our ability to lease sites and increase rents charged at our Properties or at any newly acquired properties. We may be competing with others with greater resources and whose officers and directors have more experience than our officers and directors. In addition, other forms of multi-family residential properties, such as private and federally funded or assisted multi-family housing projects and single-family housing, provide housing alternatives to potential tenants of manufactured housing communities.

*Our ability to sell or lease manufactured homes may be affected by various factors, which may in turn adversely affect our profitability.*

SHS is engaged in the marketing, selling, and leasing of new and pre-owned homes to current and future residents in our communities. The market for the sale and lease of manufactured homes may be adversely affected by the following factors:

- downturns in economic conditions which adversely impact the housing market;
- an oversupply of, or a reduced demand for, manufactured homes;
- the difficulty facing potential purchasers in obtaining affordable financing as a result of heightened lending criteria; and
- an increase or decrease in the rate of manufactured home repossessions which provide aggressively priced competition to new manufactured home sales.

Any of the above listed factors could adversely impact our rate of manufactured home sales and leases, which would result in a decrease in profitability.

*Increases in taxes and regulatory compliance costs may reduce our revenue.*

Costs resulting from changes in real estate laws, income taxes, service or other taxes, generally are not passed through to tenants under leases and may adversely affect our funds from operations and our ability to pay or refinance our debt. 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.



**REAL ESTATE RISKS, CONTINUED**

*We may not be able to integrate or finance our development activities.*

From time to time, we engage in the construction and development of new communities, and may continue to engage in the development and construction business in the future. Our development and construction business may be exposed to the following risks which are in addition to those risks associated with the ownership and operation of established manufactured housing communities:

- we may not be able to obtain financing with favorable terms for community development which may make us unable to proceed with the development;
- we may be unable to obtain, or face delays in obtaining, necessary zoning, building and other governmental permits and authorizations, which could result in increased costs and delays, and even require us to abandon development of the community entirely if we are unable to obtain such permits or authorizations;
- we may abandon development opportunities that we have already begun to explore and as a result we may not recover expenses already incurred in connection with exploring such development opportunities;
- we may be unable to complete construction and lease-up of a community on schedule resulting in increased debt service expense and construction costs;
- we may incur construction and development costs for a community which exceed our original estimates due to increased materials, labor or other costs, which could make completion of the community uneconomical and we may not be able to increase rents to compensate for the increase in development costs which may impact our profitability;
- we may be unable to secure long-term financing on completion of development resulting in increased debt service and lower profitability; and
- occupancy rates and rents at a newly developed community may fluctuate depending on several factors, including market and economic conditions, which may result in the community not being profitable.

If any of the above occurred, our business and results of operations could be adversely affected.

*We may not be able to integrate or finance our acquisitions and our acquisitions may not perform as expected.*

We acquire and intend to continue to acquire manufactured housing communities on a select basis. Our acquisition activities and their success are subject to the following risks:

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- we may be unable to acquire a desired property because of competition from other well capitalized real estate investors, including both publicly traded real estate investment trusts and institutional investment funds;
- even if we enter into an acquisition agreement for a property, it is usually subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction, which may not be satisfied;
- even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price;
- we may be unable to finance acquisitions on favorable terms;
- acquired properties may fail to perform as expected;
- acquired properties may be located in new markets where we face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations.

If any of the above occurred, our business and results of operations could be adversely affected.

**REAL ESTATE RISKS, CONTINUED**

In addition, we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were to be asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle it, which could adversely affect our cash flow.

***Rent control legislation may harm our ability to increase rents.***

State and local rent control laws in certain jurisdictions may limit our ability to increase rents and to recover increases in operating expenses and the costs of capital improvements. Enactment of such laws has been considered from time to time in other jurisdictions. Certain Properties are located, and we may purchase additional properties, in markets that are either subject to rent control or in which rent-limiting legislation exists or may be enacted.

***We may be subject to environmental liability.***

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real estate is liable for the costs of removal or remediation of certain hazardous substances at, on, under or in such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous substances. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell or rent such property, to borrow using such property as collateral or to develop such property. Persons who arrange for the disposal or treatment of hazardous substances also may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility owned or operated by another person. In addition, certain environmental laws impose liability for the management and disposal of asbestos-containing materials and for the release of such materials into the air. These laws may provide for third parties to seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials. In connection with the ownership, operation, management, and development of real properties, we may be considered an owner or operator of such properties and, therefore, are potentially liable for removal or remediation costs, and also may be liable for governmental fines and injuries to persons and property. When we arrange for the treatment or disposal of hazardous substances at landfills or other facilities owned by other persons, we may be liable for the removal or remediation costs at such facilities.

All of the 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 would have a material adverse effect on our business. These audits cannot reflect conditions arising after the studies were completed, and no assurances can be given that existing environmental studies reveal all environmental liabilities, that any prior owner or operator of a property or neighboring owner or operator 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 Properties.

***Losses in excess of our insurance coverage or uninsured losses could adversely affect our cash flow.***

We maintain comprehensive liability, fire, flood (where appropriate), extended coverage, and rental loss insurance on the Properties with policy specifications, limits, and deductibles which are customarily carried for similar properties. As a result of market conditions in the insurance industry, we carry a \$250,000 deductible on our liability insurance. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, riots, or acts of war. In the event an uninsured loss occurs, we could lose both our

investment in and anticipated profits and cash flow from the affected property. Any loss would adversely affect our ability to repay our debt.

**FINANCING AND INVESTMENT RISKS**

*Our significant amount of debt could limit our operational flexibility or otherwise adversely affect our financial condition.*

We have a significant amount of debt. As of December 31, 2008, we had approximately \$1.2 billion of total debt outstanding, consisting of approximately \$1.1 billion in debt that is collateralized by mortgage liens on 105 of the Properties (the "Mortgage Debt") and secured by collateralized receivables, \$4.6 million is collateralized by liens on manufactured homes, and \$135.2 million in unsecured debt. If we fail to meet our obligations under the Mortgage Debt, the lender would be entitled to foreclose on all or some of the Properties securing such debt which could have a material adverse effect on us and our ability to make expected distributions, and could threaten our continued viability.

We are subject to the risks normally associated with debt financing, including the following risks:

- our cash flow may be insufficient to meet required payments of principal and interest, or require us to dedicate a substantial portion of our cash flow to pay our debt and the interest associated with our debt rather than to other areas of our business;
- our existing indebtedness may limit our operating flexibility due to financial and other restrictive covenants, including restrictions on incurring additional debt;
- it may be more difficult for us to obtain additional financing in the future for our operations, working capital requirements, capital expenditures, debt service or other general requirements;
- we may be more vulnerable in the event of adverse economic and industry conditions or a downturn in our business;
- we may be placed at a competitive disadvantage compared to our competitors that have less debt; and
- we may not be able to refinance at all or on favorable terms, as our debt matures.

If any of the above risks occurred, our financial condition and results of operations could be materially adversely affected.

*We may be able to incur substantially more debt, which would increase the risks associated with our substantial leverage.*

Despite our current indebtedness levels, we may still be able to incur substantially more debt in the future. If new debt is added to our current debt levels, an even greater portion of our cash flow will be needed to satisfy our debt service obligations. As a result, the related risks that we now face could intensify and increase the risk of a default on our indebtedness.

*Our equity investment in Origen Financial, Inc. may subject us to certain risks.*

In October 2003, the Company purchased 5,000,000 shares of common stock of Origen Financial, Inc. (“Origen”). The Company owns approximately 19% of Origen as of December 31, 2008, and its investment is accounted for using the equity method of accounting.

Origen was a publicly traded real estate investment trust that originated and serviced manufactured home loans. In March 2008, Origen announced that conditions in the credit markets had adversely impacted Origen’s business and financial condition. In response, Origen suspended loan originations and took steps to right-size its work force. Following this announcement, Origen executed an asset disposition and management plan and sold \$176 million of unsecuritized loans, and its servicing and origination platforms. In December 2008, Origen voluntarily delisted its common stock from the NASDAQ Global Market and deregistered its common stock under the Securities and Exchange Act of 1934. Currently, Origen is actively managing its residual interests in securitized loans, whole loans, and bond holdings which provide continuing cash flows for the organization.

If Origen’s business and financial condition do not perform as expected, our investment in Origen may result in additional other than temporary impairment charges and financial condition and results of operations could be materially adversely affected.

**FINANCING AND INVESTMENT RISKS, CONTINUED**

The Company recorded losses from our investment in Origen of \$16.5 million, \$8.0 million, and \$16.6 million for the years ended December 31, 2008, 2007, and 2006, respectively. These losses are comprised of: 1) other than temporary charges to the carrying value of the Origen investment; and 2) our equity allocation of the anticipated losses from Origen. The components of the loss associated with our investment in Origen are summarized as follows (in thousands):

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Equity income (loss) from Origen affiliate	\$(6,851	) \$(6,099	) \$1,417
Other than temporary impairment charges	(9,619	) (1,870	) (18,000 )
Total loss from Origen affiliate	\$(16,470	) \$(7,969	) \$(16,583 )

Additional information is included under “Recent Developments-Investment in Affiliate” and in Note 1 of the Company’s Notes to Consolidated Financial Statements included herein.

*The financial condition and solvency of our borrowers may adversely affect our installment and other loans.*

As of December 31, 2008, we had outstanding approximately \$47.4 million, net of reserves, in installment notes receivable from owners of manufactured homes. These installment notes receivable are collateralized by the manufactured homes. We may invest in additional mortgages and installment notes receivable in the future. By virtue of our investment in the mortgages and the notes receivable, we are subject to the following risks of such investment:

- the borrowers may not be able to make debt service payments or pay principal when due;
- the value of property securing the mortgages and installment notes receivable may be less than the amounts owed; and
- interest rates payable on the mortgages and installment notes receivable may be lower than our cost of funds.

If any of the above occurred, our business and results of operations could be adversely affected.

**TAX RISKS**

*We may suffer adverse tax consequences and be unable to attract capital if we fail to qualify as a REIT.*

We believe that since our taxable year ended December 31, 1994, we have been organized and operated, and intend to continue to operate, so as to qualify for taxation as a REIT under the Internal Revenue Code ("Code"). Although we believe that we have been and will continue to be organized and have operated and will continue to operate so as to qualify for taxation as a REIT, we cannot assure you that we have been or will continue to be organized or operated in a manner to so qualify or remain so qualified. Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. In addition, frequent changes occur in the area of REIT taxation, which require the Company continually to monitor its tax status.

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Moreover, unless entitled to relief under certain statutory provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. This treatment would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability to us for the years involved. In addition, distributions to stockholders would no longer be required to be made. Even if we qualify for and maintain our REIT status, we will be subject to certain federal, state and local taxes on our property and certain of our operations.



**TAX RISKS, CONTINUED**

*We intend for the Operating Partnership to qualify as a partnership, but we cannot guarantee that it will qualify.*

We believe that the Operating Partnership has been organized as a partnership and will qualify for treatment as such under the Code. However, if the Operating Partnership is deemed to be a “publicly traded partnership,” it will be treated as a corporation instead of a partnership for federal income tax purposes unless at least 90% of its income is qualifying income as defined in the Code. The income requirements applicable to REITs and the definition of “qualifying income” for purposes of this 90% test are similar in most respects. Qualifying income for the 90% test generally includes passive income, such as specified types of real property rents, dividends and interest. We believe that the Operating Partnership would meet this 90% test, but we cannot guarantee that it would. If the Operating Partnership were to be taxed as a corporation, it would incur substantial tax liabilities, we would fail to qualify as a REIT for federal income tax purposes, and our ability to raise additional capital could be significantly impaired.

*Our ability to accumulate cash may be restricted due to certain REIT distribution requirements.*

In order to qualify as a REIT, we must distribute to our stockholders at least 90% of our REIT taxable income (calculated without any deduction for dividends paid and excluding net capital gain) and to avoid federal income taxation, our distributions must not be less than 100% of our REIT taxable income, including capital gains. As a result of the distribution requirements, we do not expect to accumulate significant amounts of cash. Accordingly, these distributions could significantly reduce the cash available to us in subsequent periods to fund our operations and future growth.

**BUSINESS RISKS**

*Some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests.*

*Ownership of Origen.* In the 2003 recapitalization of Origen Financial, Inc., (“Origen”), the Company purchased 5,000,000 shares of Origen common stock for \$50.0 million and Shiffman Origen LLC (which is owned by the Milton M. Shiffman Spouse’s Marital Trust, Gary A. Shiffman (the Company’s Chief Executive Officer), and members of Mr. Shiffman’s family) purchased 1,025,000 shares of Origen common stock for approximately \$10.3 million. Gary A. Shiffman is a member of the board of directors of Origen and Arthur A. Weiss, a director of the Company, is a trustee of the Milton M. Shiffman Spouse’s Marital Trust.

Accordingly, in all transactions involving Origen, Mr. Shiffman and/or Mr. Weiss may have a conflict of interest with respect to their respective obligations as an officer and/or director of the Company. The following are the current transactions and agreements involving Origen which may present a conflict of interest for Mr. Shiffman and/or Mr. Weiss:

- The Company previously had a loan servicing agreement with Origen Servicing, Inc., a wholly-owned subsidiary of Origen, which serviced our portfolio of manufactured home loans. Origen agreed to fund loans that met the Company’s underwriting guidelines and

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then transfer those loans to the Company pursuant to a Loan Origination, Sale and Purchase Agreement. The Company paid Origen a fee of \$550 per loan pursuant to a Loan Origination, Sale and Purchase Agreement which totaled approximately \$0.2 million during 2008 and 2007. The Company purchased loans, at par, from Origen which totaled approximately \$12.4 million and \$13.3 million during 2008 and 2007, respectively. The Company also purchased \$0.6 million and \$1.2 million of repossessed manufactured homes located within its communities that were owned by Origen during 2008 and 2007, respectively.

- With the sale of Origen's servicing platform assets to Green Tree Servicing LLC, we engaged a different entity to continue the servicing of the manufactured home loans. In order to transfer the manufactured home loan servicing contract to a different service provider, we paid Origen a fee of \$0.3 million.

**BUSINESS RISKS, CONTINUED**

In addition to the transactions with Origen and the LLC described above, Mr. Shiffman and his affiliates and/ or Mr. Weiss have entered into the following transactions with the Company:

- *Legal Counsel* During 2008, Jaffe, Raitt, Heuer, & Weiss, Professional Corporation (“JRHW”) acted as the Company’s general counsel and represented the Company in various matters. Arthur A. Weiss, a director of the Company, is the Chairman of the Board of Directors and a shareholder of such firm. The Company incurred legal fees and expenses of approximately \$1.0 million in 2008 and 2007 and approximately \$1.3 million in 2006, in connection with services rendered by JRHW.
- *Lease of Executive Offices.* Gary A. Shiffman, together with certain family members, indirectly owns a 21 percent equity interest in American Center LLC, the entity from which we lease office space for our principal executive offices. Arthur A. Weiss owns a 0.75 percent indirect interest in American Center LLC. This lease was for an initial term of five years, beginning May 1, 2003, with the right to extend the lease for an additional five year term. On July 30, 2007, the Company exercised its option to extend its lease for its executive offices. The extension was for a period of five years commencing on May 1, 2008. On August 8, 2008, the Company modified its lease agreement to extend the term of the lease until August 31, 2015, with an option to renew for an additional five years. The base rent for the extended term through August 31, 2015, will continue to be the same as the rent payable as of the current term. The current annual base rent under the current lease is \$21.25 per square foot (gross). Mr. Shiffman and Mr. Weiss may have a conflict of interest with respect to their obligations as an officer and/or director of the Company and their ownership interest in American Center LLC.
- *Tax Consequences Upon Sale of Properties.* Gary A. Shiffman holds limited partnership interests in the Operating Partnership which were received in connection with the contribution of 24 properties (four of which have been sold) from partnerships previously affiliated with him (the “Sun Partnerships”). Prior to any redemption of these limited partnership interests for our common stock, Mr. Shiffman will have tax consequences different from those of us and our public stockholders on the sale of any of the Sun Partnerships. Therefore, Mr. Shiffman and the Company may have different objectives regarding the appropriate pricing and timing of any sale of those properties.

*We rely on key management.*

We are dependent on the efforts of our executive officers, particularly Gary A. Shiffman, John B. McLaren, Karen J. Dearing and Jonathan M. Colman (together, the “Senior Officers”). The loss of services of one or more of our executive officers could have a temporary adverse effect on our operations. We do not currently maintain or contemplate obtaining any “key-man” life insurance on the Senior Officers.

*Certain provisions in our governing documents may make it difficult for a third-party to acquire us.*

*9.8% Ownership Limit.* In order to qualify and maintain our qualification as a REIT, not more than 50% of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals. Thus, ownership of more than 9.8% of our outstanding shares of common stock by any single stockholder has been restricted, with certain exceptions, for the purpose of maintaining our qualification as a REIT under the Code. Such restrictions in our charter do not apply to Gary Shiffman, the Milton M. Shiffman Spouse’s Marital Trust and the Estate of Robert B. Bayer.

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The 9.8% ownership limit, as well as our ability to issue additional shares of common stock or shares of other stock (which may have rights and preferences over the common stock), may discourage a change of control of the Company and may also: (1) deter tender offers for the common stock, which offers may be advantageous to stockholders; and (2) limit the opportunity for stockholders to receive a premium for their common stock that might otherwise exist if an investor were attempting to assemble a block of common stock in excess of 9.8% of the outstanding shares of the Company or otherwise effect a change of control of the Company.

*Staggered Board.* Our Board of Directors has been divided into three classes of directors. The term of one class will expire each year. Directors for each class will be chosen for a three-year term upon the expiration of such class's term, and the directors in the other two classes will continue in office. The staggered terms for directors may affect the stockholders' ability to change control of the Company even if a change in control were in the stockholders' interest.

*Preferred Stock.* Our charter authorizes the Board of Directors to issue up to 10,000,000 shares of preferred stock and to establish the preferences and rights (including the right to vote and the right to convert into shares of common stock) of any shares issued. The power to issue preferred stock could have the effect of delaying or preventing a change in control of the Company even if a change in control were in the stockholders' interest.

**BUSINESS RISKS, CONTINUED**

*Rights Plan.* We adopted a stockholders' rights plan in 2008 that provides our stockholders (other than a stockholder attempting to acquire a 15% or greater interest in the Company) with the right to purchase stock in the Company at a discount in the event any person attempts to acquire a 15% or greater interest in the Company. Because this plan could make it more expensive for a person to acquire a controlling interest in the Company, it could have the effect of delaying or preventing a change in control of the Company even if a change in control were in the stockholders' interest.

*Changes in our investment and financing policies may be made without stockholder approval.*

Our investment and financing policies, and our policies with respect to certain other activities, including our growth, debt, capitalization, distributions, REIT status, and operating policies, are determined by our Board of Directors. Although the Board of Directors has no present intention to do so, these policies may be amended or revised from time to time at the discretion of the Board of Directors without notice to or a vote of our stockholders. Accordingly, stockholders may not have control over changes in our policies and changes in our policies may not fully serve the interests of all stockholders.

*Substantial sales of our common stock could cause our stock price to fall.*

Sales of a substantial number of shares of our common stock, or the perception that such sales could occur, could adversely affect prevailing market prices for shares. As of December 31, 2008, up to approximately 2.7 million shares of our common stock may be issued in the future to the limited partners of the Operating Partnership in exchange for their common limited partnership interests ("Common OP Units") and preferred limited partnership interests ("Preferred OP Units"). These Preferred OP Units are convertible into common shares at a price of \$68 per share. The limited partners may sell such shares pursuant to registration rights or an available exemption from registration. Also, in 2009, Water Oak, Ltd., a former owner of one of the Properties, will be issued Common OP Units with a value of approximately \$1,250,000. In addition, as of December 31, 2008, options to purchase 205,906 shares of our common stock were outstanding under our 1993 Employee Stock Option Plan, our 1993 Non-Employee Director Stock Option Plan, our 2004 Non-Employee Director Option Plan, and our Long-Term Incentive Plan (the "Plans"). No prediction can be made regarding the effect that future sales of shares of our common stock will have on the market price of shares.

*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 the common stock. An increase in market interest rates may tend to make the common stock less attractive relative to other investments, which could adversely affect the market price of our common stock.

*The current volatility in economic conditions and the financial markets may adversely affect our industry, business and financial performance.*

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The capital and credit markets have been experiencing, and continue to experience, extreme volatility and disruption. In recent months, the volatility and disruption have reached unprecedented levels. In many cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers. In response to these developments, the U.S. government has taken, and may take further, steps designed to stabilize markets generally and strengthen financial institutions in particular. The impact, if any, that these financial market events or these governmental actions might have on us and our business is uncertain and cannot be estimated at this time. The other risk factors presented in this Form 10-K discuss some of the principal risks inherent in our business, including liquidity risks, operational risks, and credit risks, among others. The current upheaval in financial markets has accentuated each of these risks and magnified their potential effect on us. At the same time, there appears to be a general weakening of the U.S. economy and the economies of many other countries. If these economic developments continue to worsen, there could be an adverse impact on our access to capital, stock price and our operating results.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

As of December 31, 2008, the Properties consisted of 124 manufactured housing communities, 4 recreational vehicle communities, and 8 properties containing both manufactured housing and recreational vehicle sites located in 18 states concentrated in the midwestern, southern, and southeastern United States. As of December 31, 2008, the Properties contained 47,613 developed sites comprised of 42,299 developed manufactured home sites, 3,107 permanent recreational vehicle sites, 2,207 seasonal recreational vehicle sites, and an additional 6,081 manufactured home sites suitable for development. Most of the Properties include amenities oriented toward family and retirement living. Of the 136 Properties, 69 have more than 300 developed manufactured home sites; with the largest having 995 developed manufactured home sites.

As of December 31, 2008, the Properties had an occupancy rate of 81.9 percent excluding recreational vehicle sites. Since January 1, 2008, the Properties have averaged an aggregate annual turnover of homes (where the home is moved out of the community) of approximately 2.7 percent 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 5.8 percent. The average renewal rate for residents in the Company's rental program was 53.6 percent for the year ended December 31, 2008.

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 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.

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The following tables set forth certain information relating to the properties owned as of December 31, 2008. The occupancy percentage relates only to manufactured home sites (“MH Sites”). Due to the seasonal nature of recreational vehicle sites (“RV Sites”), the occupancy percentage excludes impact of RV Sites.

Property	City	State	Developed MH Sites as of	RV Sites as of	Occupancy as of	Occupancy as of	Occupancy as of
			12/31/08	12/31/08	12/31/08 <sup>(1)</sup>	12/31/07 <sup>(1)</sup>	12/31/06 <sup>(1)</sup>
<b>MIDWEST</b>							
<i>Michigan</i>							
Academy/West Pointe <sup>(1)</sup>	Canton	MI	441	—	88%	91%	94%
Allendale Meadows Mobile Village	Allendale	MI	352	—	73%	78%	81%
Alpine Meadows Mobile Village	Grand Rapids	MI	403	—	84%	85%	87%
Bedford Hills Mobile Village	Battle Creek	MI	339	—	74%	78%	79%
Brentwood Mobile Village	Kentwood	MI	195	—	92%	92%	95%
Byron Center Mobile Village	Byron Center	MI	143	—	93%	88%	91%
Candlewick Court	Owosso	MI	211	—	84%	85%	87%
College Park Estates	Canton	MI	230	—	73%	74%	74%
Continental Estates	Davison	MI	385	—	37%	43%	49%
Continental North	Davison	MI	474	—	54%	54%	58%
Country Acres Mobile Village	Cadillac	MI	182	—	86%	90%	88%
Country Meadows Mobile Village	Flat Rock	MI	577	—	91%	89%	91%
Countryside Village	Perry	MI	359	—	71%	80%	81%
Creekwood Meadows	Burton	MI	336	—	61%	64%	63%
Cutler Estates Mobile Village	Grand Rapids	MI	259	—	84%	84%	83%
Davison East	Davison	MI	190	—	45%	52%	63%
Falcon Pointe <sup>(6)</sup>	East Lansing	MI	142	—	18% <sup>(6)</sup>	18% <sup>(6)</sup>	19% <sup>(6)</sup>
Fisherman’s Cove	Flint	MI	162	—	80%	83%	80%
Grand Mobile Estates	Grand Rapids	MI	230	—	75%	77%	79%
Hamlin <sup>(3)</sup>	Webberville	MI	209	—	74% <sup>(3)</sup>	75% <sup>(3)</sup>	75% <sup>(3)</sup>
Holly Village/Hawaiian Gardens <sup>(1)</sup>	Holly	MI	425	—	97%	97%	97%
Hunters Glen <sup>(6)</sup>	Wayland	MI	280	—	48% <sup>(6)</sup>	46% <sup>(6)</sup>	43% <sup>(6)</sup>
Kensington Meadows	Lansing	MI	290	—	81%	80%	81%
Kings Court Mobile Village	Traverse City	MI	639	—	98%	97%	97%
Knollwood Estates	Allendale	MI	161	—	87%	88%	91%
Lafayette Place	Metro Detroit	MI	254	—	64%	68%	77%
Lakeview	Ypsilanti	MI	392	—	89%	91%	91%
Lincoln Estates	Holland	MI	191	—	94%	94%	96%
	White Lake	MI	425	—	81%	87%	88%



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Meadow Lake Estates	Monroe	MI	453	—	94%	94%	93%
Meadowbrook Estates		MI					
Presidential Estates Mobile Village	Hudsonville	MI	364	—	80%	83%	85%
Richmond Place	Metro Detroit	MI	117	—	77%	84%	95%

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Property	City	State	Developed MH Sites as of	RV Sites as of	Occupancy as of	Occupancy as of	Occupancy as of
			12/31/08	12/31/08	12/31/08 <sup>(2)</sup>	12/31/07 <sup>(2)</sup>	12/31/06 <sup>(2)</sup>
<b>MIDWEST</b>							
<b>Michigan, continued</b>							
River Haven Village	Grand Haven	MI	721	—	59%	63%	66%
Scio Farms Estates	Ann Arbor	MI	913	—	96%	93%	95%
Sheffield Estates	Auburn Hills	MI	228	—	99%	99%	97%
Sherman Oaks	Jackson	MI	366	—	73%	77%	78%
St. Clair Place	Metro Detroit	MI	100	—	76%	80%	88%
Sunset Ridge <sup>(6)</sup>	Portland Township	MI	190	—	93% <sup>(6)</sup>	87% <sup>(6)</sup>	82% <sup>(6)</sup>
Timberline Estates	Grand Rapids	MI	296	—	79%	80%	80%
Town & Country Mobile Village	Traverse City	MI	192	—	100%	99%	100%
Village Trails <sup>(3)</sup>	Howard City	MI	100	—	79% <sup>(3)</sup>	76% <sup>(3)</sup>	73% <sup>(3)</sup>
White Lake Mobile Home Village	White Lake	MI	315	—	97%	95%	96%
White Oak Estates	Mt. Morris	MI	480	—	71%	74%	78%
Windham Hills Estates <sup>(3)</sup>	Jackson	MI	402	—	66% <sup>(3)</sup>	69% <sup>(3)</sup>	69% <sup>(3)</sup>
Woodhaven Place	Metro Detroit	MI	220	—	95%	95%	94%
<b>Michigan Total</b>			14,333	—	79%	80%	82%
<b>Indiana</b>							
Brookside Mobile Home Village	Goshen	IN	570	—	59%	66%	67%
Carrington Pointe <sup>(3)</sup>	Ft. Wayne	IN	320	—	76% <sup>(3)</sup>	72% <sup>(3)</sup>	71% <sup>(3)</sup>
Clear Water Mobile Village	South Bend	IN	227	—	72%	72%	75%
Cobus Green Mobile Home Park	Elkhart	IN	386	—	62%	66%	69%
Deerfield Run <sup>(3)</sup>	Anderson	IN	175	—	65% <sup>(3)</sup>	67% <sup>(3)</sup>	61% <sup>(3)</sup>
Four Seasons Holiday	Elkhart	IN	218	—	83%	92%	88%
Mobile Home Village	Elkhart	IN	326	—	79%	85%	88%
Liberty Farms	Valparaiso	IN	220	—	98%	100%	97%
Maplewood	Lawrence	IN	207	—	78%	81%	88%
Meadows	Nappanee	IN	330	—	50%	52%	59%

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Pebble Creek <sup>(6)(7)</sup>	Greenwood	IN	258	—	88% <sup>(6)</sup>	85% <sup>(6)</sup>	81% <sup>(6)</sup>
Pine Hills	Middlebury	IN	129	—	78%	87%	84%
Roxbury Park	Goshen	IN	398	—	86%	87%	88%
Timberbrook	Bristol	IN	567	—	53%	58%	59%
Valley Brook	Indianapolis	IN	799	—	54%	59%	63%
West Glen Village	Indianapolis	IN	552	—	74%	78%	86%
Woodlake Estates	Ft. Wayne	IN	338	—	45%	48%	51%
Woods Edge							
Mobile Village <sup>(3)</sup>	West Lafayette	IN	598	—	54% <sup>(3)</sup>	53% <sup>(3)</sup>	58% <sup>(3)</sup>
<b>Indiana Total</b>			6,618	—	66%	69%	71%

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Property	City	State	Developed MH Sites as of	RV Sites as of	Occupancy as of	Occupancy as of	Occupancy as of
			12/31/08	12/31/08	12/31/08 <sup>(2)</sup>	12/31/07 <sup>(2)</sup>	12/31/06 <sup>(2)</sup>
<b>MIDWEST</b>							
<i>Ohio</i>							
Apple Creek Manufactured Home Community and Self Storage	Amelia	OH	176	—	86%	84%	87%
Byrne Hill Village	Toledo	OH	236	—	86%	90%	92%
Catalina	Middletown	OH	462	—	63%	65%	67%
East Fork <sup>(6) (7)</sup>	Batavia	OH	215	—	89% <sup>(6)</sup>	89% <sup>(6)</sup>	86% <sup>(6)</sup>
Oakwood Village	Miamisburg	OH	511	—	84%	83%	84%
Orchard Lake	Milford	OH	147	—	97%	99%	97%
Westbrook Senior Village	Toledo	OH	112	—	100%	99%	99%
Westbrook Village	Toledo	OH	344	—	97%	96%	96%
Willowbrook Place	Toledo	OH	266	—	94%	95%	95%
Woodside Terrace	Holland	OH	439	—	82%	84%	87%
Worthington Arms	Lewis Center	OH	224	—	95%	96%	94%
<b>Ohio Total</b>			3,132	—	85%	86%	86%
<b>SOUTH</b>							
<i>Texas</i>							
Boulder Ridge <sup>(6)</sup>	Pflugerville	TX	527	—	69% <sup>(6)</sup>	65% <sup>(6)</sup>	62% <sup>(6)</sup>
Branch Creek Estates	Austin	TX	392	—	100%	99%	97%
Casa del Valle <sup>(2)</sup> <sup>(5)</sup>	Alamo	TX	117	284	98%	99%	100%
Chisholm Point Estates	Pflugerville	TX	416	—	95%	89%	84%
Comal Farms <sup>(6) (7)</sup>	New Braunfels	TX	349	—	73% <sup>(6)</sup>	67% <sup>(6)</sup>	62% <sup>(6)</sup>
Kenwood RV and Mobile Home Plaza <sup>(2) (5)</sup>	LaFeria	TX	39	241	100%	100%	100%
Oak Crest <sup>(6)</sup>	Austin	TX	335	—	70% <sup>(6)</sup>	61% <sup>(6)</sup>	53% <sup>(6)</sup>
Pecan Branch <sup>(6)</sup>	Georgetown	TX	69	—	84% <sup>(6)</sup>	73% <sup>(6)</sup>	55% <sup>(6)</sup>
Pine Trace <sup>(6)</sup>	Houston	TX	420	—	71% <sup>(6)</sup>	68% <sup>(6)</sup>	67% <sup>(6)</sup>
River Ranch <sup>(6) (7)</sup>	Austin	TX	121	—	96% <sup>(6)</sup>	88% <sup>(6)</sup>	74% <sup>(6)</sup>
River Ridge <sup>(6)</sup>	Austin	TX	337	—	94% <sup>(6)</sup>	83% <sup>(6)</sup>	74% <sup>(6)</sup>
Saddle Brook <sup>(6)</sup>	Austin	TX	265	—	63% <sup>(6)</sup>	61% <sup>(6)</sup>	57% <sup>(6)</sup>
Snow to Sun <sup>(2) (5)</sup>	Weslaco	TX	181	305	100%	100%	100%
Stonebridge <sup>(6) (7)</sup>	San Antonio	TX	338	—	88% <sup>(6)</sup>	84% <sup>(6)</sup>	76% <sup>(6)</sup>
Summit Ridge <sup>(6)</sup> <sup>(7)</sup>	Converse	TX	250	—	95% <sup>(6)</sup>	87% <sup>(6)</sup>	81% <sup>(6)</sup>
Sunset Ridge <sup>(6) (7)</sup>	Kyle	TX	170	—	98% <sup>(6)</sup>	92% <sup>(6)</sup>	84% <sup>(6)</sup>
Woodlake Trails <sup>(6) (7)</sup>	San Antonio	TX	134	—	96% <sup>(6)</sup>	94% <sup>(6)</sup>	94% <sup>(6)</sup>
<b>Texas Total</b>			4,460	830	84%	79%	74%



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Property	City	State	Developed MH Sites as of	RV Sites as of	Occupancy as of	Occupancy as of	Occupancy as of
			12/31/08	12/31/08	12/31/08 <sup>(2)</sup>	12/31/07 <sup>(2)</sup>	12/31/06 <sup>(2)</sup>
<b>SOUTHEAST</b>							
<b>Florida</b>							
Arbor Terrace RV Park <sup>(4)</sup>	Bradenton	FL	—	395	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
Ariana Village Mobile Home Park	Lakeland	FL	208	—	92%	91%	90%
Buttonwood Bay <sup>(2)(5)</sup>	Sebring	FL	407	533	100%	100%	100%
Gold Coaster <sup>(2)(5)</sup>	Homestead	FL	415	130	99%	99%	99%
Groves RV Resort <sup>(4)</sup>	Ft. Myers	FL	—	285	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
Holly Forest Estates	Holly Hill	FL	402	—	100%	100%	100%
Indian Creek Park <sup>(2)(5)</sup>	Ft. Myers Beach	FL	353	1,106	100%	100%	100%
Island Lakes	Merritt Island	FL	301	—	100%	100%	100%
Kings Lake	Debary	FL	245	—	99%	100%	100%
Lake Juliana Landings	Auburndale	FL	274	—	98%	96%	95%
Lake San Marino RV Park <sup>(4)</sup>	Naples	FL	—	411	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
Meadowbrook Village	Tampa	FL	257	—	100%	99%	100%
Orange Tree Village	Orange City	FL	246	—	100%	100%	100%
Royal Country	Miami	FL	864	—	100%	100%	99%
Saddle Oak Club	Ocala	FL	376	—	100%	100%	100%
Siesta Bay RV Park <sup>(4)</sup>	Ft. Myers Beach	FL	—	798	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>	n/a <sup>(4)</sup>
Silver Star Mobile Village	Orlando	FL	406	—	99%	99%	99%
Tampa East <sup>(2)(5)</sup>	Tampa	FL	31	669	100%	100%	97%
Water Oak Country Club Estates	Lady Lake	FL	995	—	99%	100%	100%
<b>Florida Total</b>			5,780	4,327	99%	99%	99%

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Property	City	State	Developed MH Sites as of	RV Sites as of	Occupancy as of	Occupancy as of	Occupancy as of
			12/31/08	12/31/08	12/31/08 <sup>(2)</sup>	12/31/07 <sup>(2)</sup>	12/31/06 <sup>(2)</sup>
<b>OTHER</b>							
Autumn Ridge	Ankeny	IA	413	—	99%	99%	98%
Bell Crossing <sup>(3)</sup>	Clarksville	TN	239	—	60% <sup>(3)</sup>	52% <sup>(3)</sup>	54% <sup>(3)</sup>
Candlelight Village	Chicago Heights	IL	309	—	92%	91%	93%
Cave Creek <sup>(6)</sup>	Evans	CO	289	—	69% <sup>(6)</sup>	68% <sup>(6)</sup>	68% <sup>(6)</sup>
Countryside Atlanta	Lawrenceville	GA	271	—	99%	97%	96%
Countryside Gwinnett	Buford	GA	331	—	96%	93%	89%
Countryside Lake Lanier	Buford	GA	548	—	83%	83%	82%
Creekside <sup>(6)(7)</sup>	Reidsville	NC	46	—	67% <sup>(6)</sup>	63% <sup>(6)</sup>	72% <sup>(6)</sup>
Desert View Village <sup>(6)</sup>	West Wendover	NV	93	—	48% <sup>(6)</sup>	50% <sup>(6)</sup>	48% <sup>(6)</sup>
Eagle Crest <sup>(6)</sup>	Firestone	CO	318	—	86% <sup>(6)</sup>	80% <sup>(6)</sup>	75% <sup>(6)</sup>
Edwardsville	Edwardsville	KS	634	—	68%	68%	71%
Forest Meadows	Philomath	OR	75	—	99%	99%	93%
Glen Laurel <sup>(6)(7)</sup>	Concord	NC	260	—	47% <sup>(6)</sup>	44% <sup>(6)</sup>	36% <sup>(6)</sup>
High Pointe	Frederica	DE	411	—	93%	97%	97%
Meadowbrook <sup>(6)(7)</sup>	Charlotte	NC	177	—	92% <sup>(6)</sup>	98% <sup>(6)</sup>	94% <sup>(6)</sup>
North Point Estates <sup>(6)</sup>	Pueblo	CO	108	—	51% <sup>(6)</sup>	43% <sup>(6)</sup>	44% <sup>(6)</sup>
Pheasant Ridge	Lancaster	PA	553	—	100%	100%	100%
Pin Oak Parc	O'Fallon	MO	502	—	88%	88%	88%
Pine Ridge	Petersburg	VA	245	—	97%	92%	94%
Sea Air <sup>(2)(5)</sup>	Rehoboth Beach	DE	370	157	98%	98%	100%
Southfork	Belton	MO	477	—	71%	70%	72%
Sun Villa Estates	Reno	NV	324	—	99%	100%	100%
Timber Ridge	Ft. Collins	CO	585	—	88%	86%	88%
Woodland Park Estates	Eugene	OR	398	—	99%	98%	95%
<b>Other Total</b>			7,976	157	85%	84%	84%
<b>TOTAL / AVERAGE</b>			42,299	5,314	82%	82%	83%

(1) Properties have two licenses but operate as one community.

(2) Occupancy percentage relates to manufactured housing sites only. Percentage calculated by dividing revenue producing MH sites by developed MH sites. A revenue producing MH site is defined as a manufactured home site that is occupied by a paying resident. A developed MH site is defined as an adequate sized parcel of land that has road and utility access which is zoned and licensed (if required) for use as a manufactured home site.

(3) Occupancy in these properties reflects the fact that these communities are in a lease-up phase following an expansion.

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- (4) Property contains recreational vehicle sites only.
- (5) Property contains both manufactured home and recreational vehicle sites.
- (6) Occupancy in these properties reflects the fact that these communities are newly developed from the ground up.
- (7) This Property is owned by an affiliate of Sunchamp LLC, an entity in which the Company owns approximately a 78.5 percent equity interest as of December 31, 2008.



**ITEM 3. LEGAL PROCEEDINGS**

On April 9, 2003, T.J. Holdings, LLC (“TJ Holdings”), a member of Sun/Forest, LLC (“Sun/Forest”) (which, in turn, owns an equity interest in SunChamp LLC), (“SunChamp”), filed a complaint against the Company, SunChamp, certain other affiliates of the Company and two directors of Sun Communities, Inc. in the Superior Court of Guilford County, North Carolina. The complaint alleges that the defendants wrongfully deprived the plaintiff of economic opportunities that they took for themselves in contravention of duties allegedly owed to the plaintiff and purports to claim damages of \$13.0 million plus an unspecified amount for punitive damages. The Company believes the complaint and the claims threatened therein have no merit and will defend it vigorously. These proceedings were stayed by the Superior Court of Guilford County, North Carolina in 2004 pending final determination by the Circuit Court of Oakland County, Michigan as to whether the dispute should be submitted to arbitration and the conclusion of all appeals therefrom. On March 13, 2007, the Michigan Court of Appeals issued an order compelling arbitration of all claims brought in the North Carolina case. TJ Holdings has filed an application for review in the Michigan Supreme Court which has been denied and, accordingly, the North Carolina case is permanently stayed. TJ Holdings has now filed an arbitration demand in Southfield, Michigan based on the same claims. The Company intends to vigorously defend against the allegations.

As announced on February 27, 2006, the U.S. Securities and Exchange Commission (the “SEC”) completed its inquiry regarding the Company’s accounting for its SunChamp investment during 2000, 2001 and 2002, and the Company and the SEC entered into an agreed-upon Administrative Order (the “Order”). The Order required that the Company cease and desist from violations of certain non intent-based provisions of the federal securities laws, without admitting or denying any such violations.

On February 27, 2006, the SEC filed a civil action against the Company’s Chief Executive Officer, its then (and now former as of February 2008) Chief Financial Officer and a former controller in the United States District Court for the Eastern District of Michigan alleging various claims generally consistent with the SEC’s findings set forth in the Order.

On July 21, 2008, the U.S. District Court for the Eastern District of Michigan approved a settlement whereby the SEC dismissed its civil lawsuit against the Company’s Chairman and Chief Executive Officer, and the Company’s former Controller. The SEC concurrently reached a settlement with the Company’s former Chief Financial Officer, who remains with the Company as a senior advisor to management. This action by the SEC and the court will end the Company’s associated indemnification obligations for legal fees and costs to defend this lawsuit.

The Company is involved in various other legal proceedings arising in the ordinary course of business. All such proceedings, taken together, are not expected to have a material adverse impact on our results of operations or financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2008.



## PART II

## ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Market Information

Our common stock has been listed on the New York Stock Exchange ("NYSE") since December 8, 1993, under the symbol "SUN". On March 2, 2009, the closing sales price of the common stock was \$8.03 and the common stock was held by 284 holders of record. The following table sets forth the high and low sales prices per share for the common stock for the periods indicated as reported by the NYSE and the distributions per share paid by the Company with respect to each period.

Year Ended December 31, 2008	High	Low	Distributions
1 <sup>st</sup> Quarter	\$22.29	\$17.64	\$0.63
2 <sup>nd</sup> Quarter	21.47	17.93	0.63
3 <sup>rd</sup> Quarter	21.25	16.47	0.63
4 <sup>th</sup> Quarter	20.78	8.42	0.63

Year Ended December 31, 2007	High	Low	Distributions
1 <sup>st</sup> Quarter	\$32.91	\$29.52	\$0.63
2 <sup>nd</sup> Quarter	31.76	29.00	0.63
3 <sup>rd</sup> Quarter	31.55	25.65	0.63
4 <sup>th</sup> Quarter	32.01	20.64	0.63

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table reflects information about the securities authorized for issuance under the Company's equity compensation plans as of December 31, 2008.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by shareholders	168,201	\$ 30.39	171,018
	37,705	32.75	—

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Equity compensation plans not approved by shareholders <sup>(1)</sup>

Total	205,906	\$ 30.82	171,018
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- (1) On May 29, 1997, the Company established a Long Term Incentive Plan (the "LTIP") pursuant to which all full-time salaried and full-time commission only employees of the Company, excluding the Company's officers, were entitled to receive options to purchase shares of the Company's common stock at \$32.75 per share (i.e., the average of the highest and lowest selling prices for the common stock on May 29, 1997), on January 31, 2002. In accordance with the terms of the LTIP, (a) the Company granted the eligible participants options to purchase 167,918 shares of common stock; and (b) each eligible participant received an option to purchase a number of shares of common stock equal to the product of 167,918 and the quotient derived by dividing such participant's total compensation during the period beginning on January 1, 1997 and ending on December 31, 2001 (the "Award Period") by the aggregate compensation of all of the eligible participants during the Award Period.

### Issuer Purchases of Equity Securities

In November 2004, the Company was authorized to repurchase up to 1,000,000 shares of its common stock by its Board of Directors. The Company has 400,000 common shares remaining in the repurchase program. No common shares have been repurchased during 2008.

**Recent Sales of Unregistered Securities**

In March 2008, the Operating Partnership issued 60,967 Common OP Units to Water Oak, Ltd.

In 2008, the Company issued 114,380 shares of its common stock upon conversion of 114,380 OP units.

All of the above partnership units and shares of common stock were issued in private placements in reliance on Section 4(2) of the Securities Act of 1933, as amended, including Regulation D promulgated there under. No underwriters were used in connection with any of such issuances.

**Performance Graph**

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Common Stock against the cumulative total return of a broad market index composed of all issuers listed on the New York Stock Exchange and an industry index comprised of eighteen publicly traded residential real estate investment trusts, for the five year period ending on December 31, 2008. This line graph assumes a \$100 investment on December 31, 2003, a reinvestment of dividends and actual increase of the market value of the Company's Common Stock relative to an initial investment of \$100. The comparisons in this table are required by the SEC and are not intended to forecast or be indicative of possible future performance of the Company's Common Stock.

	2003	2004	2005	2006	2007	2008
Sun Communities, Inc.	100.00	110.92	92.83	103.28	72.95	56.33
Hemscott Industry Group – REIT Residential	100.00	132.69	146.13	201.88	149.47	113.59
NYSE Market Index	100.00	112.92	122.25	143.23	150.88	94.76

The information included under the heading “Performance Graph” is not to be treated as “soliciting material” or as “filed” with the SEC, and is not incorporated by reference into any filing by the company under the Securities Act of 1933 or the Securities Exchange Act of 1934 that is made on, before or after the date of filing of this Annual Report on Form 10-K.

**ITEM 6. SELECTED FINANCIAL DATA**

	<b>Year Ended December 31,</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004<sup>(a)</sup></b>
	(In thousands, except for share related and other data)				
<b>OPERATING DATA:</b>					
Revenues	\$255,047	\$235,956	\$227,778	\$211,964	\$204,543
Loss from continuing operations	(34,448 )	(16,643 )	(25,257 )	(6,276 )	(40,605 )
Net loss	(34,448 )	(16,643 )	(24,968 )	(5,452 )	(40,468 )
Loss from continuing operations per share:					
Basic	\$(1.90 )	\$(0.93 )	\$(1.44 )	\$(0.35 )	\$(2.22 )
Diluted	(1.90 )	(0.93 )	(1.44 )	(0.35 )	(2.22 )
Distributions per common share	\$2.52	\$2.52	\$2.52	\$2.50	\$2.44
<b>BALANCE SHEET DATA:</b>					
Investment property, before accumulated depreciation	\$1,539,623	\$1,538,426	\$1,512,762	\$1,458,122	\$1,380,553
Total assets	1,206,999	1,245,823	1,289,739	1,320,536	1,403,167
Total debt and lines of credit	1,229,571	1,187,675	1,166,850	1,123,468	1,078,442
Stockholders' equity (deficit)	(59,882 )	21,047	79,197	143,257	211,746
<b>OTHER FINANCIAL DATA:</b>					
Net operating income (NOI) <sup>(b)</sup> from:					
Real property operations	\$129,821	\$126,168	\$123,550	\$118,721	\$111,848
Home sales and home rentals	12,051	9,734	8,466	6,304	4,720
Funds from operations (FFO) <sup>(c)</sup>	26,501	45,439	34,560	51,313	(3,295 )
FFO <sup>(c)</sup> per weighted average Common Share/OP Unit:					
Basic	\$1.30	\$2.25	\$1.74	\$2.54	\$(0.16 )
Diluted	1.29	2.24	1.72	2.54	(0.16 )
<b>OTHER DATA (at end of period):</b>					
Total properties	136	136	136	135	136
Total sites	47,613	47,607	47,606	47,385	46,856

- (a) Operating data for the year ended December 31, 2004 has been restated to reflect the reclassifications required under SFAS No. 144 for the properties sold in 2005.
- (b) Refer to Item 7, Supplemental Measures, contained in the Form 10-K for information regarding the presentation of the net operating income (NOI) financial measure.
- (c) Refer to Item 7, Supplemental Measures, contained in the Form 10-K for information regarding the presentation of the funds from operations (FFO) financial measure.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

**EXECUTIVE SUMMARY**

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and notes thereto elsewhere herein.

The Company is a fully integrated, self-administered and self-managed REIT which owns, operates, and develops manufactured housing communities concentrated in the midwestern, southern, and southeastern United States. As of December 31, 2008, the Company owned and operated a portfolio of 136 developed properties located in 18 states, including 124 manufactured housing communities, 4 recreational vehicle communities, and 8 properties containing both manufactured housing and recreational vehicle sites.

Since the year 2000, the operations of manufactured homebuilders, dealers, and the companies that finance the purchase of the homes have experienced severe losses and substantial volatility. New home shipments have declined from approximately 373,000 in 1998 to approximately 82,000 in 2008. The decline was largely due to the turmoil in the financing side of the industry as lenders experienced substantial losses arising from defaults on poorly underwritten loans in the mid to late 1990s and beyond. As a result of the losses, the lenders experienced liquidity constraints and significantly tightened underwriting standards, thus reducing the demand for new homes.

The Company experienced a decline of occupancy from 95% in 2000 to 81.9% at December 31, 2008. This pattern of loss has significantly slowed in recent years as occupancy was 82.5% at the end of 2006. In addition to the conditions described above, this occupancy decline is also attributable to the attraction of our traditional customer base to single-family homes due to the substantial easing of underwriting qualifications for applicants which abruptly ended in 2007 - 2008.

A national survey of 71 major markets and over 368,000 sites noted an average occupancy of 82.7%, only slightly above that of the Company. From that it would appear that the Company's geographic distribution results in an occupancy little different from that determined by a national survey.

The Company's primary product is to supply affordable housing to the marketplace. Homes are available for rent or purchase. Monthly cost per square foot ranges from \$0.50 to \$0.80. This represents, at the low end, a 1,000 square foot home sited on a 4,000 to 5,000 foot site and includes the home and the site rent. The Company's communities currently have over 30,000 resident/owners of their homes and over 5,500 resident/renters. There are nearly 1,000 homes in inventory available to rent. The Company also has over 7,000 vacant sites available for occupancy. The difficult economy will cause some loss of occupancy due to unemployment, but it will also return our traditional customer as well as others who must seek economical housing options of which the Company have a substantial supply.

The Company also sells homes. These homes can be purchased by customers from our inventory of new and preowned product or through custom orders submitted to manufacturers. The Company offers excellent value on these sales as there are approximately 3,000 homes available for sale which were (and still are being) purchased from lenders at deeply discounted prices. Home sales grew from 712 in 2007 to 965 in 2008 and are expected to grow again in 2009. The Company's sales expect to benefit from the 10% tax credit available to qualifying homebuyers as well as from marketing initiatives which are regularly being developed.





## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In preparing these financial statements, management has made its best estimate and judgment of certain amounts included in the financial statements. Nevertheless, actual results may differ from these estimates under different assumptions or conditions. Management believes the following significant accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

### *Impairment of Long-Lived Assets and Investment in Affiliates*

Rental property is recorded at cost, less accumulated depreciation. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company reviews the carrying value of long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when a long-lived asset's carrying value is not recoverable and exceeds estimated fair value. The estimated fair value of long lived assets was calculated based on discounted future cash flows associated with the asset and any potential disposition proceeds for a given asset. Forecasting cash flows requires assumptions about such variables as the estimated holding period, rental rates, occupancy and operating expenses during the holding period, as well as disposition proceeds. Management determined certain impairment reviews were required as of December 31, 2008, as decisions were made to limit development of certain assets. Due to local economic conditions, estimated costs to develop and low estimated return on investment the Company determined to limit development in three development communities. The properties are located in Michigan, Nevada and North Carolina. Each had considerable up front development costs. A fourth property, located in Indiana, was found to be impaired based on its negative cash flows and management's estimate of continued negative cash flows. The Company also made a decision to stop providing cable television service at various communities as the business line could not provide the return on investment to justify the capital investment required to keep up with the technological advances in the offered product. As a result of the impairment analysis, the Company recognized non-cash impairment charges of \$13.1million.

The Company owns an approximate 19.0 percent investment in an affiliate that is reported under the equity method of accounting. Management performs an analysis to determine if the investment has experienced an other than temporary decline in value. Numerous factors are evaluated in accordance with published GAAP and SEC staff guidance. Changes in the facts and circumstances evaluated, future adverse changes in market conditions or operating results of the affiliate may affect management's analysis.

### *Notes and Accounts Receivable*

The Company evaluates the recoverability of its receivables whenever events occur or there are changes in circumstances such that management believes it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan and lease agreements. Receivables related to community rents are reserved when the Company believes that collection is less than probable, which is generally after a resident balance reaches 60 to 90 days past due. The Company reserves for estimated repairs to homes which collateralize its installment notes receivable based upon an estimate of annual foreclosures and historical costs of repair in excess of the anticipated sales price.

***Depreciation and amortization***

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. Useful lives are 30 years for land improvements and buildings, 10 years for rental homes, 7 to 15 years for furniture, fixtures and equipment, and 7 years for intangible assets.

***Revenue Recognition***

Rental income attributable to site and home leases is recorded on a straight-line basis when earned from tenants. Leases entered into by tenants generally range from month-to-month to two years and are renewable by mutual agreement of the Company and the resident or, in some cases, as provided by state statute. Revenue from the sale of manufactured homes is recognized upon transfer of title at the closing of the sales transaction. Interest income on notes receivable is recorded on a level yield basis over the life of the notes.

### *Capitalized Costs*

The Company capitalizes certain costs incurred in connection with the development, redevelopment, capital enhancement and leasing of its properties. Management is required to use professional judgment in determining whether such costs meet the criteria for immediate expense or capitalization. The amounts are dependent on the volume and timing of such activities and the costs associated with such activities. Maintenance, repairs and minor improvements to properties are expensed when incurred. Renovations and improvements to properties are capitalized and depreciated over their estimated useful lives and construction costs related to the development of new community or expansion sites are capitalized until the property is substantially complete. Costs incurred to renovate repossessed homes for the Company's rental program are capitalized and costs incurred to refurbish the homes at turnover and repair the homes while occupied are expensed. Certain expenditures to dealers and residents related to obtaining lessees in our communities are capitalized and amortized over a seven year period based on the anticipated term of occupancy of a resident. Costs associated with implementing the Company's computer systems are capitalized and amortized over the estimated useful lives of the related software and hardware.

### *Derivative Instruments and Hedging Activities*

At December 31, 2008, the Company had two interest rate swaps and an interest rate cap agreement to offset interest rate risk. The Company entered into two additional swap agreements in late December 2008 and February 2009 which become effective on January 2, 2009 and February 13, 2009, respectively. The Company does not enter into derivative transactions for speculative purposes. The Company adjusts its balance sheet on a quarterly basis to reflect current fair market value of its derivatives. Changes in the fair value of derivatives are recorded each period in earnings or comprehensive income, as appropriate. The ineffective portion of the hedge is immediately recognized in earnings to the extent that the change in value of a derivative does not perfectly offset the change in value of the instrument being hedged. The unrealized gains and losses held in accumulated other comprehensive income will be reclassified to earnings over time and occurs when the hedged items are also recognized in earnings. The Company uses standard market conventions to determine the fair values of derivative instruments, including the quoted market prices or quotes from brokers or dealers for the same or similar instruments. All methods of assessing fair value result in a general approximation of value and such value may never actually be realized.

### *Income Taxes*

The Company has elected to be taxed as a REIT as defined under Section 856(c) of the Internal Revenue Code of 1986, as amended. In order for the Company to qualify as a REIT, at least ninety-five percent (95%) of the Company's gross income in any year must be derived from qualifying sources. As a REIT, the Company generally will not be subject to U.S. federal income taxes at the corporate level if it distributes at least ninety percent (90%) of its REIT ordinary taxable income to its stockholders, which it fully intends to do. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to Federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. The Company remains subject to certain state and local taxes on its income and property as well as Federal income and excise taxes on its undistributed income.

The Company is subject to certain state taxes that are considered income taxes and has certain subsidiaries that are taxed as regular corporations. Deferred tax assets or liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and net operating loss carry forwards. Deferred tax assets and liabilities are measured using currently enacted tax rates. A valuation allowance is established if based on available evidence it is more likely than not that some portion or all of the deferred tax assets will not be realized.

*Recent Accounting Pronouncements*

Accounting standards adopted in the year ended December 31, 2008 did not have a material impact on the Company's results of operations or financial condition. Accounting standards to be adopted after the year ended December 31, 2008 that may or will have a material impact on the Company's results of operations or financial condition are discussed below:

In December 2007 the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51" ("SFAS 160"), which amends Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements", to establish new standards that will govern the accounting for and reporting of noncontrolling interests in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Also, SFAS 160 requires that: (1) noncontrolling interest, previously referred to as minority interest, be reported as part of equity in the consolidated financial statements; (2) losses be allocated to the noncontrolling interest even when such allocation might result in a deficit balance, reducing the losses attributed to the controlling interest; (3) changes in ownership interests be treated as equity transactions if control is maintained; (4) upon a loss of control, any gain or loss on the interest sold be recognized in earnings; and (5) the noncontrolling interest's share be recorded at the fair value of net assets acquired, plus its share of goodwill. SFAS 160 is effective on a prospective basis for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which will be applied retrospectively. The Company expects the adoption of SFAS 160 to have a material impact on the presentation of minority interest.

In May 2008 the FASB ratified FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"), which requires issuers of convertible debt securities within its scope to separate these securities into a debt component and an equity component, resulting in the debt component being recorded at fair value without consideration given to the conversion feature. Issuance costs are also allocated between the debt and equity components. FSP APB 14-1 will require that convertible debt within its scope reflect a company's nonconvertible debt borrowing rate when interest expense is recognized. FSP APB 14-1 is effective fiscal years and interim periods beginning after December 15, 2008, and shall be applied retrospectively to all prior periods. The Company is evaluating the impact FSP No. APB 14-1 will have on our results of operations and financial condition.

## **SUPPLEMENTAL MEASURES**

In addition to the results reported in accordance with accounting principles generally accepted in the United States (GAAP), we have provided information regarding Net Operating Income ("NOI") in the following tables. NOI is derived from revenues (determined in accordance with GAAP) minus property operating expenses and real estate taxes (determined in accordance with GAAP). We use NOI as the primary basis to evaluate the performance of our operations. A reconciliation of NOI to Net loss is included in "Results of Operations" below.

The Company believes that NOI is helpful to investors and analysts as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time. The Company uses NOI as a key management tool when evaluating performance and growth of particular properties and/or groups of properties. The principal limitation of NOI is that it excludes depreciation, amortization, interest expense, and non-property specific expenses such as general and administrative expenses, all of which are significant costs, and therefore, NOI is a measure of the operating performance of the properties of the Company rather than of the Company overall. The Company believes that these costs included in net income (loss) often have no effect on the market value of a property and therefore limit its use as a performance measure. In addition, such expenses are often incurred at a parent company level and therefore are not necessarily linked to the performance of a real estate asset.

NOI should not be considered a substitute for the reported results prepared in accordance with GAAP. NOI should not be considered as an alternative to net income as an indicator of our financial performance, or to cash flows as a measure of liquidity; nor is it indicative of funds available for the Company's cash needs, including its ability to make cash distributions. NOI, as determined and presented by the Company, may not be comparable to related or similarly titled measures reported by other companies.

The Company also provides information regarding Funds From Operations ("FFO"). A definition of FFO and a reconciliation of Net loss to FFO are included in the presentation of FFO in "Results of Operations" following the "Comparison of the Years ended December 31, 2007 and 2006".

## **RESULTS OF OPERATIONS**

The Company reports operating results under two segments: Real Property Operations, and Home Sales and Rentals. The Real Property Operations segment owns, operates, and develops manufactured housing communities concentrated in the midwestern, southern, and southeastern United States and is in the business of acquiring, operating and expanding manufactured housing communities. The Home Sales and Rentals segment offers manufactured home sales and leasing services to tenants and prospective tenants of our communities. The Company evaluates segment operating performance based on NOI.

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The accounting policies of the segments are the same as those applied in the consolidated financial statements, except for the use of NOI. The Company may allocate certain common costs, primarily corporate functions, between the segments differently than the Company would for stand alone financial information prepared in accordance with GAAP. These allocated costs include expenses for shared services such as information technology, finance, communications, legal and human resources. The Company does not allocate interest expense and certain other corporate costs not directly associated with the segments' NOI.

**COMPARISON OF THE YEARS ENDED DECEMBER 31, 2008 and 2007****REAL PROPERTY OPERATIONS - TOTAL PORTFOLIO**

The following tables reflect certain financial and statistical information for all properties owned and operated during the years ended December 31, 2008 and 2007.

	Years Ended December 31,				
	2008	2007	Change	% Change	
<b>Financial Information</b>	<b>(in thousands)</b>				
Income from real property	\$ 196,206	\$ 191,427	\$ 4,779	2.5	%
Property operating expenses:					
Payroll and benefits	15,054	14,037	1,017	7.2	%
Legal, taxes and insurance	2,996	3,687	(691)	) -18.7	%
Utilities	21,151	20,409	742	3.6	%
Supplies and repair	6,843	6,699	144	2.1	%
Other	4,359	4,061	298	7.3	%
Real estate taxes	15,982	16,366	(384)	) -2.3	%
Property operating expenses	66,385	65,259	1,126	1.7	%
Real property net operating income	\$ 129,821	\$ 126,168	\$ 3,653	2.9	%

	Years Ended December 31,			
	2008	2007	Change	
<b>Statistical Information</b>				
Number of properties	136	136	—	
Developed sites	47,613	47,607	6	
Occupied sites <sup>(1)</sup>	37,711	37,758	(47)	)
Occupancy % <sup>(2)</sup>	81.9%	82.2%	-0.3	%
Weighted average monthly rent per site <sup>(2)</sup>	\$ 393	\$ 382	\$ 11	
Sites available for development	6,081	6,588	(507)	)

(1) Occupied sites include manufactured housing and permanent recreational vehicle sites, and exclude seasonal recreational vehicle sites.

(2) Occupancy % and weighted average rent relates only to manufactured housing sites, and excludes permanent and seasonal recreational vehicle sites.

In the past few years there have been signs of recovery in our industry, such as lower repossessions. In the earlier part of the decade this industry has faced challenging times due to poor lending practices of the manufactured home lenders from the 90's, coupled with reduced new home shipments, and the non-existence of a dealer network. The Company has continued to show positive growth year over year in real property net operating income. NOI increased by \$3.6 million from \$126.2 million to \$129.8 million, or 2.9 percent. Management believes while not recession proof, our resistance to recessionary forces is derived from our industry providing affordable housing in the face of economic crisis.

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The growth in income from real property of \$4.8 million is due to a weighted average rental rate increase of 2.9 percent that resulted in increased manufactured home rental income (net of vacancies and rent discounts) of \$2.7 million, increased income from our recreational vehicle portfolio of \$0.9 million and increased miscellaneous other property revenues of \$1.2 million. The \$1.2 million increase in miscellaneous other property revenues can be primarily attributed to revenues from rubbish collection, water and sewer re-billing, late fees and returned check fees.

The growth in real property operating expenses of \$1.1 million was due to several factors. Payroll and benefit costs increased by \$1.0 million due to the Company's annual merit wage increase and associated payroll taxes, and increased health insurance costs. Utility costs related to water and rubbish removal charges increased \$0.7 million (both of which are re-billed to the resident and correspondingly increased income from real property as mentioned above). Supply and repair costs related to community maintenance increased by \$0.2 million. Legal fees related to delinquency and other property matters decreased by \$0.4 million. Property and casualty insurance decreased by \$0.3 million due to a decrease in reserves for current claims and favorable settlement of prior claims. This benefit was completely offset by increased other expenses related to administrative costs such as postage, advertising, etc. of \$0.3 million. Real estate taxes decreased by \$0.4 million due to an adjustment to accrued real estate taxes due to refunds of tax appeals, principally in the states of Michigan and Texas.



**REAL PROPERTY OPERATIONS - SAME SITE**

The following table reflects certain financial and statistical information for particular properties owned and operated for the same period in both years for the years ended December 31, 2008 and 2007. A key management tool the Company uses when evaluating performance and growth of particular properties is a comparison of Same Site communities. The Same Site data may change from time-to-time depending on acquisitions, dispositions, management discretion, significant transactions, or unique situations.

	Years Ended December 31,			
	2008	2007	Change	% Change
<b>Financial Information</b>	<b>(in thousands)</b>			
Income from real property <sup>(1)</sup>	\$ 186,972	\$ 182,826	\$ 4,146	2.3 %
Property operating expenses:				
Payroll and benefits	15,048	14,030	1,018	7.3 %
Legal, taxes, & insurance	2,985	3,673	(688)	-18.7 %
Utilities <sup>(1)</sup>	11,367	11,155	212	1.9 %
Supplies and repair	6,823	6,671	152	2.3 %
Other	2,033	1,813	220	12.1 %
Real estate taxes	15,899	16,273	(374)	-2.3 %
Property operating expenses	54,155	53,615	540	1.0 %
Real property net operating income	\$ 132,817	\$ 129,211	\$ 3,606	2.8 %

	Years Ended December 31,		
	2008	2007	Change
<b>Statistical Information</b>			
Number of properties	135	135	—
Developed sites	47,471	47,465	6
Occupied sites <sup>(2)</sup>	37,686	37,733	(47)
Occupancy % <sup>(3)</sup>	82.1%	82.4%	-0.3 %
Weighted average monthly rent per site <sup>(3)</sup>	393	382	11
Sites available for development	5,583	6,090	(507)

(1) Amounts are reported net of recovery for water and sewer utility expenses.

(2) Occupied sites include manufactured housing and permanent recreational vehicle sites, and exclude seasonal recreational vehicle sites.

(3) Occupancy % and weighted average rent relates only to manufactured housing sites, and excludes permanent and seasonal recreational vehicle sites.

As indicated above this is an analytical measure used by management to determine the growth of our communities on a year over year basis that may have items classified differently than our GAAP statements.

The primary differences between our total portfolio and same site portfolio are the reclassification of water and sewer expense from utilities to income from real property to reflect the recovery net of expenses and the inclusion of 135, rather than 136, Properties in the same site portfolio.



**HOME SALES AND RENTALS**

As discussed in the "Overview" in "Management's Discussion and Analysis", the Company acquires repossessed manufactured homes (generally, that are within its communities) from lenders at substantial discounts. The Company leases or sells these value priced homes to current and prospective residents. The Company also purchases new homes to lease and sell to current and prospective residents. The programs the Company has established for its customers to lease or buy new and used homes have helped to prevent additional occupancy loss and have contributed to the Company's continued NOI growth even during turbulent industry and economic conditions.

The following table reflects certain financial and statistical information for the Company's Rental Program for the years ended December 31, 2008 and 2007.

	Years Ended December 31,		Change	% Change	
	2008	2007			
<b>Financial Information</b>	<b>(in thousands, except for *)</b>				
Rental home revenue	\$20,533	\$18,840	\$ 1,693	9.0	%
Site rent from Rental Program <sup>(1)</sup>	24,537	21,704	2,833	13.1	%
Rental program revenue	45,070	40,544	4,526	11.2	%
Expenses					
Payroll and commissions	2,008	2,459	(451)	-18.3	%
Repairs and refurbishment	7,419	6,526	893	13.7	%
Taxes and insurance	2,802	2,366	436	18.4	%
Marketing and other	3,444	2,479	965	38.9	%
Rental program operating and maintenance	15,673	13,830	1,843	13.3	%
Net operating income	\$29,397	\$26,714	\$ 2,683	10.0	%
<b>Statistical Information</b>					
Number of occupied rentals, end of period*	5,517	5,328	189	3.5	%
Investment in occupied rental homes	\$170,521	\$161,057	\$ 9,464	5.9	%
Number of sold rental homes*	596	363	233	64.2	%
Weighted average monthly rental rate*	\$736	\$718	\$ 18	2.5	%

- (1) The renter's monthly payment includes the site rent and an amount attributable to the leasing of the home. The site rent is reflected in the Real Property Operations segment. For purposes of management analysis, the site rent is included in the Rental Program revenue to evaluate the growth and performance of the Rental Program.

Net operating income from the rental program increased \$2.7 million from \$26.7 million to \$29.4 million, or 10.0 percent as a result of a \$4.5 million increase in revenue partially offset by a \$1.8 million increase in expenses. Revenues increased due to the increase in the number of leased homes in the Company's Rental Program and due to the increase in average rental rates (as indicated in the table above). Certain expenses increase as the number of homes in the rental program increase. These expenses include personal property tax, use tax, repair costs, and refurbishment costs. Although total refurbishment costs increased by \$0.7 million, the average refurbishment cost per move out (costs incurred to prepare a previously leased home for a new occupant) declined 0.7 percent from \$1,605 in 2007 to \$1,593 in 2008. Commissions decreased by \$0.5 million due to a realignment of the commission plan that prorates the commission if the full lease term was not completed. Marketing and other costs increased primarily due to an increase in advertising and promotion costs of \$0.5 million and an increase in bad debt expense of \$0.4 million.

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The rental program has proven to be an effective response to the adverse factors that the Company faced during the industry downturn and now draws more than 14,000 applications per year to live in the Properties. The program has replaced the independent dealer network, a majority of which were forced to go out of business during the early part of the decade, which formerly directed potential residents to our properties.

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The following table reflects certain financial and statistical information for the Company's Home Sales program for the years ended December 31, 2008 and 2007.

	Years Ended December 31,				
	2008	2007	Change	% Change	
<b>Financial Information</b>					
(in thousands, except for statistical information)					
New home sales	\$8,652	\$6,056	\$ 2,596	42.9	%
Pre-owned home sales	22,825	16,849	5,976	35.5	%
Revenue from homes sales	31,477	22,905	8,572	37.4	%
New home cost of sales	7,690	4,928	2,762	56.0	%
Pre-owned home cost of sales	16,596	13,253	3,343	25.2	%
Cost of home sales	24,286	18,181	6,105	33.6	%
Net operating income / Gross Profit	\$7,191	\$4,724	\$ 2,467	52.2	%
Gross profit – new homes	\$962	\$1,128	\$ (166)	) -14.7	%
Gross margin % – new homes	11.1	% 18.6	%	-7.5	%
Gross profit – pre-owned homes	\$6,229	\$3,596	\$ 2,633	73.2	%
Gross margin % – pre-owned homes	27.3	% 21.3	%	6.0	%
<b>Statistical Information</b>					
Home sales volume:					
New home sales	122	76	46	60.5	%
Pre-owned home sales	843	636	207	32.5	%
Total homes sold	965	712	253	35.5	%

Gross profit from home sales increased by \$2.5 million, or 52.2%, as the Company sold 253 more homes than in 2007. Gross profit from pre-owned home sales increased by \$2.6 million while gross profit from new home sales declined by \$0.2 million.

Pre-owned home sales include the sale of homes that have been utilized in the Company's rental program. The cost basis of a rental home is depreciated and therefore, the gross profit margin on the sale of these homes increases the longer the home has been in the rental program. An increase in the volume of rental home sales is the primary reason for the overall increase in pre-owned home sales and therefore the principal contributor to the increase in gross profit on pre-owned home sales.

While the number of new home sales increased by 60.5 percent, gross profit decreased by 14.7 percent. The selling price of new homes in the Florida market was reduced to facilitate sales during this period of declining demand as potential buyers, worried about dwindling retirement and investment funds, were hesitant to purchase. The increase in new home sale volume was due, primarily, to an increase in sales of Signature Homes. A new product line for the Company, Signature Homes, have a contemporary design that compares favorably to the "feel" of a stick built residential home. The increase in gross profit from Signature Home sales was more than offset by the decline in gross profit from the sale of new homes in Florida.

### OTHER INCOME STATEMENT ITEMS

**Other revenues** include other income (loss), interest income, and ancillary revenues, net. Other revenues increased by \$4.0 million, from \$2.8 million to \$6.8 million, or 142.9 percent. This increase was due to a gain on sale of undeveloped land of \$3.3 million, increased interest income of \$1.0 million, offset partially by a fee paid to Origen of \$0.3 million in connection with the transfer of the manufactured home loan servicing contract to a new service provider. The increase in interest income was primarily due to the additional installment notes receivable recognized in association with the transfer of financial assets that are recorded as collateralized receivables in the consolidated balance sheet. The interest income on these collateralized receivables is offset by the same amount of interest expense recognized on the secured debt recorded in association with this transaction. See Note 3 – Secured Borrowing and Collateralized Receivables for additional information.

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**General and administrative** costs increased by \$2.4 million, from \$20.7 million to \$23.1 million, or 11.6 percent due to increased salary, benefit, and other compensation costs of \$2.7 million (including severance costs of \$0.9 million associated with the retirement of the Company's former President), increased advertising costs of \$0.3 million, partially offset by decreases in the Michigan single business tax of \$0.5 million and other costs of \$0.1 million. The Michigan single business tax was replaced by the Michigan business tax and is now recorded as an income tax rather than a general and administrative expense.

**Depreciation and amortization** costs increased by \$2.5 million, from \$62.5 million to \$65.0 million, or 4.0 percent primarily due to the additional homes added to the Company's investment property for use in the Company's Rental Program.

**Interest expense** on debt, including interest on mandatorily redeemable debt, decreased by \$1.3 million, from \$65.5 million to \$64.2 million, or 2.0 percent due to a reduction in expense of approximately \$2.4 million related to lower interest rates charged on variable rate debt, offset by an increase in fixed rate debt interest expense of \$1.1 million. The increase in fixed rate debt expense is primarily due to the Company's additional secured debt recognized in association with the transfer of financial assets that was recorded as a secured borrowing in the consolidated balance sheet (and is offset by the same amount of interest income recorded on collateralized receivables in relation to this transaction). See Note 3 – Secured Borrowing and Collateralized Receivables in the Company's Notes to Consolidated Financial Statements included herein.

**Equity losses from affiliates** increased by \$8.5 million, from \$8.0 million to \$16.5 million, or 106.3 percent due to increased other than temporary charges to the carrying value of the Origen investment of \$7.7 million, and increased equity allocation of the estimated losses from affiliates of \$0.8 million.

**Provision for state income taxes** decreased by \$0.5 million, from \$0.8 million to \$0.3 million, or 62.5 percent due to a change in the effective tax rate used to calculate the deferred tax liability related to the Michigan Business Tax.

**Minority interest** changed by \$2.9 million, from income of \$2.1 million to expense of \$0.8 million since the Company's operating losses are no longer allocated to the minority interest partners, and distributions of \$1.4 million were recorded as expense. See Note 14 in the Notes to Consolidated Statements for additional information.

**COMPARISON OF THE YEARS ENDED DECEMBER 31, 2007 and 2006****REAL PROPERTY OPERATIONS - TOTAL PORTFOLIO**

The following tables reflect certain financial and statistical information for all properties owned and operated during the years ended December 31, 2007 and 2006.

	Years Ended December 31,		Change	%	
	2007	2006		Change	% Change
<b>Financial Information</b>					
Income from real property	\$ 191,427	\$ 187,535	\$ 3,892	2.1	%
Property operating expenses:					
Payroll and benefits	14,037	14,014	23	0.2	%
Legal, taxes and insurance	3,687	3,268	419	12.8	%
Utilities	20,409	20,138	271	1.3	%
Supplies and repair	6,699	6,946	(247)	-3.6	%
Other	4,061	3,759	302		