

SUN COMMUNITIES INC
Form 10-K
March 11, 2010

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, 2009
Commission file number 1-12616

SUN COMMUNITIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland
(State of Incorporation)

38-2730780
(I.R.S. Employer Identification No.)

27777 Franklin Rd.
Suite 200
Southfield, Michigan
(Address of Principal Executive Offices)

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]

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [] No []

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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, 2009, the aggregate market value of the Registrant's stock held by non-affiliates was approximately \$229,522,000 (computed by reference to the closing sales price of the Registrant's common stock as of June 30, 2009). 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 1, 2010: 18,830,191

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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 are a fully integrated real estate company which, together with our affiliates and predecessors, has been in the business of acquiring, operating, and expanding manufactured housing communities since 1975. We lease individual parcels of land (“sites”) with utility access for placement of manufactured homes and recreational vehicles to our customers. We are also 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 our occupancy levels, property performance, and cash flows.

We own, operate, and develop manufactured housing communities concentrated in the midwestern, southern, and southeastern United States. As of December 31, 2009, 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, 2009, the Properties contained an aggregate of 47,572 developed sites comprised of 42,294 developed manufactured home sites, 3,176 permanent recreational vehicle sites, 2,102 seasonal recreational vehicle sites, and approximately 6,000 additional manufactured home sites suitable for development.

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 664 full and part time people as of December 31, 2009.

Our website address is 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

Shelf Registration

Our shelf registration for up to \$300.0 million of common stock, preferred stock and debt securities expired December 31, 2008. In April 2009, we filed a new shelf registration statement on Form S-3 with the SEC to replace the previous shelf registration for a proposed offering of up to \$300.0 million of our common stock, preferred stock and debt securities. The SEC declared the new shelf registration effective in May 2009.

Derivative Instruments and Hedging Activities

We entered into three new derivative contracts during 2009 consisting of two interest rate swap agreements with a total notional amount of \$45.0 million and an interest rate cap agreement with a notional amount of \$152.4 million. We utilize these derivative instruments to manage exposure to interest rate movements thereby minimizing the effect of interest rate changes and the effect it could have on future cash flows. These derivative instruments effectively convert a portion of our variable rate debt to fixed rate debt and cap the maximum interest rate on certain variable rate borrowings. We do not enter into derivative instruments for speculative purposes. Additional information is included in Note 15 of the Notes to Consolidated Financial Statements included herein.

Debt

Upon the maturity of our \$40.0 million floor plan facility in March 2009, we entered into a new \$10.0 million manufactured home floor plan facility. The floor plan facility initially had a committed term of one year. In February 2010, the floor plan facility was renewed indefinitely until our lender provides us 12 month notice of their intent to terminate the agreement. The interest rate is 100 basis points over the greater of Prime or 6.0 percent (effective rate 7.0 percent as of December 31, 2009). Prime means for any month, the prevailing "prime rate" as quoted in the Wall Street Journal on last day of such calendar month.

We completed a financing of \$18.5 million with Bank of America in June 2009. The loan has a three year term. The loan is secured by three properties. The interest rate is 400 basis points over LIBOR, with a minimum rate of 5.0 percent (effective rate 5.0 percent as of December 31, 2009). Proceeds of \$11.2 million were used to repay mortgage notes that matured in June 2009. The remaining proceeds were used to pay down our unsecured line of credit.

We have completed various transactions involving our installment notes secured by manufactured homes. We have received \$31.3 million of cash proceeds in exchange for relinquishing our right, title and interest in the installment notes during 2009. These transactions were recorded as a transfer of financial assets, and the cash proceeds related to these transactions were recorded as a secured borrowing. Additional information is included in Note 4 of the Notes to Consolidated Financial Statements included herein.

Divestiture of Cable Television Service Business

In the fourth quarter of fiscal 2008, we announced our intention to exit the cable television service business. We completed the sale of the business during the third quarter ended September 30, 2009. Cash proceeds from this sale were \$0.3 million, resulting in a net gain on sale of \$0.1 million. Additional information is included in Note 2 of the Notes to Consolidated Financial Statements included herein.

Georgia Flood Damage

On September 21, 2009, a flood caused substantial damage to our property, Countryside Village of Atlanta, located in Lawrenceville, Georgia. We have comprehensive insurance coverage for both property damage and business interruption, subject to deductibles and certain limitations. We believe the cost of the damage sustained from the flooding will be in excess of our insurance deductible. We recorded a charge of \$0.8 million during the third quarter ended September 30, 2009 associated with the flooding. This charge represents our deductible, net of expected insurance recoveries for the replacement of assets that exceed the net book value of assets damaged in the flood.

Equity Offerings

We entered into a sales agreement to issue and sell up to 1,600,000 shares of common stock from time to time pursuant to our effective shelf registration statement on Form S-3. Sales under the agreement commenced during the third quarter of 2009 and we have issued 100,000 shares of common stock through this program as of December 31, 2009. The shares of common stock were sold at the prevailing market price of our common stock at the time of each sale with a weighted average sale price of \$19.98. We received net proceeds of approximately \$1.9 million during the year ended December 31, 2009 from the sales of these shares of common stock. The proceeds were used to pay down our unsecured line of credit.

Equity Incentive Plan

At the Annual Meeting of Stockholders held on July 29, 2009, the stockholders approved the Sun Communities, Inc. Equity Incentive Plan ("2009 Equity Plan"). The 2009 Equity Plan had been adopted by the Board and was effective upon approval by our stockholders. The 2009 Equity Plan replaced the Sun Communities, Inc. Stock Option Plan adopted in 1993, amended and restated in 1996 and 2000. The 2009 Equity Plan terminates automatically July 29, 2019. The maximum number of shares of common stock that may be issued under the 2009 Equity Plan is 950,000 shares.

STRUCTURE OF THE COMPANY

The Operating Partnership is structured as an umbrella partnership REIT, or UPREIT. We contributed our net assets to the Operating Partnership in exchange for the sole general partner interest in the Operating Partnership and the majority of all the Operating Partnership's initial capital. We substantially conduct our operations through the Operating Partnership. The Operating Partnership 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 our Consolidated Financial Statements. The financial results include certain activities that do not necessarily qualify as REIT activities under the Internal Revenue Code of 1986, as amended (the "Code"). We have formed taxable REIT subsidiaries, as defined in the Code, to engage in such activities. We use taxable REIT subsidiaries to offer certain services to our residents and engage in activities that would not otherwise be permitted under the REIT rules if provided directly by us or by the Operating Partnership. The taxable REIT subsidiaries include our home sales business, SHS, which provides manufactured home sales, leasing and other services to current and prospective tenants of the Properties.

We do not own all the interests in the Operating Partnership. The 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, 2009, the Operating Partnership had a total of approximately 21.0 million units outstanding. We held approximately 18.8 million units, or 89.8% of the units (not including preferred limited partnership units) 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 multi-family housing.

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

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

PROPERTY MANAGEMENT

Our property management strategy emphasizes intensive, hands-on management by dedicated, on-site district and community managers. We believe that this on-site focus enables us to continually monitor and address tenant concerns, the performance of competitive properties and local market conditions. As of December 31, 2009, we employed 664 full and part time employees, of which 548 were located on-site as property managers, support staff, or maintenance personnel.

Our community managers were overseen by John B. McLaren, Chief Operating Officer, who has 14 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 mandatory training sessions for all new property management personnel to ensure that management policies and procedures are executed effectively and professionally. All of our property management personnel participate in on-going training to ensure that changes to management policies and procedures are implemented consistently. We offer over 30 courses for our team members which has led to increased knowledge and accountability of the daily operations and policies and procedures.

HOME SALES AND LEASING

SHS is engaged in the marketing, selling, and leasing of new and pre-owned homes to current and future residents in our communities. Since tenants often purchase a home already on-site within a community, such services enhance occupancy and property performance. Additionally, because many of the homes on the Properties are sold through SHS, better control of home quality in our communities can be maintained than if sales services were conducted solely through third-party brokers. SHS also leases homes to prospective tenants. At December 31, 2009, SHS had 5,747 occupied leased homes in its portfolio. Homes for this rental program are purchased at discounted rates from finance companies that hold repossessed homes within our communities. New homes are purchased as necessary to supplement these repossessed home purchases. Leases associated with the rental program 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. We have added repair and service supervisors in areas with high concentrations of rental homes to aggressively pursue cost containment programs. The program is a strategic response to capture the value inherent in the purchase of substantially discounted repossessed homes in our communities. We receive approximately 19,000 applications each year to live in our Properties, providing a significant “resident boarding” system allowing us to market purchasing a home to the best applicants and to rent to the remainder of approved applicants. Through the rental program we are able to demonstrate our product and lifestyle to the renters, while monitoring their payment history and converting qualified renters to owners.

REGULATIONS AND INSURANCE

General

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

Insurance

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

SITE LEASES OR USAGE RIGHTS

The typical lease we enter into with a tenant for the rental of a manufactured home site is month-to-month or year-to-year, renewable upon the consent of both parties, or, in some instances, as provided by statute. 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 3.0 percent of the homes in our communities have been removed by their owners and 6.6 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 fifteen years, while the average home, which gives rise to the rental stream, remains in our communities for approximately thirty three years.

At Properties zoned for recreational vehicle (“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 we intend 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. These forward-looking statements reflect our 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 our actual results 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 our 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 we expressly disclaims any obligation to provide public updates, revisions or amendments to any forward-looking statements made herein to reflect changes in our 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 our other filings with the Securities and Exchange Commission.

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 twelve months ended December 31, 2009 from properties located in Michigan, Florida, Indiana, and Texas. As of December 31, 2009, 47 of our 136 Properties representing approximately 30% of developed sites, are located in Michigan; 19 Properties representing approximately 21% of developed sites, are located in Florida; 18 Properties representing approximately 14% of developed sites, are located in Indiana; and 17 Properties representing approximately 11% of developed sites 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;
- the perceptions by prospective tenants of the safety, convenience and attractiveness of our Properties and the neighborhoods where they are located;
 - zoning or other regulatory restrictions;
-

competition from other available manufactured housing communities 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; and
- 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 operates in the manufactured home market offering manufactured home sales and leasing services to tenants and prospective tenants of 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:

- 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. 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 could 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, 2009, 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 106 of the Properties (the "Mortgage Debt") and secured by collateralized receivables, \$5.3 million is collateralized by liens on manufactured homes, and \$138.0 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, we purchased 5,000,000 shares of common stock of Origen Financial, Inc. ("Origen"). We own approximately 19% of Origen as of December 31, 2009, and we account for our investment using the equity method of accounting. The carrying value of our investment in Origen was \$1.6 million as of December 31, 2009.

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.

We recorded equity losses from our investment in Origen of \$1.7 million, \$16.5 million, and \$8.0 million for the years ended December 31, 2009, 2008, and 2007, respectively. These equity losses included other than temporary charges of \$9.6 million and \$1.9 million for the years ended December 31, 2008 and 2007, respectively.

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

FINANCING AND INVESTMENT RISKS, CONTINUED

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

As of December 31, 2009, we had outstanding approximately \$64.8 million, net of reserves, in installment loans to owners of manufactured homes. These installment loans are collateralized by the manufactured homes. We may invest in additional mortgages and installment loans in the future. By virtue of our investment in the mortgages and the loans, 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 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 be assured 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 us to continually to monitor our 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”), we 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 (our 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.

Legal Counsel During 2009, Jaffe, Raitt, Heuer, & Weiss, Professional Corporation (“JRH&W”) acted as our general counsel and represented us in various matters. Arthur A. Weiss, one of our directors, is the Chairman of the Board of Directors and a shareholder of such firm. We incurred legal fees and expenses of approximately \$1.1 million in the year ended December 31, 2009 and approximately \$1.0 million in the years ended December 31, 2008 and 2007.

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. In December 2007, we exercised our option to extend our lease for our executive offices. The extension was for a period of five years commencing on May 1, 2008. In August 2008, we modified our lease agreement to lease approximately 5,300 additional square feet, for a total of approximately 36,700 rentable square feet, and extend the term of the lease

until August 31, 2015, with an option to renew for an additional five years. The annual base rent under the current lease is \$18.81 per square foot (gross) and will remain this amount through August 31, 2015. Mr. Shiffman and Mr. Weiss may have a conflict of interest with respect to their obligations as our officer and/or director 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, we and Mr. Shiffman may have different objectives regarding the appropriate pricing and timing of any sale of those properties.

BUSINESS RISKS, CONTINUED

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 A. Shiffman, the Milton M. Shiffman Spouse’s Marital Trust and the Estate of Robert B. Bayer.

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 our outstanding shares 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.

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 us) with the right to purchase our stock at a discount in the event any person attempts to acquire a 15% or greater interest in us. Because this plan could make it more expensive for a person to acquire a controlling interest in us, it could have the effect of delaying or preventing a change in control 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, 2009, 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. As of December 31, 2009, options to purchase 151,961 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. In addition, we have the authority to issue restricted stock awards or options to purchase up to an additional 870,000 shares of our common stock pursuant to our 2009 Equity Incentive Plan. No prediction can be made regarding the effect that future sales of shares of our common stock or our other securities will have on the market price of shares.

BUSINESS RISKS, CONTINUED

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.

The capital and credit markets have experienced unusual volatility and disruption during the last two years. The economic uncertainty has resulted in substantial fluctuations of the market prices for publicly traded securities and also resulted in decreased availability of financing for many businesses. Although steps have been taken by several U.S. government agencies to stabilize the economy, it is not certain at this time what impact, if any, that these financial market events or these government agency actions might have on us and our business 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 turbulence 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, 2009, 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. As of December 31, 2009, the Properties contained an aggregate of 47,572 developed sites comprised of 42,294 developed manufactured home sites, 3,176 permanent recreational vehicle sites, 2,102 seasonal recreational vehicle sites, and approximately 6,000 additional manufactured home sites suitable for development. Most of the Properties include amenities oriented toward family and retirement living. Of the 136 Properties, 65 have more than 300 developed manufactured home sites; with the largest having 999 developed manufactured home sites.

As of December 31, 2009, the Properties had an occupancy rate of 83.4 percent excluding seasonal recreational vehicle sites. Since January 1, 2009, the Properties have averaged an aggregate annual turnover of homes (where the home is moved out of the community) of approximately 2.8 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 4.9 percent. The average renewal rate for residents in our Rental Program was 58.3 percent for the year ended December 31, 2009.

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, 2009. The occupancy percentage includes manufactured home sites (“MH Sites”) and permanent recreational vehicle sites (“RV Sites”), and excludes seasonal RV sites.

Property	City	State	MH and	Seasonal	Occupancy as of 12/31/09	Occupancy as of 12/31/08	Occupancy as of 12/31/07
			Permanent RV Sites as of 12/31/09	RV Sites as of 12/31/09			
MIDWEST							
Michigan							
Academy/West Pointe (1)	Canton	MI	441	-	88%	88%	91%
Allendale Meadows Mobile Village	Allendale	MI	352	-	74%	73%	78%
Alpine Meadows Mobile Village	Grand Rapids	MI	403	-	82%	84%	85%
Bedford Hills Mobile Village	Battle Creek	MI	339	-	76%	74%	78%
Brentwood Mobile Village	Kentwood	MI	195	-	94%	92%	92%
Byron Center Mobile Village	Byron Center	MI	143	-	92%	93%	88%
Candlewick Court	Owosso	MI	211	-	76%	84%	85%
College Park Estates	Canton	MI	230	-	68%	73%	73%
Continental Estates	Davison	MI	385	-	37%	37%	43%
Continental North	Davison	MI	474	-	53%	54%	54%
Country Acres Mobile Village	Cadillac	MI	182	-	85%	86%	90%
Country Meadows Mobile Village	Flat Rock	MI	577	-	90%	91%	89%
Countryside Village	Perry	MI	359	-	70%	71%	80%
Creekwood Meadows	Burton	MI	336	-	59%	61%	64%
Cutler Estates Mobile Village	Grand Rapids	MI	259	-	90%	84%	84%
Davison East	Davison	MI	190	-	45%	45%	52%
Falcon Pointe (2)	East Lansing	MI	142	-	17%(2)	18%(2)	18%(2)
Fisherman’s Cove	Flint	MI	162	-	85%	80%	83%
Grand Mobile Estates	Grand Rapids	MI	230	-	72%	75%	77%
Hamlin (3)	Webberville	MI	209	-	72%(3)	74%(3)	75%(3)
Holly Village/Hawaiian Gardens (1)	Holly	MI	425	-	97%	97%	97%
Hunters Glen (2)	Wayland	MI	280	-	53%(2)	48%(2)	46%(2)
Kensington Meadows	Lansing	MI	290	-	81%	81%	80%
Kings Court Mobile Village	Traverse City	MI	639	-	98%	98%	97%
Knollwood Estates	Allendale	MI	161	-	79%	87%	88%
Lafayette Place	Metro Detroit	MI	254	-	65%	64%	68%
Lakeview	Ypsilanti	MI	392	-	91%	89%	91%
Lincoln Estates	Holland	MI	191	-	88%	94%	94%
Meadow Lake Estates	White Lake	MI	425	-	81%	81%	87%
Meadowbrook Estates	Monroe	MI	453	-	92%	94%	94%
Presidential Estates Mobile Village	Hudsonville	MI	364	-	84%	80%	83%
Richmond Place	Metro Detroit	MI	117	-	82%	77%	84%
River Haven Village	Grand Haven	MI	721	-	58%	59%	63%

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Scio Farms Estates	Ann Arbor	MI	913	-	95%	96%	93%
Sheffield Estates	Auburn Hills	MI	228	-	99%	99%	99%
Sherman Oaks	Jackson	MI	366	-	72%	74%	77%
St. Clair Place	Metro Detroit	MI	100	-	77%	76%	80%
	Portland						
Sunset Ridge (2)	Township	MI	190	-	92%(2)	93%(2)	87%(2)
Timberline Estates	Grand Rapids	MI	296	-	79%	79%	80%
Town & Country Mobile							
Village	Traverse City	MI	192	-	98%	100%	99%
Village Trails (3)	Howard City	MI	100	-	82%(3)	79%(3)	76%(3)
White Lake Mobile Home							
Village	White Lake	MI	315	-	98%	97%	95%
White Oak Estates	Mt. Morris	MI	480	-	70%	71%	74%
Windham Hills Estates (3)	Jackson	MI	402	-	62%(3)	66%(3)	69%(3)
Woodhaven Place	Metro Detroit	MI	220	-	97%	95%	95%
Michigan Total			14,333	-	78%	79%	80%

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Property	City	State	MH and	Seasonal	Occupancy as of 12/31/09	Occupancy as of 12/31/08	Occupancy as of 12/31/07
			Permanent RV Sites as of 12/31/09	RV Sites as of 12/31/09			
MIDWEST							
Indiana							
Brookside Mobile Home Village	Goshen	IN	570	-	61%	59%	66%
Carrington Pointe (3)	Ft. Wayne	IN	320	-	78%(3)	76%(3)	72%(3)
Clear Water Mobile Village	South Bend	IN	227	-	74%	72%	72%
Cobus Green Mobile Home Park	Elkhart	IN	386	-	60%	62%	66%
Deerfield Run (3)	Anderson	IN	175	-	68%(3)	65%(3)	67%(3)
Four Seasons	Elkhart	IN	218	-	79%	83%	92%
Holiday Mobile Home Village	Elkhart	IN	326	-	71%	79%	85%
Liberty Farms	Valparaiso	IN	220	-	99%	98%	100%
Maplewood	Lawrence	IN	207	-	74%	78%	81%
Meadows	Nappanee	IN	330	-	51%	50%	52%
Pebble Creek (2) (4)	Greenwood	IN	257	-	88%(2)	88%(2)	85%(2)
Pine Hills	Middlebury	IN	129	-	88%	78%	87%
Roxbury Park	Goshen	IN	398	-	85%	86%	87%
Timberbrook	Bristol	IN	567	-	56%	53%	58%
Valley Brook	Indianapolis	IN	798	-	54%	54%	59%
West Glen Village	Indianapolis	IN	552	-	70%	74%	78%
Woodlake Estates	Ft. Wayne	IN	338	-	47%	45%	48%
West							
Woods Edge Mobile Village (3)	Lafayette	IN	598	-	54%(3)	54%(3)	53%(3)
Indiana Total			6,616	-	66%	66%	69%
Ohio							
Apple Creek Manufactured Home Community and Self Storage							
	Amelia	OH	176	-	92%	86%	84%
Byrne Hill Village	Toledo	OH	236	-	86%	86%	90%
Catalina	Middletown	OH	462	-	61%	63%	65%
East Fork (2) (4)	Batavia	OH	215	-	93%(2)	89%(2)	89%(2)
Oakwood Village	Miamisburg	OH	511	-	84%	84%	83%
Orchard Lake	Milford	OH	147	-	95%	97%	99%
Westbrook Senior Village	Toledo	OH	112	-	99%	100%	99%
Westbrook Village	Toledo	OH	344	-	95%	97%	96%
Willowbrook Place	Toledo	OH	266	-	94%	94%	95%
Woodside Terrace	Holland	OH	439	-	84%	82%	84%
Lewis							
Worthington Arms	Center	OH	224	-	97%	95%	96%
Ohio Total			3,132	-	86%	85%	86%
SOUTH							
Texas							
Boulder Ridge (2)	Pflugerville	TX	527	-	73%(2)	69%(2)	65%(2)

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Branch Creek Estates	Austin	TX	392	-	99%	100%	98%
Casa del Valle	Alamo	TX	204	195	100%(5)	99%(5)	100%(5)
Chisholm Point Estates	Pflugerville	TX	416	-	95%	95%	89%
	New						
Comal Farms (2) (4)	Braunfels	TX	351	-	80%(2)	73%(2)	67%(2)
Kenwood RV and Mobile Home Plaza	LaFeria	TX	91	189	99%(5)	100%(5)	100%(5)
Oak Crest (2)	Austin	TX	335	-	74%(2)	70%(2)	61%(2)
Pecan Branch (2)	Georgetown	TX	69	-	93%(2)	84%(2)	72%(2)
Pine Trace (2)	Houston	TX	406	-	81%(2)	71%(2)	68%(2)
River Ranch (2) (4)	Austin	TX	121	-	99%(2)	96%(2)	88%(2)
River Ridge (2)	Austin	TX	337	-	96%(2)	94%(2)	82%(2)
Saddle Brook (2)	Austin	TX	255	-	75%(2)	63%(2)	61%(2)
Snow to Sun	Weslaco	TX	292	187	100%(5)	100%(5)	100%(5)
Stonebridge (2) (4)	San Antonio	TX	338	-	96%(2)	88%(2)	84%(2)
Summit Ridge (2) (4)	Converse	TX	250	-	100%(2)	95%(2)	87%(2)
Sunset Ridge (2) (4)	Kyle	TX	170	-	96%(2)	98%(2)	92%(2)
Woodlake Trails (2) (4)	San Antonio	TX	134	-	96%(2)	96%(2)	94%(2)
Texas Total			4,688	571	89%	85%	80%

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Property	City	State	MH and Permanent RV Sites as of 12/31/09	Seasonal RV Sites as of 12/31/09	Occupancy as of 12/31/09	Occupancy as of 12/31/08	Occupancy as of 12/31/07
SOUTHEAST							
Florida							
Arbor Terrace RV Park	Bradenton	FL	194	201	98%(5)	97%(5)	100%(5)
Ariana Village Mobile Home Park	Lakeland	FL	208	-	91%	92%	91%
Buttonwood Bay	Sebring	FL	789	151	100%(5)	100%(5)	100%(5)
Gold Coaster	Homestead	FL	428	117	99%(5)	99%(5)	99%(5)
Groves RV Resort	Ft. Myers	FL	148	136	99%(5)	98%(5)	97%(5)
Holly Forest Estates	Holly Hill	FL	402	-	100%	100%	100%
	Ft. Myers						
Indian Creek Park	Beach	FL	1,342	115	99%(5)	99%(5)	99%(5)
Island Lakes	Merritt Island	FL	301	-	100%	100%	100%
Kings Lake	Debary	FL	245	-	100%	99%	100%
Lake Juliana Landings	Auburndale	FL	274	-	98%	98%	96%
Lake San Marino RV Park	Naples	FL	205	204	100%(5)	100%(5)	100%(5)
Meadowbrook Village	Tampa	FL	257	-	99%	100%	99%
Orange Tree Village	Orange City	FL	246	-	99%	100%	100%
Royal Country	Miami	FL	864	-	100%	100%	100%
Saddle Oak Club	Ocala	FL	376	-	100%	100%	100%
	Ft. Myers						
Siesta Bay RV Park	Beach	FL	737	60	100%(5)	100%(5)	99%(5)
Silver Star Mobile Village	Orlando	FL	406	-	99%	99%	99%
Tampa East	Tampa	FL	193	507	99%(5)	99%(5)	100%(5)
Water Oak Country Club Estates	Lady Lake	FL	999	-	99%	99%	100%
Florida Total			8,614	1,491	99%	99%	99%

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Property	City	State	MH and		Occupancy as of 12/31/09	Occupancy as of 12/31/08	Occupancy as of 12/31/07
			Permanent RV Sites as of 12/31/09	Seasonal RV Sites as of 12/31/09			
OTHER							
Autumn Ridge	Ankeny	IA	413	-	99%	99%	99%
Bell Crossing (3)	Clarksville	TN	239	-	64%(3)	60%(3)	52%(3)
	Chicago						
Candlelight Village	Heights	IL	309	-	88%	92%	91%
Cave Creek (2)	Evans	CO	289	-	74%(2)	69%(2)	67%(2)
Countryside Atlanta (6)	Lawrenceville	GA	271	-	99%(6)	99%	97%
Countryside Gwinnett	Buford	GA	331	-	91%	96%	93%
Countryside Lake Lanier	Buford	GA	548	-	82%	83%	83%
Creeside (2) (4)	Reidsville	NC	45	-	64%(2)	67%(2)	63%(2)
Desert View Village (2)	West Wendover	NV	93	-	49%(2)	48%(2)	49%(2)
Eagle Crest (2)	Firestone	CO	317	-	97%(2)	86%(2)	80%(2)
Edwardsville	Edwardsville	KS	634	-	66%	68%	68%
Forest Meadows	Philomath	OR	75	-	100%	99%	99%
Glen Laurel (2) (4)	Concord	NC	260	-	57%(2)	47%(2)	44%(2)
High Pointe	Frederica	DE	411	-	92%	93%	97%
Meadowbrook (2) (4)	Charlotte	NC	177	-	93%(2)	92%(2)	98%(2)
North Point Estates (2)	Pueblo	CO	108	-	58%(2)	51%(2)	43%(2)
Pheasant Ridge	Lancaster	PA	553	-	100%	100%	100%
Pin Oak Parc	O'Fallon	MO	502	-	83%	88%	87%
Pine Ridge	Petersburg	VA	245	-	98%	97%	92%
Sea Air	Rehoboth Beach	DE	483	40	99%(5)	98%(5)	98%(5)
Southfork	Belton	MO	477	-	69%	71%	70%
Sun Villa Estates	Reno	NV	324	-	99%	99%	100%
Timber Ridge	Ft. Collins	CO	585	-	90%	88%	86%
Woodland Park Estates	Eugene	OR	398	-	98%	99%	98%
Other Total			8,087	40	86%	86%	85%
TOTAL / AVERAGE			45,470	2,102	83%	83%	83%

- (1) Properties have two licenses but operate as one community.
- (2) Occupancy in these properties reflects the fact that these communities are newly developed from the ground up.
- (3) Occupancy in these properties reflects the fact that these communities are in a lease-up phase following an expansion.
- (4) This Property is owned by an affiliate of Sunchamp LLC, an entity in which we own approximately a 78.9 percent equity interest as of December 31, 2009.
- (5) Occupancy percentage excludes seasonal RV sites. Percentage calculated by dividing revenue producing sites by developed sites. A revenue producing site is defined as a site that is occupied by a paying resident. A developed 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 home site.
- (6) The number of developed sites and occupancy percentage at this Property includes sites that we believe will be covered under our comprehensive insurance coverage (subject to deductibles and certain limitations) for both

property damage and business interruption from a flood that caused substantial damage to this Property.

ITEM 3. LEGAL PROCEEDINGS

On or about November 19, 2009, Sun Secured Financing LLC, Aspen-Ft. Collins Limited Partnership, Sun Secured Financing Houston Limited Partnership, Sun Communities Finance, LLC, Sun Holly Forest LLC and Sun Saddle Oak LLC (collectively, the “Plaintiffs”) filed suit against ARCS Commercial Mortgage Co., L.P., PNC ARCS, LLC, and the Federal National Mortgage Association (collectively, the “Defendants”) in the United States District Court for the District of Columbia as Case No. 1:09-cv-02162. The essence of the dispute is whether the terms of a commercial credit facility permitted Defendants to increase the Variable Facility Fee applicable to the outstanding variable rate loans in conjunction with an extension of the credit facility (and, if so, whether the Defendants properly exercised that right). As of April 29, 2009, the Plaintiffs have been paying the increased Variable Facility Fee. The Plaintiffs seek a judgment for the amount paid above the original Variable Facility Fee from April 29, 2009 to the date of judgment and an order that the Variable Facility Fee shall be returned to the original rate of 58 basis points on a going forward basis through the end of the extension period. The Defendants have filed a motion to dismiss the lawsuit, which motion has been fully briefed by the parties. Oral argument has not yet been scheduled.

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), filed a complaint against us, SunChamp, certain other of our affiliates, including two of our directors, 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. We believe 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 had filed an arbitration demand in Southfield, Michigan based on the same claims. We intend to vigorously defend against the allegations.

We are 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.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has been listed on the New York Stock Exchange ("NYSE") since December 8, 1993, and traded under the symbol "SUI". 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 us with respect to each period:

Year Ended December 31, 2009	High	Low	Distributions
1st Quarter	\$ 15.19	\$ 6.76	\$ 0.63
2nd Quarter	16.29	11.72	0.63
3rd Quarter	22.20	12.80	0.63
4th Quarter	21.95	17.08	0.63
Year Ended December 31, 2008	High	Low	Distributions
1st Quarter	\$ 22.29	\$ 17.64	\$ 0.63
2nd Quarter	21.47	17.93	0.63
3rd Quarter	21.25	16.47	0.63
4th Quarter	20.78	8.42	0.63

On March 1, 2010, the closing share price of our common stock was \$19.49 per share on the NYSE, and there were 282 holders of record for the approximately 18.8 million outstanding shares of common stock. The Operating Partnership had approximately 2.1 million OP Units outstanding which are convertible into an equivalent number of shares of common stock. The holders of the OP Units can exercise their conversion rights at any time.

We have historically paid regular quarterly distributions to holders of our common stock and OP Units. Future distributions will be at the discretion of our Board of Directors and will depend on our actual funds from operations, our financial condition, our capital requirements, and the annual distribution requirements applicable to REITs, and other factors that our Board of Directors deem relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table reflects information about the securities authorized for issuance under our equity compensation plans as of December 31, 2009.

Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding
---	---	---

Plan Category	(a)	(b)	securities reflected in column a)
Equity compensation plans approved by shareholders	116,701	\$ 28.43	966,000
Equity compensation plans not approved by shareholders (1)	35,260	32.75	-
Total	151,961	\$ 29.43	966,000

- (1) On May 29, 1997, we established a Long Term Incentive Plan (the "LTIP") pursuant to which all of our full-time salaried and full-time commission only employees, excluding our officers, were entitled to receive options to purchase shares of the our 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) we 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, our Board of Directors authorized us to repurchase up to 1,000,000 shares of our common stock. We have 400,000 common shares remaining in the repurchase program. No common shares were repurchased under this program during 2009. There is no expiration date specified for the buyback program.

Recent Sales of Unregistered Securities

From time to time, we may issue shares of common stock in exchange for OP Units tendered to the Operating Partnership for redemption in accordance with the terms and provisions of the limited partnership agreement of the Operating Partnership. Such shares are issued based on an exchange ratio of one share for each OP Unit. Common OP Unit holders can convert their Common OP units into an equivalent number of shares of common stock at any time.

In March 2009, our Operating Partnership issued 110,444 Common OP Units to Water Oak, Ltd. During 2009, holders of Common OP Units have converted 158,207 units to common stock.

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.

Use of Proceeds from Sales of Registered Securities

We received net proceeds of approximately \$1.9 million from the sale of 100,000 shares of common stock during the year ended December 31, 2009. The shares of common stock were sold at the prevailing market price of our common stock at the time of each sale with a weighted average sale price of \$19.98. The proceeds were used to pay down our unsecured line of credit.

Performance Graph

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on our 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 fifteen publicly traded residential real estate investment trusts, for the five year period ending on December 31, 2009. This line graph assumes a \$100 investment on December 31, 2004, a reinvestment of dividends and actual increase of the market value of our 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 our common stock.

Index	As of December31,					
	2004	2005	2006	2007	2008	2009
Sun Communities, Inc.	100.00	83.69	93.11	65.77	50.79	85.09
SNL US REIT						
Residential	100.00	113.60	158.92	119.21	88.88	119.25
NYSE Market Index	100.00	120.95	145.95	159.29	96.93	124.63

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, as amended, or the Securities Exchange Act of 1934, as amended, that is made on, before or after the date of filing of this Annual Report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information on a historical basis. The historical financial data has been derived from our historical financial statements. The following information should be read in conjunction with the information included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and the financial statements and accompanying notes included herein.

	Years Ended December 31,				
	2009	2008 (a)	2007 (a)	2006 (a)	2005 (a)
(In thousands, except for share related data)					
OPERATING DATA:					
Revenues	\$ 256,609	\$ 254,291	\$ 235,075	\$ 226,773	\$ 210,976
Amounts attributable to Sun Communities, Inc. common stockholders:					
Loss from continuing operations	(6,099)	(29,209)	(15,940)	(24,680)	(5,677)
Net loss	(6,302)	(34,448)	(16,643)	(24,968)	(5,452)
Loss from continuing operations per share - basic and diluted	\$ (0.33)	\$ (1.61)	\$ (0.89)	\$ (1.41)	\$ (0.32)
Distributions per common share	\$ 2.52	\$ 2.52	\$ 2.52	\$ 2.52	\$ 2.50
BALANCE SHEET DATA:					
Investment property before accumulated depreciation	\$ 1,565,700	\$ 1,549,339	\$ 1,537,865	\$ 1,511,655	\$ 1,463,853
Total assets	1,181,365	1,206,999	1,245,823	1,289,739	1,320,536
Total debt and lines of credit	1,253,907	1,229,571	1,187,675	1,166,850	1,123,468
Total stockholders’ equity (deficit)	(111,308)	(59,882)	26,046	91,588	164,801
OTHER FINANCIAL DATA:					
Net operating income (NOI) (b) from:					
Real property operations	\$ 131,131	\$ 130,222	\$ 126,329	\$ 123,531	\$ 118,682
Home sales and home rentals	13,410	12,051	9,734	8,466	6,304
Funds from operations (FFO) (c)	\$ 55,976	\$ 26,501	\$ 45,439	\$ 34,560	\$ 51,313
Adjustment for special items	3,516	30,529	9,829	18,000	-
Adjusted FFO (c)	59,492	57,030	55,268	52,560	51,313
Adjusted FFO(c) per weighted average Common Share/OP Unit - Diluted	\$ 2.86	\$ 2.78	\$ 2.72	\$ 2.61	\$ 2.54

- (a) Financial information has been restated to reflect the reclassification of our cable television service business as a discontinued operation. Additionally, financial information has been restated to reflect the reclassification of our noncontrolling interest as a component of stockholders’ equity (deficit) and to reflect the amounts attributable to Sun Communities, Inc. common stockholders.
- (b) Refer to Item 7, Supplemental Measures, for information regarding the presentation of the net operating income (“NOI”) financial measure.
- (c) Refer to Item 7, Supplemental Measures, for information regarding the presentation of the funds from operations (“FFO”) and adjusted FFO financial measure.

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

We are a fully integrated, self-administered and self-managed REIT. We own, operate, and develop manufactured housing communities concentrated in the midwestern, southern, and southeastern United States. As of December 31, 2009, we 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.

The majority of our revenue (Income from real property) is affected by occupancy and our ability to raise rents. Our residents normally sign a one year lease and then lease on a month to month basis for the next ten to fifteen years. Few of our leases are tied to published CPI statistics or other indices therefore allowing us significant flexibility in rental increases based on the markets in which we operate. Weighted average rent increases over the last five years have ranged from 2.8 percent to 3.9 percent and we expect to continue to be able to increase rents at or near these levels in the future.

Our rental program, established during the significant downturn in our industry during the early to mid 2000's, has become a significant contributor to the stability and improvement of our occupancies and revenue stream. Over the past several years, the rental program has been the single largest contributor to the generation of applications to live in our communities, which numbered nearly 19,000 in 2009. We own and rent approximately 6,000 homes throughout our portfolio applying stringent approval standards (over 50% of our rental applications are denied) to each applicant thereby ensuring maintenance of the quality of our communities as desirable neighborhoods in which to live. During 2009 occupants in the rental program increased by 230 and we anticipate occupancy increases during 2010 of approximately 220 lessees.

Homes sales and profit margins have increased over the past several years as we have created focused programs to convert qualified renters to home owners. Units sold have increased from 965 in 2008 to 1,116 in 2009 and we anticipate selling nearly 1,300 homes in the coming year. Our ability to sell homes is dependent on access to financing for the prospective buyer. Although the majority of our home sales are financed through third party lenders, we do provide financing for certain home purchasers who are unable to obtain financing through other means.

The economic downturns and market volatility during the past two years have presented both challenges and opportunities. We provide affordable housing to the marketplace which, in difficult times, requires the housing values that our products and programs offer. This demand is somewhat offset by job losses in our resident base resulting from businesses closing and layoffs which occur in times of economic contraction.

The broader financial markets which provide capital for funding our continued growth and refinancing of debt remain constrained. We are focused on financing opportunities which will allow us to replace our \$115 million unsecured revolving line of credit and \$104 million of secured debt, both of which come due in 2011. We have no significant debt maturities in 2010.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss our 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 our Consolidated Financial Statements:

Investment Property

Investment property is recorded at cost, less accumulated depreciation. We review the carrying value of long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate a possible impairment. Circumstances that may prompt a test of recoverability may include a significant decrease in the anticipated market price, and adverse change to the extent for manner in which an asset may be used or in its physical condition or other such events that may significantly change the value of the long-lived asset. An impairment loss is recognized when a long-lived asset's carrying value is not recoverable and exceeds estimated fair value. We estimate the fair value of our long lived assets based on future cash flows 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. Future events could occur which would cause us to conclude that impairment indicators exist and an impairment loss is warranted.

Investment in Affiliates

Investments in affiliates in which we do not have a controlling direct or indirect voting interest, but can exercise significant influence over the entity with respect to its operations and major decisions, are accounted for using the equity method of accounting. The carrying value of our investment is adjusted for our proportionate share of the affiliate's net income or loss and reduced by distributions received. We review the carrying value of our investment in affiliates for other than temporary impairment whenever events or changes in circumstances indicate a possible impairment. Financial condition, operational performance, and other economic trends are some of the factors we consider when we evaluate the existence of impairment indicators.

Notes and Accounts Receivable

We evaluate the recoverability of our 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 we believe that collection is less than probable, which is generally after a resident balance reaches 60 to 90 days past due.

The ability to collect our notes receivable is measured based on current and historical information and events. We consider numerous factors including: length of delinquency, estimated costs to lease or sell, and repossession history. We reserve for estimated unrecoverable costs associated with our notes receivables. We estimate our unrecoverable costs to be the repurchase price plus repair and remarketing costs that exceed the estimated selling price

of the home being repossessed. A historical average of this excess cost is calculated based on prior repossessions and applied to our estimated annual future repossessions to create the allowance for our notes receivable.

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 from us 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

We capitalize certain costs incurred in connection with the development, redevelopment, capital enhancement and leasing of our 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 our 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 our computer systems are capitalized and amortized over the estimated useful lives of the related software and hardware.

Derivative Instruments and Hedging Activities

We have four derivative contracts consisting of three interest rate swap agreements with a total notional amount of \$70.0 million, and an interest rate cap agreement with a notional amount of \$152.4 million as of December 31, 2009. We do not enter into derivative instruments for speculative purposes. We adjust our balance sheet on a quarterly basis to reflect current fair market value of our derivatives. Changes in the fair value of derivatives are recorded 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 effective portion of the hedge is recorded in accumulated other comprehensive income. We use 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

We have elected to be taxed as a REIT as defined under Section 856(c) of the Code. In order for us to qualify as a REIT, at least ninety-five percent (95%) of our gross income in any year must be derived from qualifying sources. As a REIT, we generally will not be subject to U.S. federal income taxes at the corporate level if we distribute at least ninety percent (90%) of its REIT ordinary taxable income to our stockholders, which we fully intends to do. If we fail to qualify as a REIT in any taxable year, we will be subject to Federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. We remain subject to certain state and local taxes on our income and property as well as Federal income and excise taxes on our undistributed income.

We are subject to certain state taxes that are considered income taxes and have 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

In December 2007 the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51", which is included within ASC Topic 810, Consolidation. ASC Topic 810 requires that losses be allocated to the noncontrolling interest even when such allocation results in a deficit balance, reducing the losses attributed to the controlling interest. We applied the updated provisions of ASC Topic 810 beginning January 1, 2009. The adoption of this accounting standard resulted in a change to our presentation of noncontrolling interest within our Consolidated Financial Statements. Additionally, we were no longer required to recognize distributions paid to our noncontrolling partners as a charge to earnings.

SUPPLEMENTAL MEASURES

In addition to the results reported in accordance with GAAP, we have provided information regarding Net Operating Income (“NOI”) in the following tables. NOI is derived from revenues minus property operating expenses and real estate taxes. We use NOI as the primary basis to evaluate the performance of our operations. A reconciliation of NOI to net income (loss) attributable to Sun Communities, Inc. is included in “Results of Operations” below.

We believe 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. We use 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 our properties rather than of the Company overall. We believe that these costs included in net income (loss) often have no effect on the market value of our 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 (loss) as an indicator of our financial performance, or to cash flows as a measure of liquidity; nor is it indicative of funds available for our cash needs, including our ability to make cash distributions. NOI, as determined and presented by us, may not be comparable to related or similarly titled measures reported by other companies.

We also provide information regarding Funds From Operations (“FFO”). A definition of FFO and a reconciliation of FFO to net loss are included in the presentation of FFO in “Results of Operations” following the “Comparison of the Years Ended December 31, 2009 and 2008”.

RESULTS OF OPERATIONS

We report 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. We evaluate segment operating performance based on NOI.

The accounting policies of the segments are the same as those applied in the Consolidated Financial Statements, except for the use of NOI. We may allocate certain common costs, primarily corporate functions, between the segments differently than we 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. We do not allocate interest expense and certain other corporate costs not directly associated with the segments’ NOI.

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2009 AND 2008

REAL PROPERTY OPERATIONS - SAME SITE

A key management tool we use when evaluating performance and growth of our properties is a comparison of Same Site communities. Same Site communities consist of properties owned and operated for the same period in both years for the years ended December 31, 2009 and 2008. Our Same Site portfolio is equal to our total portfolio for the years ended December 31, 2009 and 2008. The Same Site data may change from time-to-time depending on acquisitions, dispositions, management discretion, significant transactions, or unique situations.

In order to evaluate the growth of the Same Site communities, management has classified certain items differently than our GAAP statements. The reclassification difference between our GAAP statements and our Same Site portfolio is the reclassification of water and sewer revenues from income from real property to utilities. A significant portion of our utility charges are re-billed to our residents. We reclassify these amounts to reflect the utility expenses associated with our Same Site portfolio, net of recovery.

The following tables reflect certain financial and other information for our Same Site communities as of and for the years ended December 31, 2009 and 2008:

Financial Information (in thousands)	Years Ended December 31,			
	2009	2008	Change	% Change
Income from Real Property, net	\$ 188,423	\$ 185,656	\$ 2,767	1.5%
Property operating expenses:				
Payroll and benefits	15,547	15,053	494	3.3%
Legal, taxes, & insurance	3,163	2,996	167	5.6%
Utilities, net	11,934	11,383	551	4.8%
Supplies and repair	6,841	6,843	(2)	0.0%
Other	3,270	3,177	93	2.9%
Real estate taxes	16,537	15,982	555	3.5%
Property operating expenses	57,292	55,434	1,858	3.4%
Real Property NOI	\$ 131,131	\$ 130,222	\$ 909	0.7%

Other Information	As of December 31,		
	2009	2008	Change
Number of properties	136	136	-
Developed sites	47,572	47,613	(41)
Occupied sites (1)	37,935	37,711	224
Occupancy % (1)	83.4%	83.1%	0.3%
Weighted average monthly rent per site (2)	\$ 404	\$ 393	\$ 11
Sites available for development	5,588	5,583	5

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

(2) Average rent relates only to manufactured housing sites, and excludes permanent and seasonal recreational vehicle sites.

Real Property NOI increased by \$0.9 million from \$130.2 million to \$131.1 million, or 0.7 percent. The growth in NOI is primarily due to increased revenues. Income from real property revenues consist of manufactured home and

recreational vehicle site rent, and miscellaneous other property revenues. Income from real property revenues increased \$2.8 million, from \$185.6 million to \$188.4 million, or 1.5 percent. The growth in income from real property was due to a combination of factors. Revenue from our manufactured home and recreational vehicle portfolio increased by \$3.2 million due to average rental rate increases of 2.8 percent and due to the increased number of occupied home sites. This growth in revenue was partially offset by rent concessions offered to new residents and current residents converting from home renters to home owners. Additionally, we experienced decreased miscellaneous other property revenues of \$0.4 million primarily due to reduced revenue realized on cable television revenue sharing agreements that expired during 2008.

Property operating expenses increased \$1.9 million, from \$55.4 million to \$57.3 million, or 3.4 percent. The growth in property operating expenses was due to several factors. Payroll and benefits increased by \$0.5 million due to increased health insurance costs and increased wages from annual merit raises. Utility costs, primarily related to water, electricity charges, and rubbish removal, increased \$0.6 million due to increased rates on these services. Real estate taxes increased by \$0.5 million primarily due to tax appeal refunds that reduced real estate taxes in Michigan and Texas during 2008. Property and casualty insurance increased by \$0.2 million due to increased premiums on insurance policies. Other property operating expenses increased by \$0.1 million due to increased administrative costs for postage, advertising, etc.

HOME SALES AND RENTALS

We acquire pre-owned and repossessed manufactured homes located within our communities from lenders and dealers at substantial discounts. We lease or sell these value priced homes to current and prospective residents. We also purchase new homes to lease and sell to current and prospective residents. The programs we have established for our customers to lease or buy new and pre-owned homes have helped to stabilize portfolio occupancy.

The Rental Program has proven to be an effective response to the adverse factors we faced during the industry downturn and now draws nearly 15,000 applications per year to rent homes in our 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.

The following table reflects certain financial and other information for our Rental Program as of and for the years ended December 31, 2009 and 2008 (in thousands, except for certain items marked with *):

Financial Information	Years Ended December 31,			
	2009	2008	Change	% Change
Rental home revenue	\$ 20,463	\$ 20,533	\$ (70)	-0.3%
Site rent from Rental Program (1)	26,699	24,537	2,162	8.8%
Rental Program revenue	47,162	45,070	2,092	4.6%
Expenses				
Payroll and commissions	2,335	2,008	327	16.3%
Repairs and refurbishment	7,513	7,419	94	1.3%
Taxes and insurance	3,101	2,802	299	10.7%
Marketing and other	3,342	3,444	(102)	-3.0%
Rental Program operating and maintenance	16,291	15,673	618	3.9%
Rental Program NOI	\$ 30,871	\$ 29,397	\$ 1,474	5.0%
Other Information				
Number of occupied rentals, end of period*	5,747	5,517	230	4.2%
Investment in occupied rental homes	\$ 181,206	\$ 170,521	\$ 10,685	6.3%
Number of sold rental homes*	705	596	109	18.3%
Weighted average monthly rental rate*	\$ 728	\$ 736	\$ (8)	-1.1%

(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.

Rental Program NOI increased \$1.5 million from \$29.4 million to \$30.9 million, or 5.0 percent due to increased revenues of \$2.1 million, offset by increased expenses of \$0.6 million. Revenues increased \$2.1 million primarily due to the increased number of residents participating in the Rental Program as indicated in the table above.

The growth in operating and maintenance expenses of \$0.6 million was due to several factors. Commissions increased by \$0.3 million due to an increase in the number of new and renewed leases on which commissions and related payroll taxes were paid. Expenses associated with repairs and refurbishment increased by \$0.1 million. Repairs costs associated with occupied home rentals increased by \$0.2 million due to the increased number of occupied homes in the Rental Program. Refurbishment costs decreased by \$0.1 million due a decline in the average cost associated with preparing a previously leased home for a new occupant. Taxes and insurance expenses increased

by \$0.3 million as these costs generally increase as the number of homes in the Rental Program increase. Marketing and other costs decreased by \$0.1 million due to reductions in bad debt expense offset by increased advertising expenses.

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The following table reflects certain financial and statistical information for our Home Sales Program for the years ended December 31, 2009 and 2008 (in thousands, except for statistical information):

Financial Information	Years Ended December 31,			
	2009	2008	Change	% Change
New home sales	\$ 5,049	\$ 8,652	\$ (3,603)	-41.6%
Pre-owned home sales	27,672	22,825	4,847	21.2%
Revenue from homes sales	32,721	31,477	1,244	4.0%
New home cost of sales	4,261	7,690	(3,429)	-44.6%
Pre-owned home cost of sales	19,222	16,596	2,626	15.8%
Cost of home sales	23,483	24,286	(803)	-3.3%
Home Sales NOI / Gross profit	\$ 9,238	\$ 7,191	\$ 2,047	28.5%
Gross profit – new homes	788	962	(174)	-18.1%
Gross margin % – new homes	15.6%	11.1%		4.5%
Gross profit – pre-owned homes	8,450	6,229	2,221	35.7%
Gross margin % – pre-owned homes	30.5%	27.3%		