

AFFORDABLE RESIDENTIAL COMMUNITIES INC

Form 424B4

February 12, 2004

Filed Pursuant to Rule 424(b)(4)

Registration No. 333-109816

24,508,617 Shares of Common Stock

This is the initial public offering of shares of common stock of Affordable Residential Communities Inc. We are offering 22,250,000 shares of our common stock, and 2,258,617 shares of common stock are being offered by the selling stockholders described in this prospectus. We have granted the underwriters an option to purchase up to 3,676,292 additional shares of our common stock to cover over-allotments. We will not receive any of the proceeds from the sale of the shares by the selling stockholders. We have elected to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes.

Our common stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol "ARC."

Concurrently with this offering, we are also conducting an offering of 5,000,000 shares of our 8.25% Series A cumulative redeemable preferred stock, \$25.00 liquidation value per share.

See "Risk Factors" beginning on page 16 of this prospectus for certain risks relevant to an investment in our common stock, including, among others:

Our estimated initial annual distribution represents approximately 208.7% of our estimated cash available for distribution to our common stockholders for the twelve months ended September 30, 2004. We expect to fund our estimated initial annual distribution from our operating cash flow and from cash generated from our new senior fixed and variable rate mortgage debt described herein. Unless our operating cash flow increases substantially, we will be required either to fund future distributions from borrowings under our senior revolving credit facility or to reduce such distributions. If we use working capital or borrowings under our senior revolving credit facility to fund these distributions, this will reduce our cash available for distribution and the availability of the senior revolving credit facility for other purposes, which could negatively impact our financial condition and our ability to expand our business and fund our growth initiatives.

We expect approximately 87% of our estimated initial annual distribution will represent a return of capital for the tax period ending December 31, 2004, which could result in increased capital gain recognition in a subsequent sale of your common stock.

We may not successfully integrate the Hometown communities and realize the improvements in occupancy and operating results that we anticipate from this acquisition.

Adverse economic or other conditions in the markets in which we do business, including our five largest markets of Dallas-Fort Worth, Texas; Atlanta, Georgia; Salt Lake City, Utah; the Front Range of Colorado; and Jacksonville, Florida, could negatively affect our occupancy and our results of operations.

We may not be able to maintain and improve our occupancy through expansion of our rental home program or our in-community home sales and financing initiative, which could negatively affect our revenue and our results of operations.

The manufactured housing industry continues to face a challenging operating environment marked by a shortage of available financing for home purchases and a significant decrease in manufactured home shipments, which has put downward pressure on occupancy in manufactured home communities and may continue to do so.

We are subject to the risks normally associated with debt financing, including the risk that payments of principal and interest on borrowings may leave us with insufficient cash to operate our communities or to pay the distributions currently contemplated or necessary to maintain our REIT status. Upon consummation of our concurrent common

and preferred stock offerings, the Hometown acquisition and the financing transactions described in this prospectus, we expect to have approximately \$950 million of outstanding indebtedness. Additionally, we could become more highly leveraged because our charter documents contain no limitation on the amount of indebtedness we may incur.

After completion of our concurrent common and preferred stock offerings, our directors, executive officers and stockholders affiliated with them will beneficially own approximately 35.2% in the aggregate of our outstanding common stock on a fully diluted basis, and our stockholders associated with Thomas H. Lee Partners, L.P., UBS Capital Americas, LLC and Nassau Capital Funds, L.P. will own approximately 31.9% in the aggregate of our outstanding common stock on a fully diluted basis, initially will have six representatives on our eleven-member board of directors and will have the ability to control most actions taken by our board of directors and to exercise substantial influence over any matter presented to our stockholders.

We have reported historical accounting losses on a consolidated basis since our inception, including losses before allocation to minority interest of \$31.1 million for the nine months ended September 30, 2003 and \$47.3 million, \$12.8 million and \$14.1 million for the years ended December 31, 2002, 2001 and 2000, respectively, and we may continue to report accounting losses in the future.

	Per share	Total
Public offering price	\$19.0000	\$465,663,723
Underwriting discount(1)	\$ 1.1875	\$ 29,103,983
Proceeds to us (before expenses)	\$17.8125	\$396,328,125
Proceeds to the selling stockholders (before expenses)	\$17.8125	\$ 40,231,615

(1)Does not include a financial advisory fee equal to 0.75% of the public offering price payable to Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

The underwriters expect to deliver the shares of common stock on or about February 18, 2004.

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

Citigroup
Credit Suisse First Boston

Merrill Lynch & Co.

Morgan Stanley

UBS Investment Bank

Wachovia Securities

Legg Mason Wood Walker
Incorporated

McDonald Investments
Inc.

Keefe, Bruyette & Woods

The date of this prospectus is February 11, 2004

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You should only rely on the information contained in this prospectus or to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this prospectus.

Until March 7, 2004 (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding our company and the historical and pro forma financial statements appearing elsewhere in this prospectus, including under the caption "Risk Factors." Unless the context otherwise requires, references in this prospectus to "ARC," "we," "our company," "our" and "us" refer to Affordable Residential Communities Inc., a Maryland corporation (formerly known as ARC IV REIT, Inc.), together with our consolidated subsidiaries, including Affordable Residential Communities LP, a Delaware limited partnership of which we are the sole general partner and which we refer to in this prospectus as our "operating partnership." Unless otherwise indicated, the information contained in this prospectus is as of September 30, 2003 and assumes that the underwriters' over-allotment option is not exercised, the Hometown acquisition and the financing transactions described herein are completed and our concurrent offering of our 8.25% Series A cumulative

redeemable preferred stock, or our Series A preferred stock, is completed.

Affordable Residential Communities Inc.

Overview

We are a fully integrated, self-administered and self-managed equity REIT focused primarily on the acquisition, renovation, repositioning and operation of all-age manufactured home communities. We also rent and sell manufactured homes, finance sales of manufactured homes and act as agent in the sale of homeowners' insurance and other related insurance products, all exclusively to residents in our communities. We conduct all of our business activities through our operating partnership, of which we are the sole general partner and in which we will hold a 94.3% ownership interest upon completion of our concurrent offerings.

Upon completion of our pending acquisition of 90 communities with approximately 26,000 homesites from Hometown America, L.L.C., or the Hometown acquisition, we will be the largest owner and operator of manufactured home communities in the U.S. with 302 communities and approximately 67,000 homesites in 29 states. These communities include approximately 12,000 vacant homesites for future lease-up, which provide opportunities to increase our occupancy and our operating margins, as well as undeveloped land with approximately 3,000 additional expansion homesites.

Our co-founders, Scott D. Jackson, our Chairman and Chief Executive Officer, and John G. Sprengle, our Vice Chairman, Executive Vice President and Chief Financial Officer, have been in the business of acquiring and operating manufactured home communities since 1995. We believe we have developed a superior acquisition platform and operating infrastructure that enable us to identify and execute on opportunities to acquire both stabilized and non-stabilized communities and improve their occupancy and operating results. Average total occupancy for communities we owned for at least one year at the end of the indicated period, excluding the Hometown acquisition, has increased from 87.6% for the year ended December 31, 2000, to 88.6% for the year ended December 31, 2001, to 92.2% for the year ended December 31, 2002, and was 91.2% for the nine months ended September 30, 2003.

Our principal executive, corporate and property management offices are located at 600 Grant Street, Suite 900, Denver, Colorado 80203, and our telephone number is (303) 291-0222. Our internet address is www.aboutarc.com. The information contained on our website is not part of this prospectus.

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Our Competitive Strengths and Operating Strategies

Our principal business objectives are to achieve sustainable long-term growth in cash flow per share and to maximize returns to our stockholders. Our key competitive strengths and operating strategies include the following:

- **Proven Growth Platform**
- **Strong Operating Performance**
- **Significant Presence in Key Markets**
- **Broad-Based Marketing Efforts**
- **Proactive Management to Maximize Occupancy**
- **Customer Satisfaction and Quality Control**

Key Programs and Initiatives

Rental Home Program. Our real estate revenue (revenue in our real estate segment) consists of homeowner rental income, home renter rental income and utility and other income. We receive homeowner rental income from manufactured homeowners who lease homesites in our communities, and we receive home renter rental income from persons who rent manufactured homes and homesites from us in our communities pursuant to our rental home program which we implemented in the fourth quarter of 2000. For the year ended December 31, 2002, and the nine months ended September 30, 2003, home renter rental income totaled \$16.9 million, or approximately 16% of our total real estate revenue, and \$23.5 million, or approximately 22% of our total real estate revenue, respectively and homeowner rental income totaled \$80.2 million, or approximately 75% of our total real estate revenue, and \$74.5 million, or approximately 69% of our total real estate revenue, respectively. Our net loss available to our common stockholders for the year ended December 31, 2002 and the nine months ended September 30, 2003 was \$40.8 million and \$23.7 million, respectively. At September 30, 2003, excluding approximately 600 rental homes we plan to acquire in the Hometown acquisition, we had a total of 6,003 rental homes in our communities for which we incurred acquisition costs including improvements of \$131.6 million. These rental homes had an occupancy rate of approximately 81% at September 30, 2003. We intend to continue to expand our rental home program in the future, including in the communities we expect to acquire from Hometown.

In-Community Retail Home Sales and Consumer Financing Initiative. Through our retail home sales business, we sell manufactured homes to prospective residents in our communities at reasonable prices. Through our consumer financing initiative, we provide loans to qualified residents to facilitate purchases of manufactured homes located in our communities. We do not intend to acquire additional manufactured home inventory for sale until we sell some of the homes we currently own, and, to the extent necessary, the proceeds from the sale of existing manufactured home inventory will be used to pay interest expense associated with any debt incurred for the purchase of new manufactured home inventory.

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Summary Risk Factors

You should carefully consider the matters discussed in the section "Risk Factors" beginning on page 16, including the following, prior to deciding whether to invest in our common stock:

- Our estimated initial annual distribution represents approximately 208.7% of our estimated cash available for distribution to our common stockholders for the twelve months ended September 30, 2004. We expect to fund our estimated initial annual distribution from our operating cash flow and from cash generated from our new senior fixed and variable rate mortgage debt described herein. Unless our operating cash flow increases substantially, we will be required either to fund future distributions from borrowings under our senior revolving credit facility or to reduce such distributions. If we use working capital or borrowings under our senior revolving credit facility to fund these distributions, this will reduce our cash available for distribution and the availability of the senior revolving credit facility for other purposes, which could negatively impact our financial condition and our ability to expand our business and fund our growth initiatives.

• We expect approximately 87% of our estimated initial annual distribution will represent a return of capital for the tax period ending December 31, 2004, which could result in increased capital gain recognition in a subsequent sale of your common stock.

We may not successfully integrate the Hometown communities and realize the improvements in occupancy and operating results that we anticipate from this acquisition.

• Adverse economic or other conditions in the markets in which we do business, including our five largest markets of Dallas-Fort Worth, Texas; Atlanta, Georgia; Salt Lake City, Utah; the Front Range of Colorado; and Jacksonville, Florida could negatively affect our occupancy and our results of operations.

• We may not be able to maintain and improve our occupancy through expansion of our rental home program or our in-community home sales and financing initiative, which could negatively affect our revenue and our results of operations.

• The manufactured housing industry continues to face a challenging operating environment marked by a shortage of available financing for home purchases and a significant decrease in manufactured home shipments, which has put downward pressure on occupancy in manufactured home communities and may continue to do so.

• We are subject to the risks normally associated with debt financing, including the risk that payments of principal and interest on borrowings may leave us with insufficient cash to operate our communities or to pay the distributions currently contemplated or necessary to maintain our REIT status. Upon consummation of our concurrent offerings, the Hometown acquisition and the financing transactions, we expect to have approximately \$950 million of outstanding indebtedness. Additionally, we could become more highly leveraged because our charter documents contain no limitation on the amount of indebtedness we may incur.

• After completion of our concurrent offerings, our directors, executive officers and stockholders affiliated with them will beneficially own approximately 35.2% in the aggregate of our outstanding common stock on a fully diluted basis and our stockholders associated with Thomas H. Lee Partners, L.P., UBS Capital Americas, LLC and Nassau Capital Funds, L.P. will own approximately 31.9% in the aggregate of our outstanding common stock on a fully diluted basis, initially will have six representatives on our eleven-member board of directors and will have the ability to control most actions taken by our board of directors and to exercise substantial influence over any matter presented to our stockholders.

• We have reported historical accounting losses on a consolidated basis since our inception, including losses before allocation to minority interest of \$31.1 million for the nine months ended September 30, 2003 and \$47.3 million, \$12.8 million and \$14.1 million for the years ended December 31, 2002, 2001 and 2000, respectively, and we may continue to report accounting losses in the future.

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• We may not be successful in identifying suitable acquisitions that meet our criteria or in completing such acquisitions and successfully integrating and operating acquired properties, which may impede our growth and negatively affect our results of operations.

• Our senior revolving credit facility will contain covenants that restrict our ability to make distributions or other payments to our stockholders unless certain financial tests are satisfied. We will not be permitted to pay distributions to our stockholders over any period of four calendar quarters in an amount that exceeds 90% of our funds from operations (as defined under the credit facility, which includes the Hometown acquisition, the financing transactions and our concurrent offerings on a pro forma basis) over such period of four calendar quarters, except that we may pay up to an additional \$30 million in distributions during the four quarters ending March 31, 2005, provided that if we do so we will not be able to increase our distribution during these four quarters.

•

You will experience immediate and significant dilution in the book value of our common stock offered in our common stock offering equal to \$5.94 per share.

• The availability of competing housing alternatives in our markets could negatively affect occupancy levels and rents in our communities, which could adversely affect our revenue and our results of operations.

- Our business could be harmed if key personnel terminate their employment with us.

• We may change our investment and financing strategies and enter into new lines of business without stockholder consent, which may result in riskier investments than our current investments.

• Our failure to qualify as a REIT would result in higher tax expenses and reduced cash available for distribution to our common stockholders.

Hometown Acquisition

On October 14, 2003, we entered into an agreement with Hometown America, L.L.C., or Hometown, to acquire 90 manufactured home communities with 26,406 homesites for a purchase price of \$478.5 million, plus the assumption of approximately \$86.1 million in mortgage debt encumbering 22 of these communities. Pursuant to the agreement with Hometown, we also have agreed to acquire related community assets comprised of rental homes, for-sale home inventory and consumer loans, as well as a secured note receivable, for a total purchase price of approximately \$23.0 million. We also have agreed to pay Hometown an additional \$7.5 million fee if we complete our common stock offering on or before the later of March 31, 2004 and the thirtieth day after we complete the Hometown acquisition. We expect to incur approximately \$8.1 million in fees and transaction costs in connection with completing the Hometown acquisition, including \$2.8 million in financial advisory fees to be paid to affiliates of our lead underwriters.

At September 30, 2003, the Hometown communities had an occupancy rate of approximately 76%. We believe that over time we can substantially improve the occupancy, revenue and cash flow of the Hometown communities based on our operating experience in overlapping markets and our extensive experience in renovating and repositioning underperforming and non-stabilized communities.

We negotiated the right to begin managing the Hometown communities during the period prior to our completion of the acquisition in order to accelerate the timing of our integration of these communities into our operations and to improve the effectiveness of that integration. We assumed management or submanagement of the Hometown communities on November 1, 2003 pursuant to a management agreement with Hometown, and on December 15, 2003 and January 15, 2004, we paid Hometown cash deposits of \$2.5 million and \$2.5 million, respectively, in accordance with the terms of our acquisition agreement, in connection with our assumption of these management and submanagement duties. Hometown may terminate the management agreement and our management rights at any time and for any reason, provided that it immediately returns to us all such cash deposits made by us.

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We will not receive any compensation from Hometown in consideration for managing the Hometown communities, and we do not expect to incur significant costs in connection with our management of these communities prior to completion of the Hometown acquisition. We hired all Hometown employees actively employed at the Hometown communities effective January 1, 2004, although Hometown will be obligated to reimburse us for the costs associated with such employment until we complete the Hometown acquisition. We are submanaging 22 of the Hometown communities comprising 6,297 Hometown homesites, subject to Hometown's oversight and control. After the closing of the Hometown acquisition we will manage all of the Hometown communities.

We expect to complete the Hometown acquisition simultaneously with completion of our concurrent offerings. Our completion of the Hometown acquisition is subject to a number of conditions, including the absence of any material inaccuracy or breach of the representations and warranties made by Hometown in the agreement and the absence of any material breach by Hometown of any of its covenants in the agreement. We believe that the representations, warranties and covenants in the Hometown acquisition agreement are standard for transactions of this nature. However, we cannot assure you that all conditions to the Hometown acquisition will be satisfied or that we will complete our acquisition of the Hometown communities.

Our Communities and Markets

The table below provides summary information on our portfolio as of September 30, 2003 for our 20 largest markets, giving effect to completion of the Hometown acquisition:

Market (1)	Number of Total Pro Forma Homesites	Percentage of Total Pro Forma Homesites	Pro Forma Occupancy as of 9/30/2003
Dallas/Ft. Worth, TX	7,369	11.0%	82.7%
Atlanta, GA	5,074	7.6	80.6
Salt Lake City, UT	3,310	5.0	94.4
Front Range of CO	3,301	4.9	92.6
Jacksonville, FL	2,525	3.8	82.1
Kansas City/Lawrence/Topeka, MO-KS	2,436	3.6	90.5
Wichita, KS	2,315	3.5	76.4
St. Louis, MO-IL	2,159	3.2	84.3
Orlando, FL	1,996	3.0	86.6
Oklahoma City, OK	1,911	2.9	84.0
Greensboro/Winston Salem, NC	1,416	2.1	70.5
Davenport/Moline/Rock Island, IA-IL	1,410	2.1	86.3
Montgomery, AL	1,288	1.9	56.7
Charleston/North Charleston, SC	1,233	1.8	78.5
Elkhart/Goshen, IN	1,225	1.8	79.9
Inland Empire, CA	1,223	1.8	85.4
Southeast Florida	1,124	1.7	93.4
Raleigh/Durham/Chapel Hill, NC	1,095	1.6	86.2
Tampa/Lakeland/Winter Haven, FL	1,005	1.5	74.7
Sioux City, IA-NE	996	1.5	84.2
Subtotal—top 20 markets	44,411	66.4%	83.5
All Other Markets	22,430	33.6	77.4
Total Homesites/Weighted Average Occupancy	66,841	100.0%	81.5%

(1) Markets are defined by our management.

Financing Transactions and Other Debt Facilities

Upon consummation of our concurrent offerings, the Hometown acquisition and the financing transactions, we expect to have consolidated indebtedness of approximately \$950 million and a ratio of debt to total market capitalization (our total consolidated indebtedness as a percentage of the total market value of our outstanding common and preferred stock and units of limited partnership in our operating partnership, or OP units, plus our total consolidated indebtedness) of approximately 50%.

Financing Transactions

In connection with our concurrent offerings and the Hometown acquisition, we have obtained a commitment from Citigroup Global Markets Realty Corp. and Merrill Lynch Mortgage Lending, Inc., affiliates of our lead underwriters, for approximately \$500 million in new mortgage indebtedness consisting of a new fixed rate mortgage due 2014 (approximately \$215.8 million), fixed rate mortgage due 2009 (approximately \$101.5 million) and variable rate mortgage due 2006 (approximately \$182.7 million) to be secured in the aggregate by 119 communities, which we refer to in this document as the financing transactions.

We cannot assure you that the conditions to the financing transactions will be satisfied at the time we are prepared to complete our concurrent offerings and the Hometown acquisition, or at all. If we are not able to complete the financing transactions, whether on the terms described herein or on other terms providing for substantially the same aggregate amount of debt financing, we will not be able to complete the Hometown acquisition or our concurrent offerings.

Senior Revolving Credit Facility

We have obtained commitments from affiliates of each of Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston LLC, Morgan Stanley & Co. Incorporated, UBS Securities LLC, Wachovia Capital Markets, LLC and McDonald Investments Inc., each of which is an underwriter in our common stock offering, as well as from Bank One, for a \$125 million senior secured revolving credit facility for a term of three years to finance our acquisition of additional communities and rental homes and for other working capital needs, including the payment of distributions to our common stockholders. The revolving credit facility will be secured by 40 of our communities, all of our rental homes and the equity interests of our subsidiary that owns the rental homes. Our ability to borrow from time to time under the revolving credit facility will be subject to certain conditions, including borrowing base requirements related to the collateral securing the facility and the satisfaction of specified financial covenants.

Retail Home Sales and Consumer Finance Debt Facility

We have obtained a commitment from Merrill Lynch Mortgage Capital Inc., an affiliate of one of our lead underwriters, to provide a multi-year debt facility to fund a substantial expansion of our in-community retail home sales and consumer financing initiative over the next 12 to 24 months. This facility is divided into two portions: a loan funding facility of up to \$225 million to fund the expansion of our in-community finance initiative, and a floorplan facility of up to \$25 million to fund the expansion of our retail home sales initiative. The loan funding facility is expected to have a maximum term of 48 months, and the floorplan facility will have a maximum term of one year.

Interest Rate Swap

We expect to enter into a two-year interest rate swap agreement pursuant to which we will effectively fix the base rate portion of the interest rate with respect to \$100 million of our variable rate debt. As a result, we expect that approximately 91% of our total indebtedness upon completion of our concurrent offerings will be subject to fixed interest rates for a minimum of two years.

Our Common Stock Offering

Common stock offered by us	22,250,000 shares (1)
Common stock offered by the selling stockholders	2,258,617 shares
Common stock outstanding after our concurrent offerings	40,160,842 shares (2)
Common stock and OP units outstanding after our concurrent offerings	42,572,395 shares (3)
Use of Proceeds	We will use the net proceeds of our common stock offering (\$385.2 million) and our Series A preferred stock offering (\$118.8 million):

to pay a portion of the cash purchase price and the related fees and expenses of the Hometown acquisition (\$492.0 million);

- to purchase rental homes (\$10.0 million); and
- to fund working capital (\$2.0 million).

We will not receive any of the proceeds or pay any of the expenses associated with those shares of our common stock sold by the selling stockholders. See "Use of Proceeds."

NYSE symbol	"ARC"
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- (1) Excludes up to 3,676,292 shares of common stock that may be issued by us upon exercise of the underwriters' over-allotment option with respect to our common stock offering.
- (2) Includes 625,000 shares of our common stock to be awarded under our 2003 equity incentive plan prior to the completion of our concurrent offerings to management and certain other employees, 314,634 shares of our common stock to be issued upon redemption of OP units that will be sold by selling stockholders and the repurchase of 1,530 shares of our common stock by us for cash in connection with completion of our concurrent offerings and excludes 3,676,292 shares that may be issued by us upon exercise of the underwriters' over-allotment option with respect to our common stock offering, 1,367,387 shares available for future issuance under our 2003 equity incentive plan, 2,411,553 shares that may be issued by us upon redemption of outstanding OP units and 723,607 shares issuable upon exercise of outstanding warrants.
- (3) Includes 625,000 shares of common stock to be awarded under our 2003 equity incentive plan prior to the completion of our concurrent offerings to management and certain other employees, 314,634 shares of our common stock to be issued upon redemption of OP units that will be sold by selling

stockholders and the repurchase of 1,530 shares of our common stock by us for cash in connection with completion of our concurrent offerings and excludes 3,676,292 shares that may be issued by us upon exercise of the underwriters' over-allotment option with respect to our common stock offering, 1,367,387 shares available for future issuance under our 2003 equity incentive plan and 723,607 shares issuable upon exercise of outstanding warrants.

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Our Concurrent Preferred Stock Offering

We are also offering, in a concurrent offering, 5,000,000 shares of our Series A preferred stock. We have granted the underwriters in the preferred stock offering an option to purchase up to 750,000 additional shares of our Series A preferred stock to cover over-allotments. When issued, our Series A preferred stock will have a liquidation value of \$25.00 per share. We will pay cumulative dividends on our Series A preferred stock quarterly, beginning on April 30, 2004. On and after February 18, 2009, we may, at our option, redeem the Series A preferred stock, in whole or from time to time in part, at a cash redemption price equal to \$25.00 per share, plus all accumulated, accrued and unpaid dividends, if any, to and including the redemption date.

Our Structure

The following chart reflects our corporate organization following completion of our concurrent offerings.

(1) Each outstanding OP unit is paired with a number of shares of our special voting stock which entitles the holder to one vote on all matters submitted to a vote of our stockholders who have voting rights generally, representing in the aggregate 5.7% of the total voting power of our company. Limited partners may exchange each of their paired units for cash or, at our option, one share of our common stock.

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Conflicts of Interest

Our Chairman and Chief Executive Officer, Scott D. Jackson, indirectly owns six manufactured home communities with 554 total homesites located in Wyoming. One of our subsidiaries manages these communities for a management fee equal to 3% of gross revenues. This subsidiary also provides accounting services for these communities for a fee of \$800 per month.

Mr. Jackson will enter into an employment agreement with us effective as of the date we complete our concurrent offerings. The employment agreement will include a non-competition covenant, with an exception to permit Mr. Jackson to devote time to the management and operation of his communities consistent with past practice, and will prohibit Mr. Jackson from acquiring any manufactured home communities. For so long as Mr. Jackson is serving as our Chairman or our Chief Executive Officer, we will have a right of first refusal to acquire any community owned by Mr. Jackson that he proposes to sell at a purchase price equal to 95% of the purchase price of the proposed sale.

Mr. Jackson also owns an airplane hangar, and leases space in the hangar and office space to a wholly owned subsidiary of our operating partnership. The leases, entered into in June 1999 with a 60-month primary term and a renewal option for an additional 60-month term, require payments of \$4,400 per month during the initial term and consumer price index adjusted payments during the optional renewal term.

Two of our directors, Eugene Mercy, Jr. and J. Markham Green, hold OP units through which each of Mr. Mercy and Mr. Green has deferred gains associated with certain properties we own. Any decision by our board of directors to dispose of one or more of these properties in which Mr. Mercy or Mr. Green has an interest could have tax consequences for Mr. Mercy or Mr. Green, as the case may be. In connection with any such decision, our board of directors will determine whether either of Messrs. Green or Mercy has a material financial interest in the transaction that is different from the interests of stockholders generally, and if either Mr. Mercy or Mr. Green has such an interest, then such director will abstain from the vote of our board with respect to such proposed transaction.

In the future, our duties as general partner to our operating partnership and its partners under Delaware law may come into conflict with the duties of our directors and officers to our company and our stockholders under Maryland law. The partnership agreement of our operating partnership does not require us to resolve such conflicts in favor of either our stockholders or the limited partners of our operating partnership.

Benefits to Related Parties

Upon completion of our concurrent offerings, certain members of our senior management will receive material benefits, including:

• common share grants in the following amounts: Mr. Jackson, 322,500 shares; Mr. Sprengle, 82,500 shares; Mr. McGeeney, 75,000 shares; Mr. Gesell, 20,000 shares; and Mr. Kreider, 10,000 shares.

• in the case of Messrs. Jackson, Sprengle and McGeeney, employment agreements providing for salary, bonus and equity incentive plan participation and other benefits, including, potentially, severance payments and benefits upon a termination of employment under certain circumstances, as described under "Management—Employment Agreements."

• in the case of Messrs. Gesell and Kreider, severance agreements providing for severance payments and benefits upon a termination of employment under certain circumstances, as described under "Management—Severance Agreements."

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Lock-Up Arrangements

Our officers and directors, certain selling stockholders and certain of our other stockholders, who collectively will beneficially own 15,955,122 shares in the aggregate following completion of our concurrent offerings, have agreed that, for a period of 180 days after the date of the common stock prospectus, they will not, without the prior written consent of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated:

• offer or sell any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or

• exercise any right with respect to the registration of our common stock or any securities convertible into or exercisable or exchangeable for our common stock.

We have agreed not to offer or sell, or file with the Securities and Exchange Commission, or the SEC, a registration statement under the Securities Act of 1933, as amended, or the 1933 Act, relating to any additional shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, for a period of 180 days after the date of the common stock prospectus, without the prior written consent of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, subject to certain exceptions.

We have agreed not to offer or sell any additional shares of our preferred stock or any securities convertible into or exercisable for such shares for a period of 180 days after the date of the preferred stock prospectus, without the prior written consent of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, subject to certain exceptions.

Our Ownership Limit

Subject to certain exceptions specified in our charter, no individual may own, or be deemed to own by virtue of various attribution and constructive ownership provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock or more than 9.8% in value of the outstanding shares of our stock. This ownership limit applies to individuals, but generally not to entities such as corporations, partnerships or limited liability companies, thereby permitting corporate and institutional stockholders to acquire shares in excess of the limit as long as their share ownership otherwise would not violate our REIT tax status.

Our Tax Status

We elected to be taxed as a REIT under the Internal Revenue Code, commencing with our taxable year ended December 31, 1998. We believe that our organization and method of operation have enabled us to meet, and our proposed method of operation will enable us to continue to meet, the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes. We have received the opinion of Skadden, Arps, Slate, Meagher & Flom LLP to the effect that beginning with our taxable year ended December 31, 1998 through the date hereof, we have been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code, and that our proposed method of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT.

To maintain our REIT status, we must meet a number of organizational and operational requirements, including a requirement that we annually distribute at least 90% of our REIT taxable income to our stockholders. As a REIT, we generally will not be subject to U.S. federal income tax on REIT taxable income we currently distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some federal, state and local taxes on our income or property and the income of our taxable REIT subsidiaries will be subject to taxation at normal corporate rates. See "U.S. Federal Income Tax Considerations."

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Distribution Policy

To date we have made no distributions to our stockholders and have reported historical accounting and tax losses since inception. We intend to pay a pro rata initial distribution on our common stock with respect to the period commencing on the completion of our concurrent offerings and ending March 31, 2004, based on a distribution of

\$0.3125 per share for a full quarter. On an annualized basis, this would be \$1.25 per share, or an annual distribution rate of approximately 6.58% based on the initial public offering price of \$19.00 per share. We estimate that this initial annual distribution will represent approximately 208.7% of our estimated cash available for distribution to our common stockholders for the twelve months ended September 30, 2004. We expect to fund 52.0% of our estimated initial annual distribution from cash generated from our new senior fixed and variable rate mortgage debt. We have calculated our cash available for distribution to our common stockholders for the twelve months ended September 30, 2004 based on adjustments to our pro forma net loss available to common stockholders before allocation to minority interest for the twelve months ended September 30, 2003 (giving effect to our concurrent offerings, our financing transactions and the Hometown acquisition). See "Distribution Policy" for information as to how this estimate was derived. This estimate was based upon our historical operating results and does not take into account our growth initiatives which are intended to improve our occupancy and operating results, nor does it take into account any unanticipated expenditures we may have to make or any debt we may have to incur.

We intend to maintain our initial distribution rate for the twelve-month period following completion of our concurrent offerings unless our actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimate. Unless our operating cash flow increases substantially, we will be required to fund future distributions from borrowings under our senior revolving credit facility or to reduce such distributions.

Distributions made by us will be authorized and determined by our board of directors in their sole discretion out of funds legally available therefor and will be dependent upon a number of factors, including restrictions under applicable law and the capital requirements of our company. In addition, our senior revolving credit facility will contain covenants that restrict our ability to make distributions or other payments to our stockholders unless certain financial tests are satisfied. Furthermore, unless the full amount of all accumulated, accrued and unpaid dividends on our Series A preferred stock have been paid for all past dividend periods and the then current dividend period, we will not be permitted to make distributions to holders of our common stock. We cannot assure you that we will pay distributions to our common stockholders, either at the distribution rate indicated herein, or at all.

We have estimated our cash available for distribution to our common stockholders for the twelve months ended September 30, 2004 for the sole purpose of presenting our estimated initial distribution amount. Our estimate of cash available for distribution to our common stockholders should not be considered as an alternative to cash flow from operating activities (determined in accordance with accounting principles generally accepted in the United States of America, or GAAP) or as an indicator of our liquidity. No assurance can be given that our estimate of cash available for distribution to our common stockholders will prove accurate, and actual distributions may be significantly different from estimated distributions. See "Distribution Policy," "Risk Factors" and "Statements Regarding Forward-Looking Information." If we have overestimated our cash available for distribution to our common stockholders, we may need to increase our borrowings in order to fund our intended distributions. We do not intend to reduce our estimated distributions per share if the underwriters' over-allotment option is exercised with respect to our common stock offering.

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Organizational History and 2002 Reorganization

Beginning in 1995, Mr. Jackson and Mr. Sprengle co-founded several companies under the name "Affordable Residential Communities" or "ARC" for the purpose of engaging in the business of acquiring, renovating, repositioning and operating manufactured home communities, as well as certain related businesses. These companies included three separate real property partnerships formed between 1995 and 1997 to acquire manufactured home

communities, as well as ARC Holdings Limited Liability Company, which was organized as the parent company for Affordable Residential Communities, L.L.C., the general partner of these three real property partnerships, and for the related retail home sales, insurance and other complementary businesses. Throughout this prospectus, we refer to ARC Holdings Limited Liability Company as Holdings, we refer to the three real property partnerships as the Limited Partnerships, and we refer to Affordable Residential Communities, L.L.C. as ARC LLC.

We were formed in July 1998 as a Maryland corporation for the purpose of acting as the investment vehicle for and a co-general partner with ARC LLC of our operating partnership, the fourth real property partnership organized and operated by our co-founders. Subsequently in May 2002, we completed a reorganization transaction, which we refer to as the reorganization, in which we acquired the Limited Partnerships and all the other related businesses formerly owned by Holdings for total equity consideration consisting of 5.8 million shares of our common stock, 2.7 million OP units and approximately \$113 million in cash. As a result of the reorganization, the businesses formerly conducted by Holdings and the Limited Partnerships are now conducted through subsidiaries of our operating partnership. At the time of the reorganization, we owned 90 manufactured home communities and 17,197 homesites, and as a result of the reorganization we acquired 107 manufactured home communities and 20,511 homesites from the Limited Partnerships.

Each of the OP units issued in the reorganization was issued as part of a paired unit which includes 1.9268 shares of our special voting stock. Each of these paired units is currently exchangeable by its holder for cash or, at our election, one share of our common stock, and each paired unit entitles its holder to one vote on all matters submitted to a vote of our stockholders who have voting rights generally. Collectively, limited partners who hold these paired units will have 5.7% of the total voting power of our outstanding voting stock following completion of our concurrent offerings.

Fourth Quarter Outlook

We expect to report revenues, recurring expenses and losses for the fourth quarter ended December 31, 2003 in line with our results from the third quarter ended September 30, 2003, except as discussed below. We expect occupancy to be approximately 83% at December 31, 2003. Our rental home occupancy is expected to be approximately 81% at December 31, 2003. One-time expenses incurred in the fourth quarter are expected to be between \$1.0 million and \$1.5 million. These expenses are largely related to vacating unused corporate office space and employee severance. We purchased 59 rental homes for the three months ended December 31, 2003, and as of January 2, 2004, we had 714 additional rental homes on order for delivery in the first quarter of 2004. The total cost of these rental homes, including set up costs, is anticipated to be approximately \$19.5 million. We expect to fund the cost of these rental homes from the proceeds of our concurrent offerings and the financing transactions. We also expect sales of manufactured homes to decline significantly in the fourth quarter compared to the third quarter in connection with the third quarter closure of our retail dealerships and re-direction of retail sales to in-community operations.

With respect to the Hometown communities, we expect revenues and recurring expenses for the fourth quarter ended December 31, 2003 to be in line with the third quarter ended September 30, 2003. We expect occupancy to be approximately 75% at December 31, 2003.

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The following table shows our summary selected consolidated historical and pro forma financial data for the periods indicated. You should read our summary selected historical and pro forma financial data, together with the notes thereto, in conjunction with the more detailed information contained in our financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus.

Our historical consolidated balance sheet data as of December 31, 2002 and 2001 and our consolidated statement of operations data for the years ended December 31, 2002, 2001 and 2000 have been derived from our historical financial statements audited by our independent auditors, whose report with respect thereto is included elsewhere in this prospectus. Our historical consolidated balance sheet information as of September 30, 2003 and 2002 and our consolidated statement of operations information for the nine months ended September 30, 2003 and 2002 have been derived from our unaudited consolidated financial statements. In the opinion of our management, our historical consolidated balance sheet and statement of operations as of and for the nine months ended September 30, 2003 and 2002, respectively, include all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. Our results of operations for the interim period ended September 30, 2003 are not necessarily indicative of the results to be obtained for the full fiscal year.

Our unaudited summary selected pro forma consolidated results of operations data and balance sheet data as of and for the nine months ended September 30, 2003 and for the year ended December 31, 2002 give effect to the Hometown acquisition, the financing transactions and our concurrent offerings and the use of proceeds therefrom, and, for the year ended December 31, 2002, the reorganization (which included our acquisition of the Limited Partnerships and the businesses of Holdings in May 2002), as of the beginning of the periods presented for the operating data and as of the stated date for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the dates and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

We have restated our Consolidated Financial Statements as of September 30, 2003 and for the three and nine months ended September 30, 2003 and 2002 and as of and for the year ended December 31, 2002 to reduce the term of amortization of lease intangibles and customer relationships from 20 years to five years. As a result of the restatement, we increased our net loss for the three months ended September 30, 2003 from \$6,446 to \$6,793; our net loss for the three months ended September 30, 2002 from \$5,269 to \$5,832; our net loss for the nine months ended September 30, 2003 from \$22,032 to \$23,720; our net loss for the nine months ended September 30, 2002 from \$11,730 to \$12,668; and our net loss for the year ended December 31, 2002 from \$39,334 to \$40,834. These lease intangibles and customer relationships were acquired in 2002 and 2003 as a result of the reorganization and other acquisitions of communities. We originally amortized the in-place lease value and tenant relationships for communities acquired over the estimated life that a home remains in the community. However, we have determined that it is appropriate to change the amortization period to five years to match the estimated length of time that the homeowner remains in the community.

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(in thousands except per share and homesite data)	Pro Forma Nine Months Ended September 30, 2003	Nine Months Ended September 30,		Pro Forma Year Ended December 31, 2002	Year Ended December 31,		
		2003	2002 (1)		2002 (1)	2001	2000

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	(unaudited)	(unaudited) (as restated)	(unaudited) (as restated)	(unaudited)	(as restated)		
Statement of Operations Data:							
Revenue							
Net rental income	\$ 150,837	\$ 98,131	\$ 65,892	\$ 184,638	\$ 96,912	\$ 40,046	\$ 27,024
Sales of manufactured homes	19,845	19,845	23,258	46,635	31,942	—	—
Utility and other income	17,872	12,155	8,324	23,717	12,591	3,566	2,278
Total revenue	188,554	130,131	97,474	254,990	141,445	43,612	29,302
Expenses							
Property operations	56,155	34,705	22,107	74,535	35,467	13,090	8,318
Real estate taxes	11,689	7,756	4,645	13,388	6,969	2,738	1,718
Cost of manufactured homes sold	15,871	15,871	18,795	37,040	25,826	—	—
Retail home sales, finance, insurance and other operations	6,560	6,560	5,160	8,597	8,597	—	—
Property management	3,854	3,854	2,436	5,004	4,105	2,491	2,436
General & administrative	11,993	11,722	8,243	15,131	13,088	9,047	7,173
Depreciation and amortization	53,800	37,530	25,969	69,958	38,596	16,905	11,672
Interest expense	40,953	42,990	25,735	56,314	43,887	14,972	14,279
Retail home sales and insurance net and goodwill impairment and other expense	1,385	1,385	—	13,557	13,557	—	—
Total expenses	202,260	162,373	113,090	293,524	190,092	59,243	45,596
Interest income	(1,094)	(1,094)	(829)	(1,543)	(1,390)	(2,871)	(2,168)
Loss before allocation to minority interest	(12,612)	(31,148)	(14,787)	(36,991)	(47,257)	(12,760)	(14,126)
Minority interest	1,156	4,311	2,047	2,687	6,274	13	14
Loss before preferred stock dividend	(11,456)	(26,837)	(12,740)	(34,304)	(40,983)	(12,747)	(14,112)
Preferred stock dividend	(7,734)			(10,313)			
Loss from continuing operations	(19,190)	(26,837)	(12,740)	(44,617)	(40,983)	(12,747)	(14,112)
Income (loss) from discontinued operations	—	285	84	—	172	(370)	2
Gain on sale of discontinued operations	—	3,333	—	—	—	—	—
Minority interest in discontinued operations	—	(501)	(12)	—	(23)	—	—
Net loss available to common stockholders	(\$19,190)	(\$23,720)	(\$12,668)	(\$44,617)	(\$40,834)	(\$13,117)	(\$14,110)
Loss per share from continuing operations							
Basic loss per share	(\$0.53)	(\$1.58)	(\$0.93)	(\$1.22)	(\$2.82)	(\$1.41)	(\$2.19)
Diluted loss per share	(\$0.53)	(\$1.58)	(\$0.97)	(\$1.22)	(\$2.89)	(\$1.41)	(\$2.19)
Income (loss) per share from discontinued operations							
Basic income (loss) per share	—	\$ 0.18	—	—	\$ 0.01	(\$0.04)	—
Diluted income (loss) per share	—	\$ 0.18	—	—	\$ 0.01	(\$0.04)	—
Loss per common share							
Basic loss per share (2)	(\$0.53)	(\$1.40)	(\$0.93)	(\$1.22)	(\$2.81)	(\$1.45)	(\$2.19)
Diluted loss per share (3)	(\$0.53)	(\$1.40)	(\$0.97)	(\$1.22)	(\$2.88)	(\$1.45)	(\$2.19)

Information:

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Common shares outstanding (2)(4)	36,489	16,973	13,722	36,494	14,535	9,062	6,441
OP units outstanding (4)	2,411	2,726	1,515	2,411	1,818	—	—
Invested restricted stock	81	—	—	76	—	—	—
Diluted shares outstanding	38,981	19,699	15,237	38,981	16,353	9,062	6,441
Cash flow data:							
Net cash flow provided by (used in):							
Operating activities		\$ 13,851	\$ 13,044		\$ 14,267	\$ 6,626	\$ (3,177)
Investing activities		(25,169)	(115,182)		(137,473)	(104,638)	(91,185)
Financing activities		9,076	107,707		137,787	84,340	111,976
Non-GAAP financial measure:							
Loss from operations (5)	\$ 27,148	\$ 2,531	\$ 7,273	\$ 15,502	(\$11,403)	\$ 2,214	(\$3,293)
Balance sheet data (at period end)							
Land and other property, net	\$1,492,208	\$ 910,153			\$ 897,445	\$ 370,261	\$ 268,315
Cash and cash equivalents	104,250	36,007			38,249	23,668	37,340
Loan reserves and restricted cash	34,518	50,455			52,710	16,135	17,459
Total assets	1,792,388	1,122,831			1,136,538	429,979	343,175
Total liabilities	979,496	802,440			788,617	271,143	204,908
Notes payable and preferred interest	949,688	773,501			753,360	253,068	189,004
Stockholders' equity	773,473	276,045			299,765	158,774	138,191
Other data:							
Total communities (at end of period)	302	212			209	83	63
Total homesites (at end of period)	66,841	40,435			39,704	15,941	11,861
Homesites acquired during the period	27,037	631			3,289	4,077	3,553
Homesites acquired in the organization					20,511		
Occupancy (at end of period)	81.5%	84.8%			87.2%	90.7%	88.7%

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(1) Financial data for the nine months ended September 30, 2002 and for the year ended December 31, 2002 reflect the effects of the reorganization from May 2, 2002, the date of completion of the reorganization, through period end. See "Business and Properties—Organizational History and 2002 Reorganization" for a description of the reorganization. We accounted for the reorganization under the purchase method of accounting.

(2) Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average common shares outstanding during the period. Pro forma basic loss per share is computed assuming our concurrent offerings were consummated as of the first day of the period presented and equals pro forma net loss available to common stockholders divided by the pro forma number of shares of our common stock outstanding. The pro forma common stock outstanding does not include 3,592 shares issued in our common stock offering the proceeds of which will be used for working capital.

(3) For the nine months ended September 30, 2003 and 2002 and the years ended December 31, 2002, 2001 and 2000, diluted loss per share is calculated assuming exchange of the OP units to common stock. Diluted loss per share for those periods is computed by dividing the sum of loss before allocation to minority interest by the weighted average common shares and OP units outstanding

during the period. The pro forma diluted loss per share for the nine months ended September 30, 2003 and the year ended December 31, 2002 is computed assuming our concurrent offerings and other related transactions were consummated as of the first day of the period presented, but do not assume exchange of the OP units for common stock, or the exercise of outstanding warrants, which would be antidilutive. The pro forma common stock outstanding does not include shares issued in our common stock offering the proceeds of which will be used for working capital.

- (4) Reflects 0.519-for-1 reverse stock split on our common stock and OP units effective on January 23, 2004.
- (5) As defined by the National Association of Real Estate Investment Trusts, or NAREIT, funds from operations, or FFO, represents income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income.

We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions.

Pro forma FFO for the year ended December 31, 2002 includes charges incurred in the reorganization in connection with the repayment of debt including \$1,885 in exit fees and \$1,592 for the write-off of unamortized loan costs, and includes a charge of \$13,557 to write-off goodwill associated with our retail home sales and insurance business. For more details see our consolidated financial statements for the year ended December 31, 2002, 2001 and 2000. Pro forma FFO for the nine months ended September 30, 2003 includes a charge of \$1,385 for retail home sales asset impairment and other expense. For more details see our unaudited condensed consolidated financial statements as of September 30, 2003 and for the three and nine months ended September 30, 2003 and 2002. We expect to incur a charge of \$10,070 prior to completion of our concurrent offerings related to the issuance of share awards to management and certain other employees, which is not included in pro forma FFO.

Pro Forma Nine Months Ended September 30,	Nine Months Ended		Pro Forma Year Ended	Year Ended December 31,		
	September 30,	2002	December 31, 2002	2002	2001	2000

2003

Reconciliation of FFO:

	(in thousands)						
Net loss before preferred stock dividend	\$(11,456)	\$(26,837)	\$(12,740)	\$(34,304)	\$(40,983)	\$(12,747)	\$(14,112)
Depreciation and amortization	53,800	37,530	25,969	69,958	38,596	16,905	11,672
Income (loss) from discontinued operations		285	84		172	(370)	2
Depreciation from discontinued operations		295	379		488	574	549
Amortization of loan origination fees	(3,572)	(2,925)	(2,595)	(5,200)	(4,129)	(1,896)	(1,212)
Depreciation expense on furniture, fixtures and equipment	(1,100)	(1,100)	(609)	(1,019)	(1,019)	(237)	(181)
Minority interest in FFO	(2,790)	(4,717)	(3,215)	(3,620)	(4,528)	(15)	(11)
Reconciling items	34,882	\$ 2,531	\$ 7,273	25,815	\$ (11,403)	\$ 2,214	\$ (3,293)
Less preferred stock dividend	(7,734)			(10,313)			
FFO available to common stockholders	\$27,148			\$ 15,502			

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RISK FACTORS

Investment in our common stock involves risks. You should carefully consider the following risk factors in addition to other information contained in this prospectus before purchasing the common stock we are offering. The occurrence of any of the following risks might cause you to lose all or part of your investment. Some statements in this prospectus, including statements in the following risk factors, constitute forward looking statements. Please refer to the section entitled "Statements Regarding Forward-Looking Information."

Risks Related to the Hometown Acquisition

We may not successfully integrate the Hometown communities and realize the improvements in occupancy and operating results that we anticipate from this acquisition. The Hometown acquisition is significantly larger than the largest portfolio acquisition of manufactured home communities we have completed to date, and there can be no assurance that we will in fact be able to integrate these communities. We do not have the same operating experience with the Hometown communities as we do with the manufactured home communities we currently operate. Therefore, we may not be able to anticipate operating difficulties with the Hometown communities such as lease-related issues, zoning issues, environmental issues, personnel issues or mold-related issues to the same degree that we can anticipate similar operating difficulties with the manufactured home communities we currently operate. In addition, as a result of the Hometown acquisition we will be operating manufactured home communities in 26 new markets. We do not have experience operating manufactured home communities in these markets, and our lack of experience in these markets may hinder our ability to operate the Hometown communities successfully and to achieve our anticipated operating results. We also must address the existing vacancies in the Hometown communities through our programs and initiatives aimed at increasing occupancy, including our rental home program and our in-community retail home sales and consumer financing initiative. If we experience operating difficulties, or other difficulties in integrating the Hometown communities with the manufactured home communities we currently operate, or if we are not successful in implementing our rental home program and other initiatives in managing the Hometown communities, we may not be able to achieve the improvements in occupancy and operating results that we anticipate from the Hometown acquisition.

The terms of our acquisition agreement with Hometown may cause us to incur additional costs and liabilities in connection with the Hometown acquisition. Pursuant to the acquisition agreement with Hometown, we will be

assuming all liabilities and obligations of Hometown with respect to the Hometown communities and the other acquired assets, whether known or unknown, absolute or contingent, and whether arising before or after the date we acquire the Hometown communities, subject to limited exceptions. Furthermore, our ability to complete the Hometown acquisition is dependent upon, among other things, our ability to complete the financing transactions. Even if all conditions to completion of the Hometown acquisition are satisfied, the conditions to completion of these financing transactions may not be satisfied. We will be contractually obligated to complete the Hometown acquisition even if we have not completed the financing transactions on the same terms as those described in this prospectus. Accordingly, if we are unable to complete the financing transactions described in this prospectus, we would be required to obtain alternative financing in order to complete the Hometown acquisition. The costs of such alternative financing could exceed those associated with the financing transactions described in this prospectus.

In addition, Hometown will not be required to indemnify us for any inaccuracy in or breach of any of its representations or warranties in the agreement. As a result of these provisions, we may become responsible for liabilities and obligations with respect to the Hometown communities and the other acquired assets following completion of the transaction for which we will have no recourse to Hometown or anyone else, and we may incur costs in connection with completion of the Hometown acquisition in excess of our expected costs as described herein, including greater than anticipated financing costs, any or all of which could negatively affect our operating results and our financial condition.

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Risks Related to Our Properties and Operations

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

- the national economic climate and the local or regional economic climate in the markets in which we operate, which may be adversely impacted by, among other factors, plant closings, industry slowdowns, relocation of businesses, and changing demographics;
- competition from other available manufactured housing sites or available land for the placement of manufactured homes outside of established communities and alternative forms of housing (such as apartment buildings and site-built single-family homes);
 - local real estate market conditions such as the oversupply of manufactured housing sites or a reduction in demand for manufactured housing sites in an area;
- the residential rental market, which may limit the extent to which our rents, whether for homes or homesites, may be increased to meet increased expenses without decreasing our occupancy rates;
- perceptions by prospective tenants of the safety, convenience and attractiveness of our communities and the neighborhoods where they are located;
 - our ability to provide adequate management, maintenance and insurance; or

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

Our communities located in Dallas-Fort Worth, Texas; Atlanta, Georgia; Salt Lake City, Utah; the Front Range of Colorado; and Jacksonville, Florida provided approximately 11.8%, 8.0%, 6.2%, 7.5% and 3.9%, respectively, of our pro forma rental income for the nine months ended September 30, 2003. As a result of the geographic concentration of our communities in these markets, we are particularly exposed to the risks of downturns in these local economies and to other local real estate market conditions or other conditions which could adversely affect our occupancy rates, rental rates and the values of communities in these markets.

Our results of operations also would be adversely affected if our tenants are unable to pay rent or if our homesites or our rental homes are unable to be rented on favorable terms. If we are unable to promptly relet our homesites and rental homes or renew our leases for a significant number of our homesites or rental homes, or if the rental rates upon such renewal or reletting are significantly lower than expected rates, then our business and results of operations would be adversely affected. In addition, certain expenditures associated with each community (such as real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in income from such community. Furthermore, real estate investments are relatively illiquid and, therefore, will tend to limit our ability to vary our portfolio promptly in response to changes in economic or market conditions.

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

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

Pursuant to our rental home program, we acquire manufactured homes, place them on unoccupied homesites in selected communities in our portfolio and lease them, typically for a one-year lease term. For the year ended December 31, 2002 and the nine months ended September 30, 2003, rental income received from residents of these rental homes totaled \$16.9 million and \$23.5 million, respectively. Our overall occupancy at September 30, 2003 was 85%, excluding Hometown, with homeowners occupying 73% of our total homesites and tenants in our rental homes occupying approximately 12% of our total homesites. If we are unable to improve and maintain occupancy in our communities, including the Hometown communities, through expansion of our rental home program, our operating results may be negatively affected. Our ownership of rental homes also increases our capital requirements and our operating expenses and subjects us to greater exposure to risks such as re-leasing risks and mold-related claims.

We may not be able to maintain and improve our occupancy through expansion of our in-community home sales and financing initiative, which could negatively affect our revenue and our results of operations. We have responded to the challenging operating environment for manufactured home communities by developing and implementing a range of programs and initiatives aimed at increasing and maintaining our occupancy, including our in-community home sales and financing initiative. Our ability to maintain and increase occupancy and improve our operating margins in our

existing communities in the future will depend to some degree upon the success of this initiative.

Through our in-community home sales and consumer finance initiative, we intend to significantly expand our capability both to acquire for-sale manufactured home inventory and sell these homes to our residents at reasonable prices and to finance sales of these homes to residents in our communities. We have obtained a commitment from Merrill Lynch Mortgage Capital Inc., an affiliate of one of our lead underwriters, to provide a \$250 million multi-year debt facility pursuant to which we will be able to fund up to \$25 million supporting our for-sale inventory of manufactured homes and up to \$225 million supporting loan originations from the sale of homes in our communities. If we are not able to complete or maintain this debt facility, we do not expect to be able to fund this initiative, which could significantly impair our ability to maintain or increase our occupancy in our communities and to achieve growth in our revenue and operating margins.

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

We have no significant operating history in the consumer finance business and we cannot assure you that we will be able to successfully expand this initiative and manage this business. Loans produced by our in-community finance initiative may have higher default rates than we anticipate, and demand for consumer financing may decline, either of which may negatively affect our operating results. Our in-community home sales and finance initiative operates in a regulated industry with significant consumer protection laws, and the regulatory framework may change in a manner which may adversely affect our operating results. The regulatory environment and associated consumer finance laws create a risk of greater liability from our in-community home sales and finance initiative

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and could subject us to private claims and awards. This initiative is dependent on licenses granted by state and federal regulatory bodies, which may be withdrawn or which may not be renewed and which could have an adverse impact on our ability to achieve our operating objectives. We are in the process of obtaining all necessary state and federal licenses and permits for this initiative, and we expect that all such licenses and permits will be in place upon completion of our concurrent offerings.

The manufactured housing industry continues to face a challenging operating environment marked by a shortage of available financing for home purchases and a significant decrease in manufactured home shipments, which has put downward pressure on occupancy in manufactured home communities and may continue to do so. The manufactured housing industry continues to face a challenging operating environment which has resulted in losses, exits from the industry and significant curtailment of activity among manufacturers, retailers and consumer finance companies. According to MHI, industry shipments (a measure of manufacturing production and sales) have declined from 372,843 homes in 1998 to an estimated 137,000 in 2003. We believe this ongoing period of challenging industry conditions was the result of an over-supply of consumer credit from 1994 to 1999, which led to over-stimulation in the manufacturing, retail and finance sectors of the industry. When compared to the manufacturing, retail home sales and consumer finance sectors of the manufactured housing industry, the manufactured home community sector has been

relatively less affected than the other three sectors but is also facing challenging conditions, including an increase in the number of repossessed and abandoned homes, a shortage of consumer financing to support new manufactured home sales and move-ins and resale of existing homes in manufactured home communities, and historically low mortgage interest rates and favorable credit terms for traditional entry-level site-built housing, all of which has put downward pressure on occupancy levels in our manufactured home communities and may continue to do so. We expect industry conditions will remain difficult for the foreseeable future, based partly on overall economic conditions throughout the U.S. and a continued shortage of consumer financing for manufactured home buyers.

We have reported historical accounting losses on a consolidated basis since our inception, and we may continue to report accounting losses in the future. We have had losses before allocation to minority interest of \$31.1 million for the nine months ended September 30, 2003 and \$47.3 million, \$12.8 million and \$14.1 million for the years ended December 31, 2002, 2001 and 2000, respectively. As of September 30, 2003, our retained deficit was \$102 million. There can be no assurance that we will not continue to incur net losses in the future.

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

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

- we may be unable to acquire a desired property because of competition from local investors and other real estate investors with significant capital, including other publicly traded REITs and institutional investment funds;
- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price which could reduce our profitability;
- even if we enter into agreements for the acquisition of manufactured home communities, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction;

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- we may be unable to finance the acquisition at all or on favorable terms;
 - we may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired properties;
 - we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and consequently our results of operations and financial condition could be adversely affected;
 - market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and
 - we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former

owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

The availability of competing housing alternatives in our markets could negatively affect occupancy levels and rents in our communities, which could adversely affect our revenue and our results of operations. All of our properties are located in markets that include other manufactured home communities. The number of competing manufactured home communities in a particular market could have a material effect on our ability to lease our homesites and to maintain or raise rents. Other forms of multifamily residential properties and single family housing, including rental properties, represent competitive alternatives to our communities. The availability of a number of other housing options, such as apartment units and new or existing site-built housing stock, could have a material effect on our occupancy and rents.

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

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

In connection with the ownership (direct or indirect), operation, management and development of real properties, we may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, potentially liable for removal or remediation costs, as well as certain other related costs, including governmental fines and injuries to persons and property. All but one of our properties and all of the properties we have under contract to acquire have been, or will be prior to our acquisition, subject to a Phase I or similar

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environmental audit (which involves general inspections without soil sampling or ground water analysis) completed by independent environmental consultants. These environmental audits have not revealed any significant environmental liability that we believe would have a material adverse effect on our business or results of operations. No assurances can be given that existing environmental studies with respect to any of our properties reveal all environmental liabilities, that any prior owner or operator of our properties did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any one or more of our properties. Furthermore, material environmental conditions, liabilities, or compliance concerns may have arisen

after the review was completed or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability.

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

Rent control or rent stabilization legislation and other regulatory restrictions may limit our ability to increase rents or dispose of our properties. Certain states and municipalities have adopted laws and regulations specifically regulating the ownership and operation of manufactured home communities. These laws and regulations include provisions imposing restrictions on the timing or amount of rent increases and granting to community residents a right of first refusal on a sale of their community by the owner to a third party. Enactments of similar laws and regulations have been or may be considered from time to time in other jurisdictions. We currently own 22 communities with 5,708 homesites in two states that have rent control regulations, Florida and California, and we will be acquiring an additional ten communities with 2,913 homesites in these two states as part of the Hometown acquisition. On a pro forma basis giving effect to the Hometown acquisition, these communities represent 10.6% of our total communities and 12.9% of our total homesites. We presently expect to continue to operate manufactured home communities, and may in the future acquire manufactured home communities, in areas that either are subject to one or more of these types of laws or regulations or in which legislation with respect to such laws or regulations may be enacted in the future. Laws and regulations regulating landlord/tenant relationships or otherwise relating to the ownership and operation of manufactured home communities, whether existing law or enacted in the future, could limit our ability to increase rents or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances.

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

results of operations, cash flow, per share trading price of our common stock and our ability to satisfy our debt service obligations and to pay distributions could be adversely affected.

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

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

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

We may be unable to obtain terrorism insurance coverage in the future, which could affect our ability to obtain financing or increase the cost of such financing. The threat of terrorism activity has caused a significant disruption in the cost and availability of property and casualty insurance and also has caused certain lenders to require the procurement of terrorism coverage as a condition to obtaining financing. There is a risk that such insurance may not be available in the future, or that it will cost so much as to be impractical to obtain.

Risks Related to Our Debt Financings

We are subject to the risks normally associated with debt financing, including the risk that payments of principal and interest on borrowings may leave us with insufficient cash to operate our communities or to pay the distributions currently contemplated or necessary to maintain our REIT status. Upon consummation of our concurrent offerings, the Hometown acquisition and the financing transactions, we expect to have approximately \$950 million of outstanding indebtedness, all of which will be secured. Our charter documents contain no limitation on the amount of indebtedness we may incur. We expect to incur additional debt in connection with future acquisitions. We may borrow under our revolving credit facility or borrow new funds to acquire such properties. Additionally, we do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity and, therefore, we expect to repay our indebtedness through refinancing and equity offerings. Further, we may need to borrow funds to make distributions required to maintain our REIT status or to meet our expected distributions.

If we are required to utilize our revolving credit facility for purposes other than acquisition activity (including the payment of distributions), this will reduce the amount available for acquisitions and could slow our growth. Therefore, our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms including to make acquisitions or distributions required to maintain our REIT status;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- because a portion of our debt bears interest at variable rates, an increase in interest rates could materially increase our interest expense;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
 - after debt service, the amount available for distributions to our stockholders is reduced;
- our debt level could place us at a competitive disadvantage compared to our competitors with less debt;
- we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and
- our default under any one of our mortgage loans with cross-default or cross-collateralization provisions could result in default on other indebtedness or result in the foreclosures of other properties.

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

Our senior revolving credit facility will contain covenants that restrict our ability to make distributions or other payments to our stockholders unless certain financial tests are satisfied. We will not be permitted under the senior revolving credit facility to pay distributions to our stockholders, including holders of our common stock and our Series A preferred stock, unless no event of default exists under the facility and either (i) the aggregate amount of such distributions to our stockholders over any period of four calendar quarters does not exceed 90% of our funds from operations (as defined under the facility, which includes the Hometown acquisition, the financing transactions and our concurrent offerings on a pro forma basis) over such period of four calendar quarters, plus \$30 million in the aggregate for distributions made during the four fiscal quarters ending March 31, 2005 so long as the distribution per share of our common stock does not change during these four fiscal quarters, or (ii) such distribution is required in order for us to maintain our status as a REIT for federal income tax purposes.

In addition, if we fail to satisfy the borrowing base requirements or financial covenants of the senior revolving credit facility, we will not be able to use our senior revolving credit facility for

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funding our future distributions or the acquisition of additional manufactured home communities or rental homes. Advances under the senior revolving credit facility will be subject to specified borrowing base requirements, including:

- a minimum debt service coverage ratio with respect to the assets securing the facility of 2.0x;
- advances made against the communities securing the facility may not exceed the lesser of 60% of appraised value or 75% of the capitalized real estate value of such communities;
- advances made against the rental homes securing the facility may not exceed the lowest of 45% of the capitalized purchase price, 70% of depreciated book value and a multiple of EBITDA from the rental homes based on the age of the applicable rental homes; and
- advances made under the facility against the rental homes securing the facility may not exceed 35% of the total advances under the facility.

Pursuant to the senior revolving credit facility, we also will be subject to the following financial covenants from and after such time as we make our initial draw under the facility (with our ability to make such draw conditioned upon satisfying each of the following covenants as of the end of the most recent fiscal quarter for which financial statements are available at the time of such draw):

- we will be required to maintain as of the end of each fiscal quarter ending during the periods indicated, a leverage ratio (calculated as our total consolidated debt divided by the sum of the total value of our manufactured home community, rental home, consumer finance and joint venture (if any) assets plus the total amount of our restricted and unrestricted cash and cash equivalents) of less than: 75% for the period from December 31, 2003 through December 30, 2004, 70% for the period from December 31, 2004 through December 30, 2005, 65% for the period from December 31, 2005 through June 29, 2006 and 60% from and after June 30, 2006;
- we will be required to maintain at all times a minimum tangible net worth (calculated as the excess of the total value of our manufactured home community, rental home, consumer finance and joint venture (if any) assets, plus our unrestricted cash and cash equivalents over our consolidated total liabilities) of not less than the sum of \$190 million plus an amount equal to 75% of the proceeds of all issuances or sales of equity interests by us or any of our subsidiaries that we complete following the closing of the senior revolving credit facility;
- we will be required to maintain as of the end of each fiscal quarter ending during the periods indicated, a debt service coverage ratio (calculated as the ratio of the adjusted net income before interest, taxes, depreciation and amortization for the most recent fiscal quarter annualized to the sum of interest and discount amortization on all debt for borrowed money plus all principal amounts payable, in each case, for the four most recent fiscal quarters) greater than: 1.50:1.00 for the period from December 31, 2003 through December 30, 2004, 1.75:1.00 for the period from December 31, 2004 to June 29, 2006, and 2.00:1.00 from and after June 30, 2006;
- we will be required to maintain as of the end of each fiscal quarter ending during the periods indicated, a fixed charge coverage ratio (calculated in the same manner as the debt service coverage ratio, but also taking into account preferred stock dividends and lease expenses) greater than: 1.25:1.00 for the period from December 31, 2003 through December 30, 2004,

1.50:1.00 for the period from December 31, 2004 through June 29, 2006, and 1.75:1.00 for the period from and after June 30, 2006; and

- we will not be permitted at any time to allow our net operating income in respect of all our rental homes to exceed 20% of the aggregate net operating income with respect to all of our manufactured home community, rental home, consumer finance and joint venture (if any) assets.

As of September 30, 2003, we did not meet any of these financial covenants in the senior revolving credit facility. However, these financial covenants were established based on our anticipated completion of the Hometown acquisition, the financing transactions and our concurrent offerings. As

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of September 30, 2003 on a pro forma basis, we met all of the financial covenants in the senior revolving credit facility, and, based on the borrowing base requirements with respect to the collateral that will secure the credit facility, we could have borrowed approximately \$61 million under the credit facility on a pro forma basis as of such date. If we fail to satisfy the borrowing base requirements or financial covenants of the senior revolving credit facility at the time we intend to make a draw under this facility, we will be unable to make such draw and, therefore, we may not be able to fund any portion of our distributions to our stockholders that we are not able to fund out of cash from operations, or to fund the acquisition of additional manufactured home communities or rental homes, which could slow our growth. In addition, if we fail to meet any of the financial covenants in the senior revolving credit facility at any time when we are required to meet them after we have made our initial draw under the facility, we will be in default under the facility and will not be permitted to pay distributions to our stockholders.

Increases in interest rates may increase our interest expense and adversely affect our cash flow and our ability to service our indebtedness and make distributions to our stockholders. Upon consummation of our concurrent offerings, the Hometown acquisition and the financing transactions, approximately 20% of our debt will be subject to variable interest rates. An increase in interest rates could increase our interest expense and adversely affect our cash flow and our ability to service our indebtedness and to make distributions to our stockholders. On a pro forma basis at September 30, 2003, giving effect to the Hometown acquisition, our concurrent offerings and the financing transactions, we had a total of \$186.2 million of variable rate debt bearing a weighted average interest rate of approximately 4.15% per annum. We expect to enter into a two-year interest rate swap agreement pursuant to which we will effectively fix the base rate portion of the interest rate with respect to \$100 million of our variable rate debt. As a result, we expect that approximately 9% of our total indebtedness upon completion of our concurrent offerings will be subject to variable interest rates for a minimum of two years.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations. We seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements that involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, and that these arrangements may not be effective in reducing our exposure to interest rate changes. Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations and ability to make distributions to our stockholders.

Our growth depends on external sources of capital which are outside of our control. In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code to annually distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our REIT taxable income, including any net capital gains. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow.

Consequently, we rely on third-party sources to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market's perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flow and cash distributions; and
- the market price per share of our common stock.

If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, satisfy our debt service obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

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Risks Related to Organizational and Corporate Structure

Our estimated initial annual distribution represents approximately 208.7% of our estimated cash available for distribution to our common stockholders for the twelve months ended September 30, 2004. We expect to fund our estimated initial annual distribution from our operating cash flow and from cash generated from our new senior fixed and variable rate mortgage debt described herein. Unless our operating cash flow increases substantially, we will be required either to fund future distributions from borrowings under our senior revolving credit facility or to reduce such distributions. If we use working capital or borrowings under our senior revolving credit facility to fund these distributions, this will reduce our cash available for distribution and the availability of the senior revolving credit facility for other purposes, which could negatively impact our financial condition and our ability to expand our business and fund our growth initiatives. Our estimated initial annual distributions represent 208.7% of our estimated cash available for distribution to our common stockholders for the twelve months ended September 30, 2004 as calculated in "Distribution Policy." Accordingly, we will be unable to pay the full amount of our estimated initial annual distribution to our common stockholders out of cash available for distribution to our common stockholders as calculated in "Distribution Policy." We expect to fund 52.0% of our estimated initial annual distribution to our common stockholders from cash generated from our new senior fixed and variable rate mortgage debt. Unless our operating cash flow increases substantially, we will have to fund future distributions from borrowings under our senior revolving credit facility or reduce such distributions. In the event the underwriters' over-allotment option is exercised in the common stock offering, pending investment of the proceeds therefrom, our ability to pay such distributions out of cash from our operations may be further adversely affected. We will not be permitted to pay distributions to our stockholders over any period of four calendar quarters in an amount that exceeds 90% of our funds from operations (as defined under the credit facility, which includes the Hometown acquisition, the financing transactions and our concurrent offerings on a pro forma basis) over such period of four calendar quarters, except that we may pay up to an additional \$30 million in distributions during the four quarters ending March 31, 2005, provided that if we do so we will not be able to increase our distribution during these four quarters.

We expect approximately 87% of our estimated initial annual distribution will represent a return of capital for the tax period ending December 31, 2004, which could result in increased capital gain recognition in a subsequent sale of your common stock. Distributions in excess of our current and accumulated earnings and profits and not treated by us as a dividend will not be taxable to a taxable U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder's adjusted tax basis in his or her common stock, but instead

will constitute a return of capital and will reduce such adjusted basis. We expect that approximately 87% of our estimated initial annual distribution will constitute a return of capital for the tax period ending December 31, 2004. If distributions result in a reduction of a stockholder's adjusted basis in such holder's common stock, subsequent sales of such holder's common stock potentially will result in recognition of an increased gain due to the reduction in such adjusted basis.

After completion of our concurrent offerings, our directors, executive officers and stockholders affiliated with them will beneficially own approximately 35.2% in the aggregate of our outstanding common stock on a fully diluted basis and stockholders associated with Thomas H. Lee Partners, L.P., UBS Capital Americas, LLC and Nassau Capital Funds, L.P. will own approximately 31.9% in the aggregate of our outstanding common stock on a fully diluted basis, initially will have six representatives on our eleven-member board of directors and will have the ability to control most actions taken by our board of directors and to exercise substantial influence over any matter presented to our stockholders. After completion of our concurrent offerings, directors, executive officers and stockholders affiliated with them will beneficially own approximately 35.2% in the aggregate of our outstanding common stock on a fully diluted basis and our stockholders associated with Thomas H. Lee Partners, L.P., UBS Capital Americas, LLC and Nassau Capital Funds, L.P. will own approximately 21.1%, 6.7%, and 4.1% respectively, or 31.9% in the aggregate of our outstanding common stock, on a fully diluted basis. Additionally, these stockholders will initially have six representatives on our eleven-member board of directors. Consequently, those stockholders, individually or, to the extent their interests are aligned, collectively, may be able to control matters

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submitted for stockholder action, including the election of our board of directors and approval of significant corporate transactions, including business combinations, consolidations and mergers and the determination of our day-to-day corporate and management policies. Therefore, those stockholders have substantial influence on us and could exercise their influence in a manner that is not in the best interest of our other stockholders.

Our business could be harmed if key personnel terminate their employment with us. Our success is dependent on the efforts of our executive officers and senior management team. The top nine members of our management team have in excess of 50 years of combined experience in the manufactured housing industry. While we believe that we could find replacements for these key personnel, the loss of their services could materially and adversely affect our operations. We currently own and are the beneficiary of "key-man" life insurance for Scott D. Jackson. Prior to completion of our concurrent offerings, Messrs. Jackson, Sprengle and McGeeney will enter into employment agreements with us.

We may change our investment and financing strategies and enter into new lines of business without stockholder consent, which may result in riskier investments than our current investments. We may change our investment and financing strategies and enter into new lines of business at any time without the consent of our stockholders, which could result in our making investments and engaging in business activities that are different from, and possibly riskier than, the investments and businesses described in this prospectus. A change in our investment strategy or our entry into new lines of business may increase our exposure to interest rate and other risk or real estate market fluctuations.

Our failure to qualify as a REIT would result in higher tax expenses and reduced cash available for distribution to our common stockholders. Although we believe that we have operated and will continue to operate in a manner that enables us to meet the requirements for qualification as a REIT for U.S. federal income tax purposes, no assurance can be given that we are organized or will continue to operate in a manner so as to 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 provisions of the Internal Revenue Code for which there are only

limited judicial or administrative interpretations, and involve the determination of various factual matters and circumstances not entirely within our control.

If we fail to qualify as a REIT in any taxable year, we would not be allowed a deduction for dividends paid to our stockholders in computing our taxable income and would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on our taxable income at corporate tax rates. Moreover, unless entitled to relief under certain statutory provisions, we also would be disqualified from electing to be a REIT for the four taxable years following the year during which our qualification is lost. This treatment would reduce our net earnings available for investment or distribution to our stockholders because of the additional tax liability to us for the years involved. See "U.S. Federal Income Tax Considerations." As a result of the additional U.S. federal income tax liability, we might need to borrow funds or liquidate certain investments on terms that may be disadvantageous to us in order to pay the applicable tax, and we would not be compelled to make distributions under the Internal Revenue Code.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturer's financial condition and disputes between us and our co-venturers. We may co-invest in the future with third parties through partnerships, joint ventures or other entities, acquiring non-controlling interests in or sharing responsibility for managing the affairs of a property, partnership, joint venture or other entity. In such event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. Investments in partnerships, joint ventures, or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale,

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because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers. We will seek to maintain sufficient control of such entities to permit them to achieve our business objectives.

Our Chief Executive Officer has outside business interests which could require time and attention. Scott D. Jackson, our Chairman and Chief Executive Officer, has outside business interests which include his ownership of Global Mobile Limited Liability Company, or Global Mobile, and JJ&T Enterprises, Inc., or JJ&T, both of which, through a commonly owned subsidiary, Global E, own and operate manufactured home communities. In addition, Mr. Jackson's employment agreement includes an exception to his non-competition covenant pursuant to which Mr. Jackson is permitted to devote time to the management and operations of Global Mobile and JJ&T, consistent with past practice. Although Mr. Jackson's employment agreement requires that he devote substantially his full business time and attention to our company, this agreement also permits Mr. Jackson to devote time to his outside business interests consistent with past practice. As a result, these outside business interests could interfere with Mr. Jackson's ability to devote time to our business and affairs.

Conflicts of interest could arise as a result of our relationship with our operating partnership. Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have duties to our company and our stockholders under applicable Maryland law in connection with their management of our company. At the same time, we, as general partner, have fiduciary duties to our operating partnership and to the limited partners under Delaware law in connection with the management of our operating partnership. Our duties as general partner to our operating partnership and its partners, may come into conflict with the duties of our directors and officers to our company and our stockholders. The partnership agreement of our operating partnership does not require us to resolve such conflicts in favor of either our stockholders or the limited partners in our operating partnership.

Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

Additionally, the partnership agreement expressly limits our liability by providing that we, and our officers and directors, will not be liable or accountable in damages to our operating partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if we, or such director or officer, acted in good faith. In addition, our operating partnership is required to indemnify us, our affiliates and each of our respective officers, directors, employees and agents to the fullest extent permitted by applicable law against any and all losses, claims, damages, liabilities, joint or several, expenses, judgments, fines and other actions incurred by us or such other persons, provided that our operating partnership will not indemnify for (i) willful misconduct or a knowing violation of the law or (ii) any transaction for which such person received an improper personal benefit in violation or breach of any provision of the partnership agreement.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties that would be in effect under common law were it not for the partnership agreement.

In addition, two of our directors, Eugene Mercy, Jr. and J. Markham Green, hold OP units through which each of Mr. Mercy and Mr. Green has deferred gains associated with certain properties

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we own. Any decision by our board of directors to dispose of one or more of these properties in which Mr. Mercy or Mr. Green has an interest could have tax consequences for Mr. Mercy or Mr. Green, as the case may be. See "Policies With Respect to Certain Activities—Conflict of Interest Policies."

We may incur adverse consequences if we expand or enter into new non-real estate business ventures. Our operating partnership owns or invests in businesses that currently or may in the future engage in more diverse and riskier ventures, such as the sale of manufactured homes, financing of manufactured home sales, inventory financing, sales of home improvement products, brokerage of manufactured homes, acting as agent for sales of insurance and related products, third-party property management and other non-real estate business ventures that our management and board of directors determine, using reasonable business judgment, will benefit us.

If we seek to enter into new non-real estate business ventures and to grow our existing non-real estate business ventures we may risk our ability to maintain our REIT status. In addition, this strategy would expose the holders of our securities to more risk than a business strategy in which our operations are limited to real estate business ventures because we do not have the same experience in non-real estate business ventures that we do in the ownership and operation of manufactured home communities and the related businesses we conduct.

Certain provisions of Maryland law and our organizational documents, including the stock ownership limit imposed by our charter, may inhibit market activity in our stock and could prevent or delay a change in control transaction. Our charter, bylaws, the partnership agreement of our operating partnership and Maryland law contain provisions that may delay, defer or prevent a change of control or other transaction that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders, including supermajority vote and cause requirements for removal of directors and advance notice requirements for director nominations and stockholder proposals. See "Certain Provisions of Maryland Law and of Our Charter and Bylaws—Removal of Directors," "—Advance Notice of Director Nominations and New Business" and "Affordable Residential Communities LP Partnership Agreement."

Our charter provides that no individual may own more than 9.8% (in value or number of shares, whichever is more restrictive) of the outstanding shares of our common stock or more than 9.8% in value of our outstanding shares of our stock. These restrictions on transferability and ownership will not apply if the board of directors determines that it is no longer in our best interests to continue to qualify as a REIT. These ownership limits could delay, defer or prevent a change of control or other transaction that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. See "Description of Stock—Restrictions on Ownership and Transfer."

Our board of directors has the power to issue additional shares of our stock in a manner that may not be in your best interests. Our charter authorizes our board of directors to issue additional authorized but unissued shares of common stock, preferred stock or special voting stock. In addition, our board of directors may classify or reclassify any unissued shares of common stock or preferred stock and may set the preferences, rights and other terms of the classified or reclassified shares. See "Description of Stock—Power to Issue Additional Shares of Common Stock and Preferred Stock." Although our board of directors has no intention to do so at the present time, it could issue additional shares of our special voting stock or establish a series of preferred stock that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our rights and the rights of our stockholders to take action against our directors and officers are limited. Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our

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directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers. See "Management—Limitations on Liability and Indemnification."

The majority of our management have no experience operating a public company. We have no operating history as a public company. Our board of directors and executive officers will have overall responsibility for our management and, while certain of our officers have extensive experience in real estate marketing, acquisitions, development, management, finance and law, none of them has significant prior experience in operating a public company. We cannot assure you that our past experience will be sufficient to successfully operate our company as a public company.

To maintain our REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions. To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our REIT taxable income each year, excluding capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our REIT taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from a difference in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments.

Dividends payable by REITs do not qualify for the reduced tax rates under recently enacted tax legislation. Recently enacted tax legislation reduces the maximum tax rate for dividends payable to individual U.S. stockholders (as such term is defined under "U.S. Federal Income Tax Considerations" below) to 15% (through 2008). Dividends payable by REITs, however, are generally not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock and our preferred stock.

In addition, the relative attractiveness of real estate in general may be adversely affected by the newly favorable tax treatment given to corporate dividends, which could negatively affect the value of our properties.

Possible legislative or other actions affecting REITs could adversely affect our stockholders. The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to the tax law (which changes may have retroactive application) could adversely affect our stockholders. It cannot be predicted whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our stockholders will be changed.

Risks Related to Our Common Stock Offering

Our obligations to pay cumulative dividends to holders of our Series A preferred stock may reduce the amount of cash available for distribution to our common stockholders. Our Series A preferred stock ranks senior to our common stock with respect to payment of distributions. Therefore, unless full cumulative dividends equal to the full amount of all accumulated, accrued and unpaid dividends on our Series A preferred stock have been declared and paid, or declared and a sum sufficient for the payment thereof has been set apart for such payment, for all past dividend periods and the then current dividend period, no cash dividends or other distributions on our outstanding common stock (other than dividends or distributions paid in shares of our common stock or options, warrants or rights to subscribe for or purchase shares of our common stock) may be authorized, declared or paid or set apart for payment by us.

You will experience immediate and significant dilution in the book value of our common stock offered in our common stock offering equal to \$5.94 per share. The initial public offering price of our common stock is substantially higher than the book value per share of our outstanding common stock will be immediately after our concurrent offerings. If you purchase our common stock in our common stock offering, you will incur immediate dilution of approximately \$5.94 in the book value per share of common stock from the price you pay for our common stock in our common stock offering.

There is currently no public market for our common stock, an active trading market for our common stock may never develop following our common stock offering and the trading and pricing of our common stock may be volatile. Prior to our common stock offering, there has been no public market for our common stock and there can be no assurance that an active trading market will develop or be sustained or that our common stock may be resold at or above the initial public offering price. The price at which the shares of our common stock may sell in the public market after our common stock offering may be lower than the price at which they are sold by the underwriters. The range of initial public offering prices of our common stock has been determined in consultation with the underwriters and may not be indicative of the market price for our common stock after our common stock offering. See "Underwriting." Among the factors to be considered in determining the initial public offering price of our common stock are our results of operations, our management, our estimated net income, our estimated FFO, our estimated cash available for distribution to our common stockholders, our anticipated dividend yield, our growth prospects, current market valuations, financial performance and dividend yields of publicly traded companies considered by us and the underwriters to be comparable to us and the current state of the manufactured housing industry and the economy as a whole.

The stock market in general has recently experienced extreme price fluctuations. Fluctuations in our stock price may not be correlated in a predictable way to our performance or operating results. Our stock price may fluctuate as a result of factors that are beyond our control or unrelated to our operating results.

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

Future sales of shares of our common stock may depress the price of our shares. We cannot predict whether future issuance of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. Any sales of a substantial number of shares of our common stock in the public market, including upon the exchange of OP units, or the perception that such sales might occur, may cause the market price of our shares to decline. Upon consummation of our common stock offering, all shares sold in our common stock offering will be freely tradable without restriction (other than any restrictions set forth in our charter relating to our qualifications as a REIT), unless the shares are owned by one of our affiliates. Affiliates may only sell their shares pursuant to the requirements of Rule 144 under the 1933 Act or as described below.

Holders of 15,652,225 shares of common stock, all holders of OP units (representing 2,411,553 shares of common stock that may be issued by us upon redemption of these OP units) and holders of warrants entitling such holders to acquire 723,607 shares of our common stock have the right to require us to register their common stock with the SEC, and holders of 84.9% of these shares of common stock, OP units and warrants are subject to agreements prohibiting them from disposing of these shares for 180 days following completion of our concurrent offerings. In the aggregate,

these shares represent 36.9% of our outstanding shares of common stock on a fully-diluted basis after completion of our common stock offering. In addition, after completion of our common stock offering, we intend to register all common stock that we may issue under our 2003 equity incentive plan, and once we register these shares they can be freely sold in the public market after issuance. If any or all of these holders cause a large number of their shares to be sold in the public market, the sales could reduce the trading price of our common stock and could impede our ability to raise future capital.

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The exercise of the underwriters' over-allotment option, the exchange of OP units for common stock, the exercise of any options or warrants or the vesting of any restricted stock granted to certain directors, executive officers and other employees under our 2003 equity incentive plan, the issuance of our common stock or OP units in connection with property, portfolio or business acquisitions and other issuances of our common stock could have an adverse effect on the market price of the shares of our common stock, and the existence of OP units, options, warrants and shares of our common stock reserved for issuance as restricted shares of our common stock or upon exchange of OP units or exercise of options or warrants may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future sales of shares of our common stock may be dilutive to existing stockholders.

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STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This prospectus contains various "forward-looking statements." You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "may," "will," "would," "could," "should," "seeks," "approximately," "intends," "plans," "projects," "estimates" or "anticipates" or the negative of these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Statements regarding the following subjects may be impacted by a number of risks and uncertainties:

- our business strategy;
- our ability to obtain future financing arrangements;
- estimates relating to our future distributions;
- our understanding of our competition;
- market trends;
- projected capital expenditures;
- the impact of technology on our products, operations and business; and
- use of the proceeds of our concurrent offerings.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an

investment decision with respect to our common stock, along with the following factors that could cause actual results to vary from our forward-looking statements:

- national, regional and local economic climates;
 - future terrorist attacks in the U.S. or abroad;
 - competition from other forms of single or multifamily housing;
 - changes in market rental rates, supply and demand for affordable housing;
 - the ability of manufactured home buyers to obtain financing;
 - our ability to maintain rental rates and maximize occupancy;
 - the level of repossessions by manufactured home lenders;
- the adverse impact of external factors such as changes in interest rates, inflation and consumer confidence;
- the ability to identify acquisitions;
 - the pace of acquisitions and/or dispositions of communities and rental homes;
 - our corporate debt ratings;
 - demand for home purchases in our communities and demand for financing of such purchases;
 - demand for rental homes in our communities;
 - the condition of capital markets;
 - actual outcome of the resolution of any conflict;
 - our ability to successfully operate acquired properties;
 - our ability to maintain our REIT status;
 - environmental uncertainties and risks related to natural disasters; and
- changes in real estate and zoning laws including legislation affecting monthly leases and rent control and increases in property taxes.

For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section entitled "Risk Factors."

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USE OF PROCEEDS

We will receive gross proceeds from our common stock offering of \$422.8 million and approximately \$492.6 million if the underwriters' over-allotment option is exercised in full. After deducting the underwriting discounts and commissions, financial advisory fees and estimated expenses of our common stock offering, we will receive net proceeds from our common stock offering of approximately \$385.2 million and approximately \$450.2 million if the underwriters' over-allotment option is exercised in full. We do not take into account the proceeds to be received or expenses to be incurred by our selling stockholders in the information presented in this section.

We will receive gross proceeds from our Series A preferred stock offering of \$125.0 million and approximately \$143.8 million if the underwriters' over-allotment option is exercised in full. After deducting the underwriting discounts and commissions and estimated expenses of our Series A preferred stock offering, we will receive net proceeds from our Series A preferred stock offering of approximately \$118.8 million and approximately \$137.0 million if the underwriters' over-allotment option is exercised in full.

We will contribute the net proceeds to our company from our concurrent offerings to our operating partnership. In addition, prior to or simultaneously with the consummation of our concurrent offerings we intend to complete the financing transactions pursuant to which:

- subsidiaries of our operating partnership will incur \$215.8 million in a new senior fixed rate mortgage loan due 2014;
- subsidiaries of our operating partnership will incur \$101.5 million in a new senior fixed rate mortgage loan due 2009; and
- subsidiaries of our operating partnership will incur \$182.7 million in a new senior variable rate mortgage loan due 2006.

The following table sets forth the sources and uses of funds that we expect in connection with our concurrent offerings assuming that:

- we complete the Hometown acquisition; and
- we complete the financing transactions.

We have based our amounts on balances outstanding at September 30, 2003 and actual sources and uses of funds may differ as a result of amortization of principal, additional loan exit fees, additional fees and expenses and differing loan restricted cash and reserve releases and other factors. You should read this table together with "Capitalization," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Unaudited Pro Forma Condensed Consolidated Financial Information" contained elsewhere in this prospectus.

This table identifies sources of funds arising from the financing transactions and our concurrent offerings with specific uses for the convenience of the reader; however, sources of funds from our concurrent offerings and the financing transactions may be commingled and have not been earmarked for particular purposes, and some of the uses indicated in the following table could be funded from other sources, such as our senior revolving credit facility.

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Sources (in thousands), assuming total gross proceeds to us from our common stock offering of \$422.8 million and total gross proceeds to us from our preferred stock offering of \$125 million	
Portion of gross proceeds to our company from our common stock offering	\$ 379,752
Portion of gross proceeds to our company from our Series A preferred stock offering	112,286
Additional funding of preferred interest due 2005, 14.00% (1)	25,000
Subtotal	\$ 517,038
New senior fixed rate mortgage due 2014, based upon a spread of 1.50% over the greater of 3.90% or the then-current yield on the ten year Treasury (5.44% at September 30, 2003)	\$ 215,758
New senior fixed rate mortgage due 2009, based upon a spread of 2.05% over the greater of 2.80% or the then-current yield on the five year Treasury (4.88% at September 30, 2003)	101,528
New senior variable rate mortgage due 2006, three one-year extension options, one-month LIBOR plus 3.00% (4.12% at September 30, 2003)	182,714
Restricted cash released on repayment of notes	12,152
Loan reserve released on repayment of preferred interest	9,375

Subtotal	\$ 521,527
Portion of gross proceeds from our common stock offering	\$ 42,998
Portion of gross proceeds from our preferred stock offering	12,714

Subtotal	\$ 55,712
Total Sources	\$1,094,277

Uses (in thousands)	
Hometown acquisition cash purchase price (2)	\$ 517,038
Subtotal	\$ 517,038
Repayment of senior variable rate mortgage due 2005, LIBOR plus 2.85% per annum (3.97% at September 30, 2003)	\$ 189,873
Repayment of rental home credit facility due 2010, LIBOR plus 4.70% per annum (5.82% at September 30, 2003)	24,966
Repayment of BFND credit facility due 2005, LIBOR plus 3.00% per annum (4.12% at September 30, 2003)	52,414
Payment of exit fees in the financing transactions	2,669
Payment of loan origination costs in the financing transactions	13,388
Loan reserves on new fixed and variable rate mortgages	5,590
Purchase of interest rate cap related to new senior variable rate mortgage	280
Repayment of preferred interest due 2005, 14.00% (1)	175,000
Organizational costs (4)	1,082
Cash generated for:	
Estimated initial distribution in excess of pro forma cash available for distribution to our common stockholders for the twelve months ended September 30, 2004 (3)	27,718
Estimated non-recurring capital expenditures for Hometown communities	20,000
Estimated rental home purchases	3,547
Estimated in-community retail home sales and financing initiative	5,000
Subtotal	\$ 521,527
Payment of fees and expenses of our concurrent offerings:	
Underwriting discount—common stock offering	\$ 26,422
Financial advisory fees—common stock offering	3,171
Other fees and expenses—common stock offering	7,966
Underwriting discount—Series A preferred stock offering	3,938
Fees and expenses—Series A preferred stock offering	2,237
Cash generated for:	
Estimated rental home purchases	9,978
Working capital	2,000
Subtotal	\$ 55,712
Total Uses	\$1,094,277

(1) On November 13, 2003 and January 8, 2004, we increased the outstanding amount of the preferred interest by an aggregate of \$25,000, to \$175,000.

- (2) Consists of \$478,500 cash purchase price for the Hometown communities, \$23,000 cash purchase price for related community assets, \$7,500 additional cash fee to Hometown and an estimated \$8,090 in fees and transaction costs associated with the Hometown acquisition (including \$2,800 in financial advisory fees payable to our lead underwriters).
- (3) See "Distribution Policy" for a calculation of this estimated amount.
- (4) Represents costs we expect to incur in organizing, registering and licensing certain of our newly formed subsidiaries.

Pending application of cash proceeds, we will invest such portion of the net proceeds in short-term, interest-bearing securities that are consistent with our election to be taxed as a REIT for U.S. federal income tax purposes. Such investments may include obligations of the Government National Mortgage Association, other government agency securities, certificates of deposit, interest-bearing bank deposits and mortgage loan participations. See "U.S. Federal Income Tax Considerations."

The mortgage and revolving indebtedness and the preferred interest to be repaid upon the completion of our concurrent offerings had a weighted average interest rate of approximately 7.47% and an average remaining term to maturity of approximately 2.7 years as of September 30, 2003.

If the underwriters exercise their over-allotment options for our concurrent offerings in full, we expect to use the additional net proceeds to our company, which will be approximately \$83.1 million in the aggregate, for acquisitions and working capital needs, including funding the increase in the amount of our estimated initial distribution resulting from the issuance of additional shares of our common stock upon an exercise of the over-allotment option with respect to the common stock offering.

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DISTRIBUTION POLICY

We intend to make regular quarterly distributions to holders of our common and preferred stock. We intend to pay a pro rata initial distribution on our common stock with respect to the period commencing on the completion of our common stock offering and ending March 31, 2004 based on a distribution of \$0.3125 per share for a full quarter. On an annualized basis, this would be \$1.25 per share, or an annual distribution rate of approximately 6.58% based on the initial public offering price of \$19.00 per share. We estimate that this initial annual rate of distribution will represent approximately 208.7% of our estimated cash available for distribution to our common stockholders for the twelve months ended September 30, 2004, which we have calculated based on adjustments to our pro forma net loss available to common stockholders before allocation to minority interest for the twelve months ended September 30, 2003 (giving effect to our concurrent offerings, our financing transactions and the Hometown acquisition). We intend to fund 52.0% of our estimated initial annual distribution from cash generated from our new senior fixed and variable rate mortgage debt. This estimate is based upon our historical operating results and does not take into account our growth initiatives which are intended to improve our occupancy and operating results, nor does it take into account any unanticipated expenditures we may have to make or any debt we may have to incur. In estimating our cash available for distribution to common stockholders, we have made certain assumptions as reflected in the table and footnotes below, including no net increases in rent for existing leases in our portfolio after September 30, 2003, as well as assumptions as to the amount of our recurring capital expenditures. We have not reflected in the table below \$11.3 million in mortgage indebtedness that we expect to have on a pro forma basis and that will mature during the quarter ending December 31, 2004 or \$2.7 million in scheduled mortgage loan principal payments due in the quarter ending December 31, 2004.

We do not intend our estimate of cash available for distribution to our common stockholders for the twelve months ended September 30, 2004 to be a projection or forecast of our actual results of operations or our liquidity, and we have calculated this estimate for the sole purpose of presenting our estimated initial annual distribution amount. Our estimate of cash available for distribution to our common stockholders should not be considered as an alternative to cash flow from operating activities (computed in accordance with GAAP) or as an indicator of our liquidity. No assurance can be given that our estimate of cash available for distribution to our common stockholders will prove accurate, and actual distributions may be different from the estimated distributions.

We intend to maintain our initial distribution rate for the twelve-month period following completion of our concurrent offerings unless our actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimate. We do not intend to reduce the estimated initial distribution per share if the underwriters' over-allotment option with respect to our common stock offering is exercised; however, this could require us to pay a larger portion of this distribution from the net proceeds of our current offerings and the financing transactions. We have estimated our initial annual distribution rate only for the twelve-month period following completion of our concurrent offerings, and we have not estimated the distribution to be paid beyond this period. Unless our operating cash flow increases substantially, we will be required either to fund future distributions from borrowings under our senior revolving credit facility or to reduce such distributions. If we use working capital or borrowings under our senior revolving credit facility to fund these distributions, this will reduce our cash available for distribution and the availability of the senior revolving credit facility for other purposes, which could negatively impact our financial condition, our results of operations and our ability to expand our business and fund our growth initiatives.

We anticipate that, at least initially, our distributions will exceed our then current and then accumulated earnings and profits as determined for U.S. federal income tax purposes. Therefore, a portion of these distributions will represent a return of capital for U.S. federal income tax purposes. Distributions in excess of our current and accumulated earnings and profits and not treated by us as a dividend will not be taxable to a taxable U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder's adjusted tax basis in his or her common stock, but rather will reduce such adjusted basis. Therefore, the gain (or loss) recognized on the sale of that common stock or upon our liquidation will be increased (or decreased) accordingly. To

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the extent those distributions exceed a taxable U.S. stockholder's adjusted tax basis in his or her common stock, they generally will be treated as a capital gain realized from the taxable disposition of those shares. We expect that approximately 87% of our estimated initial annual distribution will represent a return of capital for the tax period ending December 31, 2004. The percentage of our stockholder distributions that exceeds our current and accumulated earnings and profits may vary substantially from year to year. For a more complete discussion of the tax treatment of distributions to holders of our common stock, see "U.S. Federal Income Tax Considerations."

We cannot assure you that our estimated distributions will be made at all, or at the rate estimated below, or, if made, that any such distributions will be sustained. Any distributions made by us will be authorized and determined by our board of directors out of funds legally available therefor and will be dependent upon a number of factors, including restrictions under applicable law, our actual results of operations, economic conditions and other factors that could differ materially from our current expectations. Our actual results of operations will be affected by a number of factors, including the revenue we receive from our communities, our operating expenses, interest expense, our occupancy levels, the ability of our tenants to meet their obligations and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, see "Risk

Factors." If our properties do not generate sufficient cash flow to allow cash to be distributed to us, we will be required either to fund distributions from working capital or borrowings under our senior revolving credit facility, or to reduce such distributions.

Our senior revolving credit facility will restrict our ability to make distributions or other payments to our stockholders unless certain financial tests are satisfied and also will contain certain provisions that could restrict or limit our ability to draw funds thereunder. For so long as our senior revolving credit facility remains in place, we will not be permitted to make payments to our stockholders, including distributions to holders of our common stock or our Series A preferred stock, unless no event of default exists under the facility and either (i) the aggregate amount of such distributions to our stockholders over any period of four calendar quarters does not exceed 90% of our funds from operations (as defined under the facility) over such period of four calendar quarters, plus \$30 million in the aggregate for distributions made during the four fiscal quarters ending March 31, 2005 so long as the distribution per share of our common stock does not change during these four fiscal quarters or (ii) such distribution is required in order for us to maintain our status as a REIT for federal income tax purposes. This restriction will apply to any distributions we seek to make to our stockholders for so long as the senior revolving credit facility is in place, including our estimated initial annual distribution to holders of our common stock and our Series A preferred stock. "Funds from operations" as defined under our senior revolving credit facility means net income (computed in accordance with GAAP) of the Company on a pro forma basis giving effect to the Hometown acquisition, the financing transactions and our concurrent offerings, excluding gains or losses from sales of property, and extraordinary or unusual items, plus all depreciation and amortization, and after adjustments for unconsolidated joint ventures. Based on our pro forma funds from operations (as defined under the senior secured credit facility) for the twelve months ended September 30, 2003, we would have been able to pay the initial annual distribution on our Series A preferred stock and the estimated initial annual distribution on our common stock without violating the distribution covenant in the senior revolving credit facility.

Additionally, unless the full amount of all accumulated, accrued and unpaid dividends on our Series A preferred stock has been declared and paid for all past dividend periods and the then current dividend period, we will not be permitted to make cash distributions to holders of our common stock. The holders of our Series A preferred stock will be entitled to annual dividends of \$10.3 million on an aggregate basis, based on an annual rate of \$2.0625 per share, or 8.25% of the \$25.00 liquidation preference per share. See the notes to our "Unaudited Pro Forma Condensed Consolidated Balance Sheet" for the assumptions used in calculating this dividend.

U.S. Federal income tax law requires that a REIT distribute annually at least 90% of its REIT taxable income excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its REIT taxable income including capital gains. For more information, please see "U.S. Federal Income Tax Considerations." We anticipate that our

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estimated cash available for distribution to our common stockholders will exceed the annual distribution requirements applicable to REITs. However, under some circumstances, we may be required to pay distributions in excess of cash available for distribution to our common stockholders in order to meet these distribution requirements and we may need to borrow funds to make some distributions.

The following table describes our pro forma net loss available to common stockholders for the nine months ended September 30, 2003, and the adjustments we have made thereto in order to estimate our initial cash available for distribution to our common stockholders for the twelve months ended September 30, 2004.

	\$ in thousands
Pro forma net loss available to our common stockholders for the nine months ended September 30, 2003	\$ (19,190)
Add: Minority interest	(1,156)
Pro forma net loss available to our common stockholders before allocation to minority interest for the nine months ended September 30, 2003	(20,346)
Add: Pro forma net loss available to common stockholders before allocation to minority interest for the three months ended December 31, 2002	(27,145)
Pro forma net loss available to our common stockholders before allocation to minority interest for the twelve months ended September 30, 2003	(47,491)
Add: Pro forma depreciation and amortization	72,448
Add: Net increase in net income and depreciation from community acquisitions (1)	513
Add: Reconfiguration of retail home sales operations (2)	2,019
Add: Net rent increases effective through September 30, 2003 (3)	1,227
Add: Non-recurring retail home sales asset impairment and other expense (4)	1,385
Add: Non-recurring goodwill writeoff (5)	13,557
Add: Non-recurring severance cost (6)	640
Add: Interest rate cap market value writeoff (7)	1,680
Less: Impact of net lease terminations (8)	(2,745)
Estimated cash flows from operations available to our common stockholders for the twelve months ended September 30, 2004	43,233
Less: Estimated cash flows used in investing activities-community improvements (9)	(8,704)
Less: Estimated cash flows used in financing activities-scheduled mortgage loan principal payments (10)	(9,030)
Estimated cash available for distribution to our common stockholders for the twelve months ended September 30, 2004	\$ 25,499
Estimated initial annual distribution (including distributions to minority interest) (11)	\$ 53,217
Payout ratio based on estimated cash available for distribution to our common stockholders (11)	208.7%
Cash generated from our new senior fixed and variable rate mortgage debt utilized to fund the excess of estimated initial annual distributions (including distributions to minority interest) over estimated cash available for distribution to our common stockholders for the twelve months ended September 30, 2004	\$ 27,718
Estimated cash available for distribution to our common stockholders applicable to:	
Minority interest	\$ 1,453
Common shares	\$ 24,046

(1) Reflects inclusion of estimated additional pro forma net income and depreciation on communities we acquired during the twelve months ended September 30, 2003, calculated as the communities' net income with depreciation added back as follows (dollars in thousands):

Brookshire Village. Purchased February 2003.	
Inclusion of estimated net income for the four months before acquisition.	\$ 36
Add back Brookshire Village estimated depreciation for the four months before acquisition	56
Twin Parks. Purchased May 2003.	
Inclusion of estimated net income for the seven months before acquisition	118

Add back Twin Parks estimated depreciation for the seven months before acquisition Philbin Communities. Purchased September 2003.	101
Inclusion of estimated net income for the eleven months before acquisition	65
Add back Philbin estimated depreciation for the eleven months before acquisition Creekside Terrace. Purchased December 2002.	88
Inclusion of estimated net income for the two months before acquisition	5
Add back Creekside Terrace estimated depreciation for the two months before acquisition	6
Berryhill Commons. Purchased December 2002.	
Inclusion of estimated net income for the two months before acquisition	4
Add back Berryhill Commons estimated depreciation for the two months before acquisition	15
Berryhill Acres. Purchased December 2002.	
Inclusion of estimated net income for the two months before acquisition	7
Add back Berryhill Acres estimated depreciation for the two months before acquisition	12
Net increase	\$513

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(2) Reflects the elimination of all revenue and substantially all variable and fixed costs associated with the 19 retail dealerships we closed in 2003 in redirecting our retail home sales efforts away from a retail dealership presence into an in-community presence focused exclusively on sales of homes in our communities as more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements for the nine months ended September 30, 2003, included elsewhere in this prospectus. In the table below, we have eliminated the revenues and related costs that were associated with the specific retail sales locations that we closed but have retained all fixed expenses associated with in-community sales operations that we expect to continue to incur. We expect a decline in the sales of manufactured homes in the near future. Following completion of our concurrent offerings and the financing transactions, we expect sales of manufactured homes to increase as we execute our in-community retail home sales and financing initiative. As a result, we have not included future estimates of revenues or related variable expenses associated with this business.

Sales of manufactured homes	\$ 26,352
Other income	1,340
Less: Cost of manufactured homes sold	22,081
Sales commissions and costs – variable	1,319
Salaries and benefits – general managers and staff	1,007
Advertising	649
Repairs and maintenance	300
Office and other expenses	218
Subtotal	3,493
Less: Retail home sales costs – fixed	882
Service departments	583
District managers	257
Rent	915
Property taxes	99

Insurance	155	
Utilities	226	
Telephone	142	
Repairs and maintenance	218	
Vehicles	60	
Furniture and fixtures rent and other	28	
Subtotal	3,565	7,058
Less: Interest expenses		572
Net decrease		\$ (2,019)

(3) Represents additional revenues on a pro forma basis based on net rent increases achieved by September 2003 as if they were in effect for the twelve months ended September 30, 2003. On a month-to-month basis, substantially all rents either increased or remained constant throughout the twelve months ended September 30, 2003. Rental increases are made on a community-by-community basis rather than on a portfolio-wide basis. Net rent increases were effective by March 2003 and then remained constant through September 2003. Therefore, we have applied the increases only to the months October 2002 through February 2003. The following table does not include any rent increases for the Hometown communities where the average monthly homeowner rental income per occupied homesite remained constant. During this period, we did not experience increases in expenses in the communities for which we have given pro forma effect to the rent increases:

Average monthly homeowner rental income per occupied homesite in the following periods:	
March 2003 through September 2003	\$ 272
October 2002 through February 2003	265
Weighted average increase in average monthly homeowner rental income per occupied homesite	\$ 7
Average total occupied homesites — October 2002 through February 2003	35,068
Total additional pro forma revenues (thousands)	\$ 1,227

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(4) Represents a non-recurring asset impairment charge of \$1,385, net of sales proceeds, to write down fixed assets to fair value and record the cost of remaining lease obligations of \$41, related to our retail home sales business in which we redirected our sales efforts from a dealership presence into an in-community sales effort. In connection with this redirection, we sold or ceased operations of our retail dealerships.

(5) Represents a non-recurring writeoff of goodwill in the fourth quarter of 2002 associated with our retail home sales and insurance businesses.

(6) Represents elimination of actual expenses incurred during the nine months ended September 30, 2003 resulting from a one-year severance agreement with two former employees.

(7) Represents a non-cash adjustment to the fair value of our interest rate caps purchased prior to October 1, 2002.

(8) Assumes that there is a net decline of approximately 1,650 occupied homesites for the period ending September 30, 2004 which is equal to the net decline in our occupied homesites for the twelve months ended September 30, 2003. We also assume that this net decline in occupied homesites occurs ratably over the twelve month period ending September 30, 2004. We apply a weighted average monthly homeowner rent per occupied homesite, pro forma giving effect

to the Hometown acquisition, of \$277 to calculate our lost rental income attributable to this net decline.

- (9) Represents estimated annual recurring capital expenditures of \$131 per homesite for 66,841 homesites that we expect to own following the Hometown acquisition.

	Nine Months Ended September 30, 2003	Year Ended December 31, 2002 2001		Average
Recurring capital expenditures (dollars in thousands)	\$ 3,933	\$ 5,023	\$ 4,585	\$ 4,951
Number of homesites	40,246	38,633	34,869	37,916
Average annual recurring capital expenditure per homesite	\$ 130	\$ 130	\$ 131	\$ 131

In addition to the foregoing, we expect to make an additional \$15 to \$20 million in up front non-recurring capital improvements in the first 12 to 18 months following completion of our concurrent offerings to upgrade the condition and appearance of the Hometown communities.

We intend to fund these improvements through cash generated from our financing transactions.

- (10) Represents scheduled amortization of mortgage loan principal during the twelve months ended September 30, 2004 on indebtedness we expect to have on a pro forma basis following completion of the Hometown acquisition, the financing transactions and our concurrent offerings. We also expect to refinance an additional \$11.3 million in mortgage indebtedness that we expect to have on a pro forma basis and that will mature during the quarter ending December 31, 2004 and to make \$2.7 million in scheduled mortgage loan principal payments due in the quarter ending December 31, 2004.

- (11) If the underwriters' over-allotment option of 3,676,292 shares of our common stock is exercised in full, our initial annual distribution would increase by \$4,595 and our payout ratio would increase to 226.7%. We would expect to fund this additional initial annual distribution with the net proceeds to our company from the exercise of such over-allotment option.

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CAPITALIZATION

The following table presents our capitalization on a historical and pro forma basis as of September 30, 2003. The pro forma adjustments give effect to our concurrent offerings, the Hometown acquisition and the financing transactions as if they had occurred on September 30, 2003 as described in the notes hereto. You should read this table in conjunction with "Use of Proceeds," "Unaudited Pro Forma Condensed Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources" and the more detailed information contained in the consolidated financial statements and notes thereto included elsewhere in this prospectus.

Historical	Pro Forma
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	(as restated)	
	(in thousands)	
Notes payable and preferred interest		
Senior fixed rate mortgage due 2012, 7.35% per annum	\$ 307,481	\$ 307,481
Senior variable rate mortgage due 2005, LIBOR plus 2.85% per annum (3.97% at September 30, 2003)	189,873	—
BFND credit facility due 2005, LIBOR plus 3.00% per annum (4.12% at September 30, 2003)	52,414	—
Various individual fixed rate mortgages due 2006 through 2028, averaging 7.65% per annum	43,460	43,460
Preferred interest due 2005, 14.00% per annum (1)	150,000	—
Rental home credit facility due 2010, LIBOR plus 4.70% per annum (5.82% at September 30, 2003)	24,966	—
Floorplan lines of credit	3,496	3,496
Other loans due 2004 and 2005	1,811	1,811
New senior fixed rate mortgage due 2014, based upon a spread of 1.50% over the greater of 3.90% or the then-current yield on the ten year Treasury (5.438% at September 30, 2003)	—	215,758
New senior fixed rate mortgage due 2009, based upon a spread of 2.05% over the greater of 2.80% or the then-current yield on the five year Treasury (4.876% at September 30, 2003)	—	101,528
New senior variable rate mortgage due 2006, three one-year extension options, based upon a spread of 3.00% over the one-month LIBOR (4.12% at September 30, 2003)	—	182,714
Various individual fixed rate mortgages due 2004 through 2013, averaging 4.27% effective interest rate per annum assumed in the Hometown acquisition (2)	—	93,440
Total notes payable and preferred interest	773,501	949,688
Minority interest	44,346	39,419
Stockholders' equity		
8.25% Series A cumulative redeemable preferred stock	—	118,825
Common stock and additional paid-in-capital (3)	378,188	780,181
Deferred compensation		(1,805)
Retained deficit	(102,143)	(123,728)
Total stockholders' equity	276,045	773,473
Total capitalization	\$1,093,892	\$1,762,580

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- (1) On November 13, 2003 and January 8, 2004, we increased the outstanding amount of the preferred interest by an aggregate of \$25,000. We intend to repay the full \$175,000 preferred interest in connection with the completion of our concurrent offerings, the Hometown acquisition and the financing transactions.
- (2) These mortgages had an aggregate principal balance of \$86,126 of existing indebtedness on 22 communities. The fair market value of the assumed indebtedness is \$93,440 based on market interest rates as of September 30, 2003 with an average effective interest rate of 4.27%.
- (3) Our pro forma common stock outstanding includes common stock to be issued by our company in our common stock offering, 625,000 shares of common stock to be awarded under our 2003 equity incentive plan prior to the completion of our concurrent offerings to management and certain other employees, 314,634 shares of our common stock to be issued upon redemption of OP units that will

be sold by selling stockholders and the repurchase of 1,530 shares of our common stock by us for cash in connection with completion of our concurrent offerings and excludes (i) 3,676,292 shares of common stock that may be issued by us upon exercise of the underwriters' over-allotment option in connection with our common stock offering, (ii) 1,367,387 shares available for future issuance under our 2003 equity incentive plan, (iii) 2,726,187 shares, on a historical basis, and 2,411,553 shares, on a pro forma basis, that may be issued by us upon the exchange of outstanding OP units, and (iv) 723,607 shares issuable upon exercise of outstanding warrants.

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DILUTION

Purchasers of our common stock will experience an immediate and substantial dilution of the net tangible book value of their common stock from the common stock initial public offering price. At September 30, 2003, we had a net tangible book value of approximately \$166.4 million or \$9.80 per share of our common stock held by continuing stockholders. After giving effect to our concurrent offerings, the receipt by us of the net proceeds of shares offered by our company from our concurrent offerings, the deduction of underwriting discounts and commissions, financial advisory fees and estimated offering expenses payable by our company, the financing transactions and the Hometown acquisition, the pro forma net tangible book value at September 30, 2003 attributable to common stockholders, would have been \$523.2 million or \$13.06 per share of our common stock. This amount represents an immediate dilution in pro forma net tangible book value of \$5.94 per share from the assumed public offering price of \$19.00 per share of our common stock to new public stockholders. The following table illustrates this per share dilution:

Initial public offering price per share		\$ 19.00
Net tangible book value per share before the Hometown acquisition, the financing transactions and our concurrent offerings (1)	9.80	
Net increase in pro forma net tangible book value per share attributable to the Hometown acquisition, the financing transactions and our concurrent offerings (2)	3.26	
Pro forma net tangible book value per share after the Hometown acquisition, the financing transactions and our concurrent offerings (3)		13.06
Dilution in pro forma net tangible book value per share to new stockholders in common stock (4)		\$ 5.94

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- (1) Net tangible book value per share of our common stock before giving effect to the Hometown acquisition, the financing transactions, and our concurrent offerings is determined by dividing net tangible book value as of September 30, 2003 (net book value of the tangible assets available to common stockholders consisting of total assets available to common stockholders less the intangible assets which are comprised of loan origination costs, lease intangibles and customer relationships, net, and goodwill, net of total liabilities available to common stockholders) by the number of shares of our common stock held by continuing stockholders after our concurrent offerings.
- (2) Net increase in pro forma net tangible book value per share of our common stock attributable to the Hometown acquisition, the financing transactions, and our concurrent offerings is determined by dividing the difference between the September 30, 2003 pro forma net tangible book value attributable to common stock and the September 30, 2003 net tangible book value by the number of

shares of our common stock after our concurrent offerings. Offering proceeds are calculated after deducting underwriting discounts and commissions, financial advisory fees and estimated expenses of our concurrent offerings payable by us.

- (3) Based on pro forma net tangible book value attributable to common stockholders of approximately \$523.2 million divided by 40,065,842 shares of our common stock to be outstanding following the consummation of our concurrent offerings which excludes 95,000 shares of unvested common stock to be granted immediately prior to the completion of our concurrent offerings.
- (4) Dilution is determined by subtracting pro forma net tangible book value per share of our common stock, from the initial public offering price paid by a new stockholder for a share of our common stock.

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AFFORDABLE RESIDENTIAL COMMUNITIES INC. SELECTED CONSOLIDATED HISTORICAL AND PRO FORMA FINANCIAL DATA

The following table shows our selected historical and pro forma financial data for the periods indicated. You should read our selected historical and pro forma financial data, together with the notes thereto, in conjunction with the more detailed information contained in our financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus.

Our historical consolidated balance sheet data as of December 31, 2002 and 2001 and our consolidated statement of operations data for the years ended December 31, 2002, 2001, and 2000 have been derived from our audited historical financial statements included elsewhere in this prospectus. Our historical consolidated balance sheet information as of September 30, 2003 and 2002 and our consolidated statement of operations information for the nine months ended September 30, 2003 and 2002 have been derived from our unaudited consolidated financial statements. In the opinion of our management, our historical consolidated balance sheet and statement of operations as of and for the nine months ended September 30, 2003 and 2002, respectively, include all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the information set forth therein. Our results of operations for the interim period ended September 30, 2003 are not necessarily indicative of the result to be obtained for the full fiscal year.

Our unaudited selected pro forma consolidated results of operations data and balance sheet data as of and for the nine months ended September 30, 2003 and for the year ended December 31, 2002 give effect to the Hometown acquisition, the financing transactions and our concurrent offerings and the use of proceeds therefrom and, for the year ended December 31, 2002, the reorganization (which included our acquisition of the Limited Partnerships and the businesses of Holdings in May 2002), as of the beginning of the periods presented for the operating data and as of the stated date for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

We have restated our Consolidated Financial Statements as of September 30, 2003 and for the three and nine months ended September 30, 2003 and 2002 and as of and for the year ended December 31, 2002 to reduce the term of amortization of lease intangibles and customer relationships from 20 years to five years. As a result of the restatement, we increased our net loss for the three months ended September 30, 2003 from \$6,446 to \$6,793; our net loss for the three months ended September 30, 2002 from \$5,269 to \$5,832; our net loss for the nine months ended September 30, 2003 from \$22,032 to \$23,720; our net loss for the nine months ended September 30, 2002 from \$11,730 to \$12,668;

and our net loss for the year ended December 31, 2002 from \$39,334 to \$40,834. These lease intangibles and customer relationships were acquired in 2002 and 2003 as a result of the reorganization and other acquisitions of communities. We originally amortized the in-place lease value and tenant relationships for communities acquired over the estimated life that a home remains in the community. However, we have determined that it is appropriate to change the amortization period to five years to match the estimated length of time that the homeowner remains in the community.

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except per share (site data)	Pro Forma Nine Months Ended September 30 2003 (unaudited)	Nine Months Ended September 30, 2003 (unaudited) (as restated)		Pro Forma Year Ended December 31, 2002 (unaudited)	2002 (1) (as restated)	Year Ended December 31, 2001 2000 1999		
Operations								
Manufactured homes	\$ 150,837	\$ 98,131	\$ 65,892	\$ 184,638	\$ 96,912	\$ 40,046	\$ 27,024	\$ 15,310
Other income	19,845	19,845	23,258	46,635	31,942	—	—	—
	17,872	12,155	8,324	23,717	12,591	3,566	2,278	806
	188,554	130,131	97,474	254,990	141,445	43,612	29,302	16,116
Depreciation	56,155	34,705	22,107	74,535	35,467	13,090	8,318	4,714
Amortization	11,689	7,756	4,645	13,388	6,969	2,738	1,718	876
Manufactured homes								
	15,871	15,871	18,795	37,040	25,826	—	—	—
Real estate, finance,								
and other operations	6,560	6,560	5,160	8,597	8,597	—	—	—
Development	3,854	3,854	2,436	5,004	4,105	2,491	2,436	1,245
Administrative	11,993	11,722	8,243	15,131	13,088	9,047	7,173	5,435
Goodwill and amortization	53,800	37,530	25,969	69,958	38,596	16,905	11,672	6,770
Other	40,953	42,990	25,735	56,314	43,887	14,972	14,279	7,634
Depreciation and goodwill								
Other expense	1,385	1,385	—	13,557	13,557	—	—	—
	202,260	162,373	113,090	293,524	190,092	59,243	45,596	26,674
	(1,094)	(1,094)	(829)	(1,543)	(1,390)	(2,871)	(2,168)	(1,658)
Contribution to								
Equity	(12,612)	(31,148)	(14,787)	(36,991)	(47,257)	(12,760)	(14,126)	(8,900)
Preferred stock	1,156	4,311	2,047	2,687	6,274	13	14	10
Preferred stock								
	(11,456)	(26,837)	(12,740)	(34,304)	(40,983)	(12,747)	(14,112)	(8,890)
Dividend	(7,734)			(10,313)				
Continuing	(19,190)	(26,837)	(12,740)	(44,617)	(40,983)	(12,747)	(14,112)	(8,890)

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From								
Operations	—	285	84		172	(370)	2	(78)
discontinued								
	—	3,333	—		—	—	—	—
Cost in								
Operations	—	(501)	(12)		(23)	—	—	—
Effect of change in								
principle net of								
at								(611)
able to common								
	(\$19,190)	(\$23,720)	(\$12,668)	(\$44,617)	(\$40,834)	(\$13,117)	(\$14,110)	(\$9,579)
from continuing								
Share	(\$0.53)	(\$1.58)	(\$0.93)	(\$1.22)	(\$2.82)	(\$1.41)	(\$2.19)	(\$2.84)
per share	(\$0.53)	(\$1.58)	(\$0.97)	(\$1.22)	(\$2.89)	(\$1.41)	(\$2.19)	(\$2.84)
per share from								
Operations								
(loss) per share	—	\$ 0.18	—	—	\$ 0.01	(\$0.04)	—	(\$0.03)
(loss) per share	—	\$ 0.18	—	—	\$ 0.01	(\$0.04)	—	(\$0.03)
on share								
Share (2)	(\$0.53)	(\$1.40)	(\$0.93)	(\$1.22)	(\$2.81)	(\$1.45)	(\$2.19)	(\$3.07)
Share (3)	(\$0.53)	(\$1.40)	(\$0.97)	(\$1.22)	(\$2.88)	(\$1.45)	(\$2.19)	(\$3.07)
Weighted share/OP								
Units:								
Units outstanding								
	36,489	16,973	13,722	36,494	14,535	9,062	6,441	3,116
Ending (4)	2,411	2,726	1,515	2,411	1,818	—	—	—
Retained stock	81	—	—	76	—	—	—	—
Units outstanding	38,981	19,699	15,237	38,981	16,353	9,062	6,441	3,116
Units:								
provided by								
Units		\$ 13,851	\$ 13,044		\$ 14,267	\$ 6,626	\$ (3,177)	\$ (1,969)
Units		(25,169)	(115,182)		(137,473)	(104,638)	(91,185)	(115,996)
Units		9,076	107,707		137,787	84,340	111,976	114,951
Financial								
Operations (5)	\$ 27,148	\$ 2,531	\$ 7,273	\$ 15,502	(\$11,403)	\$ 2,214	(\$3,293)	(\$2,917)
Balance sheet data (at period								
Real property, net	\$1,492,208	\$ 910,153			\$ 897,445	\$ 370,261	\$ 268,315	\$ 185,941
Equivalents	104,250	36,007			38,249	23,668	37,340	19,665
and restricted								
	34,518	50,455			52,710	16,135	17,459	13,871
	1,792,388	1,122,831			1,136,538	429,979	343,175	240,825
	979,496	802,440			788,617	271,143	204,908	152,353
and preferred								
	949,688	773,501			753,360	253,068	189,004	138,778
Equity	773,473	276,045			299,765	158,774	138,191	88,442
	302	212			209	83	63	41

ies (at end of						
(at end of	66,841	40,435	39,704	15,941	11,861	8,285
ired during the	27,037	631	3,289	4,077	3,553	5,882
ired in the			20,511			
end of period)	81.5%	84.8%	87.2%	90.7%	88.7%	86.9%
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- (1) Financial data for the nine months ended September 30, 2002 and for the year ended December 31, 2002 reflect the effects of the reorganization from May 2, 2002, the date of completion of the reorganization, through period end. See "Business and Properties—Organizational History and 2002 Reorganization" for a description of the reorganization. We accounted for the reorganization under the purchase method of accounting.
 - (2) Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average of common shares outstanding during the period. Pro forma basic loss per share is computed assuming our concurrent offerings were consummated as of the first day of the period presented and equals pro forma net loss available to common stockholders divided by the pro forma number of shares of our common stock outstanding. The pro forma common stock outstanding does not include 3,592 shares issued in our common stock offering the proceeds of which will be used for working capital.
 - (3) For the nine months ended September 30, 2003 and 2002, the years ended December 31, 2002, 2001, 2000 and 1999, and the period from inception to December 31, 1998, diluted loss per share is calculated assuming exchange of the OP units to common stock. Diluted loss per share for those periods is computed by dividing the sum of loss before allocation to minority interest by the weighted average common shares and OP units. The pro forma diluted loss per share for the nine months ended September 30, 2003 and the year ended December 31, 2002 is computed assuming our concurrent offerings and other related transactions were consummated as of the first day of the period presented, but do not assume exchange of the OP units for common stock, or the exercise of outstanding warrants, which would be antidilutive. The pro forma common stock outstanding does not include shares issued in our common stock offering the proceeds of which will be used for working capital.
 - (4) Reflects 0.519-for-1 reverse stock split on our common stock and OP units effective on January 23, 2004.
 - (5) As defined by NAREIT, FFO represents income (loss) before allocation to minority interest (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization

unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income.

We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions.

Pro forma FFO for the year ended December 31, 2002 include charges incurred in the reorganization in connection with repaying debt including \$1,885 in exit fees and \$1,592 for the writeoff of unamortized loan costs, and includes a charge of \$13,557 to writeoff goodwill associated with our retail home sales and insurance businesses. For more details see our consolidated financial statements for the year ended December 31, 2002, 2001 and 2000. Pro forma FFO for the nine months ended September 30, 2003 includes a charge of \$1,385 for retail home sales asset impairment and other expense. For more details see our unaudited condensed consolidated financial statements as of September 30, 2003 and for the three and nine months ended September 30, 2003 and 2002. We expect to incur a charge of \$10,070 prior to completion of our concurrent offerings related to the issuance of share awards to management and certain other employees, which is not included in pro forma FFO.

The following table presents the reconciliation of our loss before allocation to minority interest computed in accordance with GAAP to FFO.

	Pro Forma Nine Months Ended September 30, 2003	Nine Months Ended September 30,		Pro Forma Year Ended December 31, 2002	Year Ended December 31,				
	2003	2003	2002	2002	2001	2000	1999	1998	1997
	(in thousands)								
Reconciliation of FFO:									
Loss before preferred stock dividend	\$ (11,456)	(\$26,837)	(\$12,740)	\$ (34,304)	(\$40,983)	(\$12,747)	(\$14,112)	(\$8,890)	(\$10,000)
Depreciation and amortization	53,800	37,530	25,969	69,958	38,596	16,905	11,672	6,770	10,000
Gain (loss) from discontinued operations		285	84		172	(370)	2	(78)	
Depreciation from discontinued operations		295	379		488	574	549	88	
Amortization of loan origination costs	(3,572)	(2,925)	(2,595)	(5,200)	(4,129)	(1,896)	(1,212)	(700)	(1,000)
Depreciation expense on furniture, equipment and vehicles	(1,100)	(1,100)	(609)	(1,019)	(1,019)	(237)	(181)	(100)	(1,000)
	(2,790)	(4,717)	(3,215)	(3,620)	(4,528)	(15)	(11)	(7)	(1,000)

Priority interest portion of FFO										
Debt financing items	34,882	\$ 2,531	\$ 7,273	25,815	(\$11,403)	\$ 2,214	(\$3,293)	(\$2,917)	(\$	
Less preferred stock dividend	(7,734)			(10,313)						
Available to common										
holders	\$ 27,148			\$ 15,502						

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated historical and pro forma financial statements and notes appearing elsewhere in this prospectus and the financial information set forth in the tables below. All amounts in the following discussions are in thousands except per share and homesite data.

Overview

We are a fully integrated, self-administered and self-managed equity REIT focused primarily on the acquisition, renovation, repositioning and operation of all-age manufactured home communities. Upon completion of our pending acquisition of 90 communities with approximately 26,000 homesites from Hometown America, L.L.C., we will be the largest owner and operator of manufactured home communities in the U.S. We also conduct certain complementary business activities focused on improving and maintaining occupancy in our communities, including the retail sale of manufactured homes, the financing of sales of manufactured homes and acting as agent in the sale of homeowners' insurance and other related insurance products. We conduct substantially all of our activities through our operating partnership, of which we are the sole general partner and in which we will hold a 94.3% ownership interest upon completion of our concurrent offerings.

Upon completion of the Hometown acquisition, we will own and operate a portfolio of 302 manufactured home communities with approximately 67,000 homesites and an occupancy rate of 81.5% as of September 30, 2003. These communities are located in 29 states and represent 70 markets across the U.S. Our five largest markets will be Dallas-Fort Worth, Texas, with 11.0% of total homesites; Atlanta, Georgia, with 7.6% of total homesites; Salt Lake City, Utah, with 5.0% of total homesites; the Front Range of Colorado, with 4.9% of total homesites; and Jacksonville, Florida, with 3.8% of total homesites. Completion of the Hometown acquisition is subject to satisfaction of various conditions, and we cannot assure that the Hometown acquisition will be completed. See "Risk Factors—Risks Related to the Hometown Acquisition."

Organizational History and 2002 Reorganization

Beginning in 1995, Mr. Jackson and Mr. Sprengle co-founded several companies under the name "Affordable Residential Communities" or "ARC" for the purpose of engaging in the business of acquiring, renovating, repositioning and operating manufactured home communities, as well as certain related businesses. These companies included three separate real property partnerships formed between 1995 and 1997 for the purpose of acquiring manufactured home communities, as well as Holdings, which was organized as the parent company for both the general partner of these three real property partnerships and the related retail home sales, insurance and other complementary businesses.

We were formed in July 1998 as a Maryland corporation for the purpose of acting as the investment vehicle for and a co-general partner with ARC LLC of our operating partnership, the fourth real property partnership organized and operated by our co-founders. Subsequently in May 2002, we completed the reorganization, in which we acquired the Limited Partnerships and all the other related businesses formerly owned by Holdings for total equity consideration consisting of 5.8 million shares of our common stock, 2.7 million OP units and approximately \$113 million in cash. Each of our OP units issued in the reorganization was issued as part of a paired unit which includes 1.9268 shares of our special voting stock. Each of these paired units is exchangeable by its holder for cash or, at our election, one share of our common stock, and each paired unit entitles its holder to one vote on all matters submitted to a vote of our stockholders who have voting rights generally. As a result of the reorganization the businesses formerly conducted by Holdings and the Limited Partnerships are now conducted through subsidiaries of our operating partnership. At the time of the reorganization, we owned 90 manufactured home communities and 17,197 homesites, and as a result of the reorganization we acquired 107 manufactured home communities and 20,511 homesites from the Limited Partnerships.

In connection with the reorganization, we incurred fixed rate mortgage debt of \$310.2 million and variable rate mortgage debt of \$192.7 million, and, through a subsidiary which acts as a holding

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company for most of our property subsidiaries, we borrowed \$75 million of a \$150 million preferred interest. The proceeds of these financings were used to repay existing indebtedness, fund the cash portion of the consideration in the reorganization, pay fees and expenses related to the reorganization and provide cash to support our operations, including certain growth initiatives.

We accounted for our acquisition of the businesses and assets of Holdings and the Limited Partnerships using the purchase method of accounting and allocated the aggregate purchase price in the acquisition to the tangible and intangible assets and liabilities acquired based upon their fair values. Accordingly, our financial statements for the year ended December 31, 2002 include the results of operations of the businesses formerly conducted by Holdings and the Limited Partnerships for the period subsequent to May 2, 2002, and our financial statements for all periods prior to that time do not reflect any of the results of operations of these businesses.

Industry Trends and Outlook

Manufactured home community owners and operators currently are facing a challenging operating environment which we expect will continue for the foreseeable future. This environment has been characterized by, among other things, (i) an increase in repossessions and abandonments of manufactured homes resulting in an increase in bad debt expense, (ii) a shortage of available consumer financing for buyers of manufactured homes, (iii) weak overall economic conditions throughout the U.S., and (iv) a relatively low mortgage interest rate environment, providing a competitive advantage for financing purchases of entry-level site-built homes. We anticipate that demand for manufactured housing and the occupancy in manufactured home communities will improve if home mortgage interest rates return to higher historical levels, which should reduce the pricing differential between home mortgage interest rates and interest rates for financing manufactured homes.

The current operating environment in the manufactured housing industry has put downward pressure on occupancy in our communities and has negatively impacted our complementary businesses, particularly our stand-alone retail home sales business. We have responded by developing and implementing a number of programs and initiatives over the last 24 months to meet the challenges posed by this operating environment. These initiatives primarily are aimed at

maintaining and improving occupancy and include our rental home program, which involves the acquisition, setup and preparation for leasing of approximately 6,000 rental homes in our communities as of September 30, 2003, excluding Hometown, and our in-community retail home sales and financing initiative, through which we are shifting our focus from sales of manufactured homes from stand-alone retail home sales dealerships to selling and financing lower cost homes to qualified purchasers in our communities. Other initiatives include our Hispanic marketing initiative, which is focused on marketing to the fastest growing segment of the U.S. population, and resident retention programs. Each of these initiatives are focused on maximizing occupancy, providing value to our residents and improving long-term stability and predictability of our revenue and cash flow. Through the proceeds of our concurrent offerings and our financing transactions and our revolving credit and consumer finance facilities, we expect to substantially increase our rental home program and our in-community retail home sales and financing initiative in the near term. These initiatives may be modified or curtailed, and new or different initiatives may be implemented, as industry conditions change and our operating strategy evolves to address future operating conditions and take advantage of future opportunities.

Restatement

We have restated our Consolidated Financial Statements as of September 30, 2003 and for the three and nine months ended September 30, 2003 and 2002 and as of and for the year ended December 31, 2002 to reduce the term of amortization of lease intangibles and customer relationships from 20 years to five years. As a result of the restatement, we increased our net loss for the three months ended September 30, 2003 from \$6,446 to \$6,793; our net loss for the three months ended September 30, 2002 from \$5,269 to \$5,832; our net loss for the nine months ended September 30, 2003 from \$22,032 to \$23,720; our net loss for the nine months ended September 30, 2002 from \$11,730 to \$12,668; and our net loss for the year ended December 31, 2002 from \$39,334 to \$40,834. These lease intangibles and customer relationships were acquired in 2002 and 2003 as a result of the reorganization and other acquisitions of communities. We originally amortized the in-place lease value

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and tenant relationships for communities acquired over the estimated life that a home remains in the community. However, we have determined that it is appropriate to change the amortization period to five years to match the estimated length of time that the homeowner remains in the community.

Critical Accounting Policies and Estimates

We have prepared our consolidated financial statements in accordance with GAAP which require us to make certain estimates and assumptions that affect the recorded amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from these estimates. We have provided a summary of our significant accounting policies in Note 1 to our consolidated financial statements as of and for the year ended December 31, 2002. We have summarized below those accounting policies that require our most difficult, subjective or complex judgments and that have the most significant impact on our financial condition and results of operations. Our management evaluates these estimates on an ongoing basis. These estimates are based on information currently available to management and on various other assumptions management believes are reasonable.

Acquisitions of real estate and intangible assets. When we acquire real estate properties, we allocate the components of these acquisitions using relative fair values determined based on certain estimates and assumptions. These estimates and assumptions impact the allocation of costs

between land and different categories of land improvements as well as the amount of costs assigned to individual properties in multiple property acquisitions. These allocations impact the amount of depreciation expense and gains and losses recorded on future sales of communities, and therefore the net income or loss we report.

We determine the fair value of the tangible community assets we acquire (other than rental homes discussed below), including land, land improvements and buildings, by valuing the property as if it were vacant. We then allocate the "as-if-vacant" value to land, land improvements and buildings based on our determination of the relative fair values of these assets. We determine the as-if-vacant fair value of the real estate by considering the expected lease-up period for individual communities (based generally on vacancies in the surrounding market and lease-up history for the communities acquired), the expected lost rental revenue during the lease-up period (based on contractual rental rates), and expected move-in bonuses to tenants.

We value our acquired intangible assets in accordance with purchase accounting for acquisitions by allocating value to above and below market leases, in-place leases and customer relationships. We measure the aggregate value of acquired above and below market leases, in-place leases and customer relationships by the excess of the purchase price paid for a property (after adjusting the in-place leases to market) over the estimated fair value of the property as-if-vacant, as set forth above.

We also value the occupied rental homes we acquire as if they were vacant. We determine the as-if-vacant fair value of the manufactured homes by considering the expected lease-up period for the home (based on lease-up history for rental homes in that community) and the expected lost rental revenue during the lease-up period (based on contractual rental rates). We measure the aggregate value of the intangible assets related to rental homes, consisting of in-place leases and tenant relationships, by the purchase price paid for the rental homes (after adjusting in-place leases to market) less the estimated value of the property as-if-vacant.

¶ Useful lives of assets and amortization methods. We determine the useful lives of our real estate assets (generally 30 years) and rental homes (generally ten years) based on historical and industry experience with the lives of those particular assets and experience with the timing of significant repairs and replacement of those assets. We have estimated the useful life of acquired community customer relationships as 5 years based on our experience with the period of time a resident lives in our community and industry experience generally with resident turnover. We have initially established the life of the rental home customer relationships as the term of the initial related lease. The acquired community customer relationships and rental home customer relationships are amortized on a straight-line basis since we cannot reliably determine the pattern of economic benefit associated with the individual contracts comprising the intangible assets. We do not have sufficient historical or industry data to reliably estimate the tenure of an individual customer or to pool our customer contracts on a homogeneous basis as a basis to amortize the intangible assets

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in a manner other than straight line. We will reassess this determination as we gain additional experience with lease renewals. The estimates of useful lives and the amortization method impact the amount of depreciation and amortization expense we report, and therefore the amount of net income or loss we report.

¶ Impairment of real estate. We recognize an impairment loss on a real estate asset to be held and used in our operations if the asset's undiscounted expected future cash flows are less than its depreciated cost whenever events and circumstances indicate that the carrying value of the real estate asset may not be recoverable. We compute a real estate asset's undiscounted expected future cash flow using certain estimates and assumptions. We calculate the impairment loss as the

difference between the asset's fair market value and its carrying value.

Impairment of intangible assets. We combine our intangible assets, which consist primarily of lease and customer intangibles with a definite life, with the related tangible assets (primarily consisting of real estate assets) at the lowest level for which cash flows are readily identifiable. Whenever events or circumstances indicate that the carrying amount of the asset group is not recoverable, the asset group is tested for recoverability. If the asset group is not recoverable from the undiscounted cash flows attributable to that asset group, an impairment loss is recognized as the difference between the carrying value of the asset group and the estimated fair value of the asset group.

Impairment of goodwill. We evaluate goodwill for potential impairment using capitalization rates and multiples of earnings to value our reporting units based on our experience in the industry and industry analyses provided by financial institutions. We perform this evaluation at least annually, and more frequently if events and circumstances warrant.

Allowance for receivables. We report receivables net of an allowance for receivables that we may not collect in the future. For receivables relating to community rents (owner and rental), we fully reserve amounts over 60 days past due and, in some cases, we fully reserve amounts currently due based on specific circumstances. For receivables relating to notes arising from the sale of manufactured homes, we reserve amounts currently in default and an estimate of those expected to go into default over the next year, taking into account the expected value of the manufactured home to which we would obtain title in foreclosure.

Inventory valuations. We value manufactured home inventory at the lower of cost or market value. Cost is based on the purchase price of the specific homes, reduced, as applicable, by dealer volume rebates earned from manufacturers when we purchased the homes. We base market value of inventory on estimated net realizable value.

Derivatives. We manage our exposure to interest rate risk through the use of cash flow hedges and recognize in earnings the ineffective portion of gains or losses associated with cash flow hedges immediately. We obtain values for the interest rate caps from financial institutions that market these instruments.

Results of Operations

Comparison of Three Months Ended September 30, 2003 to Three Months Ended September 30, 2002

Overview. Our results for the three months ended September 30, 2003 as compared to the three months ended September 30, 2002 include the effects on our operations of the 14 community acquisitions we completed between July 1, 2002 and September 30, 2003.

Revenue. Revenue for the three months ended September 30, 2003 was \$43,241, as compared to \$47,300 for the three months ended September 30, 2002, a decrease of \$4,059, or 9%. This decrease was primarily due to a \$7,537 decrease in other revenue consisting primarily of sales of manufactured homes partially offset by an increase of \$3,478 in rental income. Following completion of our concurrent offerings and the financing transactions, we expect sales of manufactured homes to increase as we execute our in-community retail home sales and financing initiative. We have obtained a commitment from Merrill Lynch Mortgage Capital Inc., an affiliate of one of our lead underwriters, to provide a \$250 million multi-year debt facility to fund a substantial expansion of our in-community retail home sales and financing initiative over the next 12 to 24 months. If we are not able to complete or maintain this debt facility, we do not expect to be able to fund this initiative.

Rental income increased by \$3,478, consisting of \$1,229 from community acquisitions and \$2,249 from same communities and communities acquired in the reorganization. The increase in revenues for same communities and communities acquired in the reorganization consists of \$1,837 from increased rental rates and \$2,387 from increased home renter rental income, partially offset by a \$1,975 decrease due to lower homeowner occupancy.

Property Operations Expenses. Property operations expenses generally include costs incurred in connection with the day-to-day on-site operations of our community business. For the three months ended September 30, 2003, total property operations expenses were \$12,219 as compared to \$10,492 for the three months ended September 30, 2002, an increase of \$1,727, or 16%. This increase was due to \$1,389 from same communities and additional communities we acquired in the reorganization and \$338 from other communities we acquired after January 1, 2002. The increase in same communities and communities we acquired in the reorganization was due primarily to the following: repairs and maintenance increased by \$341, or 23%, primarily due to the larger rental home portfolio; salaries and benefits increased by \$317, or 12%, due to increased staffing and, to a lesser extent, increases in wages and employee benefits; and bad debt expense increased \$278, or 80%, as a result of increased tenant defaults caused by general economic conditions and reserves for rent owed by certain finance companies that own repossessed homes in our communities.

Real Estate Taxes Expense. Real estate taxes expense for the three months ended September 30, 2003 was \$2,588 compared to \$2,000 for the three months ended September 30, 2002, an increase of \$588, or 29%. The increase was due to \$105 from other community acquisitions and \$483 from same communities and communities we acquired in the reorganization as a result of a larger rental home portfolio and increased property tax assessments.

Cost of Manufactured Homes Sold. The cost of manufactured homes sold was \$5,082 for the three months ended September 30, 2003, as compared to \$11,101 for the three months ended September 30, 2002, a decrease of \$6,019, or 54%. The decrease resulted from 117 fewer manufactured home sales in the three months ended September 30, 2003. The gross margin on manufactured homes sold was 16.9% and 18.5% for the three months ended September 30, 2003 and 2002, respectively. We expect a further decline in the cost of manufactured homes sold in the near future. Following completion of our concurrent offerings and the financing transactions, we expect cost of manufactured homes sold to increase as sales of manufactured homes increase as we execute our in-community retail home sales and financing initiative. We expect the gross margin on sales of manufactured homes to decline in the near future but to remain slightly positive.

Retail Home Sales, Finance, Insurance and Other Operations Expenses. Retail home sales, finance, insurance and other operations expenses generally include costs incurred in connection with the day-to-day on-site operations of our retail home sales business. For the three months ended September 30, 2003, total retail home sales, finance, insurance and other operations expenses were \$2,090, as compared to \$2,982 for the three months ended September 30, 2002, a decrease of \$892, or 30%. This decrease was due primarily to cost reductions attributable to declining sales volume.

We expect a further decline in the retail home sales expenses in the near future as a result of our expected lower sales of manufactured homes and a lower cost structure as a result of eliminating the costs of maintaining stand-alone retail dealership locations. Following completion of our concurrent offerings and the financing transactions, we expect our costs will increase as a result of higher volume of sales as we execute our in-community retail home sales and financing initiative but to remain lower on a per unit basis as a result of the absence of the costs of the stand-alone retail dealership locations.

Property Management Expenses. Property management expenses include costs for the management and marketing of our communities incurred by district management and support staff. Property management expense for the three months ended September 30, 2003 was \$1,286, as compared to \$998 for the three months ended September 30, 2002, an increase of \$288, or 29%. The increase was due primarily to increased staffing at the district level.

General and Administrative Expenses. General and administrative expenses generally include personnel and administrative costs of our corporate offices. General and administrative expense for the three months ended

September 30, 2003 was \$3,672, as compared to \$2,880 for the three months ended September 30, 2002, an increase of \$792, or 28%. The increase was due to a non-recurring credit of \$291 against our insurance expenses in 2002, and, in 2003, to higher professional services

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expenses related primarily to our manufactured home acquisitions. As a percentage of total revenue, general and administrative expenses were 8% for the three months ended September 30, 2003, as compared to 6% for the three months ended September 30, 2002. We expect to incur a charge of \$10,070 in 2004 related to issuance of restricted stock awards to management and certain other employees prior to completion of our concurrent offerings.

Interest Expense. Interest expense for the three months ended September 30, 2003 was \$14,481, as compared to \$13,500 for the three months ended September 30, 2002, an increase of \$981, or 7%. The increase was due primarily to additional borrowings subsequent to June 30, 2002 of: \$27,000 under the rental home credit facility, \$40,000 under the preferred interest and \$18,794 under the BFND credit facility. These increases were partially offset by lower interest rates on variable rate debt.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three months ended September 30, 2003, was \$12,045, as compared to \$10,501 for the three months ended September 30, 2002, an increase of \$1,544, or 15%. The increase relates to community acquisitions and related capital improvements and rental home acquisitions.

Retail Home Sales Asset Impairment and Other Expense. At the time of the reorganization, our retail home sales subsidiary was engaged in the retail sale of manufactured homes to third parties through 19 separate, stand-alone retail dealership locations in five states. Due to significant changes in the industry, particularly the shortage of consumer financing to support sales of manufactured homes, in late 2002 we began redirecting our retail home sales efforts away from a retail dealership presence and into an in-community presence focused exclusively on sales of homes in our communities. Our in-community retail home sales business will operate in conjunction with our consumer finance business through which we intend to provide credit to qualified buyers of homes in our communities.

During March 2003 we ceased operations at one of our stand-alone retail dealership locations, and during June 2003 we sold two of our retail locations, recording charges to reduce the carrying value of fixed assets to fair value.

As of July 1, 2003 we operated the remaining 16 separate, stand-alone dealership retail locations in five states. During the three months ended September 30, 2003 we substantially completed the redirection of our retail home sales efforts by selling eleven of our retail dealerships, ceasing operations in the remaining five retail dealerships and focusing entirely on in-community retail home sales activities in communities owned by us. In accordance with the terms we have with the buyers of the retail dealerships, we will continue to obtain certain benefits they receive from their inventory purchases, and we expect they will continue to refer new residents to our communities. With respect to four of the eleven stand-alone retail dealerships we sold, we will continue to hold and finance inventory at their retail dealership. With respect to the five retail dealerships we closed, we have relocated the inventory to nearby manufactured home communities we own.

In connection with these activities, we have recorded a charge of \$1,385 to reduce the carrying value of fixed assets to fair value (\$1,345) and to record the cost of remaining lease obligations at the retail dealerships we closed in the third quarter (\$40).

Interest Income. Interest income earned on notes receivable, cash and cash equivalents, restricted cash and loan reserves increased by \$3 from \$341 for the three months ended September 30, 2002 to \$344 for the three months ended September 30, 2003.

Minority Interest. Minority interest for the three months ended September 30, 2003 was \$1,559 as compared to \$943 for the three months ended September 30, 2002, an increase of \$616, or 65%. This was due entirely to the larger net loss in 2003 versus 2002.

Discontinued Operations. During the three months ended September 30, 2003 we sold the Sunrise Mesa community located in Apache Junction, Arizona. Accordingly, we have reflected its income from operations, gain on sale and related minority interest as discontinued operations.

For the three months ended September 30, 2003, income from discontinued operations totaled \$46, as compared to \$44 for the three months ended September 30, 2002, an increase of \$2, or 5%. We recorded a gain of \$3,333 on the sale of the community. We recorded minority interest on these results of \$468 for the three months ended September 30, 2003 compared to \$6 for the three months ended September 30, 2002.

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Net Loss. As a result of the foregoing, our net loss was \$6,793 for the three months ended September 30, 2003, as compared to \$5,832 for the three months ended September 30, 2002, an increase of \$961. The increase was due primarily to \$288 from property management expenses, \$792 from general and administrative expenses, \$981 from interest expense, \$1,544 from depreciation and amortization expenses and \$1,385 from retail home sales asset impairment and other expense, partially offset by a \$537 increase in segment revenue less segment expenses, \$616 from minority interest in loss and \$2,873 from income and gain on sale of discontinued operations net of related minority interest.

Comparison of Nine Months Ended September 30, 2003 to Nine Months Ended September 30, 2002

Overview. Our results for the nine months ended September 30, 2003 as compared to the nine months ended September 30, 2002 include the operations of the 107 communities comprising 20,511 homesites and the retail home sales, insurance, consumer finance and other businesses we acquired in the reorganization for the entire nine month period ended September 30, 2003 and for approximately five months in the nine months ended September 30, 2002. In addition to the effects of the reorganization, our results in the nine month period ended September 30, 2003 also reflect the effects on our operations of the 22 community acquisitions we completed between January 1, 2002 and September 30, 2003.

Revenue. Revenue for the nine months ended September 30, 2003 was \$130,131 compared to \$97,474 for the nine months ended September 30, 2002, an increase of \$32,657, or 34%. This increase was due to an increase of \$32,239 in rental income and an increase of \$418 in other revenue consisting of sales of manufactured homes, utility and other income. Following completion of our concurrent offerings and the financing transactions, we expect sales of manufactured homes to increase as we execute our in-community retail home sales and financing initiative. We have obtained a commitment from Merrill Lynch Mortgage Capital Inc., an affiliate of one of our lead underwriters, to provide a \$250 million multi-year debt facility to fund a substantial expansion of our in-community retail home sales and financing initiative over the next 12 to 24 months. If we are not able to complete or maintain this debt facility, we do not expect to be able to fund this initiative.

Rental income increased by \$32,239, consisting of \$23,447 from the communities acquired in the reorganization, \$4,976 from other community acquisitions and \$3,816 from same communities. The increase in same communities revenues consists of \$2,554 from increased rental rates, \$3,066 from home renter rental income partially offset by \$1,804 from lower homeowner occupancy.

The increase in sales of manufactured homes, utility and other income of \$418 is due to a \$3,831 increase in utility and other income partially offset by a \$3,413 decrease in sales of manufactured homes.

Property Operations Expenses. For the nine months ended September 30, 2003, total property operations expenses were \$34,705, as compared to \$22,107 for the nine months ended September 30, 2002, an increase of \$12,598, or 57%. The increase was due to increases in expenses of \$8,678 resulting from inclusion of the results of communities we acquired in the reorganization, \$2,489 from other community acquisitions and \$1,431 from same communities. The increase on a same community basis was due primarily to the following: salaries and benefits increased by \$485, or 15%, due to increased staffing and, to a lesser extent, increases in wages and employee benefits; bad debt expense increased \$411, or 111%, as a result of increased tenant defaults caused by general economic conditions and reserves for rent owed by certain finance companies which own repossessed homes in our communities; and utility and repair and maintenance costs increased \$290, or 4%, primarily due to the larger rental home portfolio.

Real Estate Taxes Expense. Real estate taxes expense for the nine months ended September 30, 2003 was \$7,756, as compared to \$4,645 for the nine months ended September 30, 2002, an increase of \$3,111, or 67%. The increase was due primarily to communities we acquired in the reorganization, other community acquisitions, an increase in our rental home portfolio and increased property tax assessments.

Cost of Manufactured Homes Sold. The cost of manufactured homes sold was \$15,871 for the nine months ended September 30, 2003 compared to \$18,795 for the nine months ended September 30, 2002, a decrease of \$2,924, or 16%. The decrease was due primarily to lower sales of manufactured

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homes in 2003 partially offset by the inclusion of the results of the retail home sales business we acquired in the reorganization for the entire nine month period in 2003. The gross margin in manufactured homes sold was 20.0% and 19.2% for the nine months ended September 30, 2003 and 2002, respectively. We expect a further decline in the cost of sales of manufactured homes in the near future. Following completion of our concurrent offerings and the financing transactions, we expect cost of manufactured homes sold to increase as sales of manufactured homes increase in conjunction with our in-community retail home sales and financing initiative.

Retail Home Sales, Finance, Insurance and Other Operations Expenses. For the nine months ended September 30, 2003 total retail home sales, finance, insurance and other operations expenses were \$6,560, as compared to \$5,160 for the nine months ended September 30, 2002, an increase of \$1,400, or 27%. This increase was due primarily to increases in expenses resulting from inclusion of results of the retail home sales business we acquired in the reorganization for the entire period in 2003 as compared to five months for 2002, partially offset by cost reductions due to declining sales volume.

We expect a further decline in the retail home sales expenses in the near future as a result of our expected lower sales of manufactured homes and a lower cost structure as a result of eliminating the costs of maintaining stand-alone retail stores. Following completion of our concurrent offerings and the financing transactions, we expect our costs will increase as a result of higher volume but will remain lower on a per unit basis as a result of the absence of the costs of

the stand-alone retail stores.

Property Management Expenses. Property management expense for the nine months ended September 30, 2003 was \$3,854, as compared to \$2,436 for the nine months ended September 30, 2002, an increase of \$1,418, or 58%. The increase was due primarily to inclusion of the results of the communities we acquired in the reorganization for an entire nine month period in 2003 and increased staffing at the district level.

General and Administrative Expenses. General and administrative expense for the nine months ended September 30, 2003, was \$11,722, as compared to \$8,243 for the nine months ended September 30, 2002, an increase of \$3,479, or 42%. The increase was due primarily to the reorganization, a non-recurring credit of \$291 against our insurance expenses in 2002, and, in 2003, to higher professional services expenses related primarily to our manufactured home acquisitions. As a percentage of total revenue, general and administrative expense was 9% for the nine months ended September 30, 2003, as compared to 8% for the nine months ended September 30, 2002. We expect to incur a charge of \$10,070 in 2004 related to issuance of restricted stock awards to management and certain other employees prior to completion of our concurrent offerings.

Interest Expense. Interest expense for the nine months ended September 30, 2003 was \$42,990, as compared to \$25,735 for the nine months ended September 30, 2002, an increase of \$17,255, or 67%. The increase was due primarily to: additional indebtedness acquired in the reorganization of \$380,750, additional borrowings of \$27,000 under the rental home credit facility, \$40,000 under the preferred interest, \$18,794 under the BFND credit facility, and \$5,944 of indebtedness assumed in connection with community acquisitions. Such interest expense increases resulting from additional borrowings were partially offset by lower interest rates on variable rate debt.

Depreciation and Amortization Expense. Depreciation and amortization expense for the nine months ended September 30, 2003 was \$37,530, as compared to \$25,969 for the nine months ended September 30, 2002, an increase of \$11,561, or 45%. The increase relates to the reorganization, other community acquisitions, related capital improvements and rental home acquisitions. This was partially offset by the increase in depreciable lives of community improvements from 20 year to 30 years made in connection with the reorganization.

Retail Home Sales Asset Impairment and Other Expense. At the time of the reorganization, our retail home sales subsidiary was engaged in the retail sale of manufactured homes to third parties through 19 separate, stand-alone retail dealership locations in five states. Due to significant changes in the industry, particularly the shortage of consumer financing to support sales of manufactured homes, beginning in late 2002 we redirected our retail home sales efforts away from a retail dealership presence and into an in-community presence focused exclusively on sales of homes in our communities. Our in-community retail home sales business will operate in conjunction with our consumer finance business through which we intend to provide credit to qualified buyers of homes in our communities.

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During the nine months ended September 30, 2003 we substantially completed the redirection of our retail home sales efforts by selling eleven of our retail dealerships, ceasing operations in the remaining five retail dealerships and focusing entirely on in-community retail home sales activities in nearby communities owned by us. In accordance with the terms we have with the buyers of the retail dealerships, we will continue to obtain certain benefits they receive from their inventory purchases and we expect they will continue to refer new residents to our communities. With respect to four of the eleven stand-alone retail dealerships we sold, we will continue to hold and finance inventory at their retail dealership. With respect to five retail dealerships we closed, we have relocated the inventory to nearby manufactured home communities we own.

In connection with these activities, we have recorded a charge of \$1,385 to reduce the fixed assets to fair value (\$1,345) and to record the cost of remaining lease obligations at the retail dealerships we closed in the third quarter (\$40).

Interest income. Interest income earned on notes receivable, cash and cash equivalents, restricted cash and loan reserves increased by \$265 from \$829 for the nine months ended September 30, 2002 to \$1,094 for the nine months ended September 30, 2003

Minority Interest. Minority interest for the nine months ended September 30, 2003 was \$4,311 as compared to \$2,047 for the nine months ended September 30, 2002, an increase of \$2,264, or 111%. The increase was primarily due to the reorganization in which our OP unit holders received an effective 13.9% ownership interest as of May 2, 2002, and to the larger net loss recorded in 2003 versus 2002.

Discontinued Operations. During the nine months ended September 30, 2003 we sold the Sunrise Mesa community located in Apache Junction, Arizona. Accordingly, we have reflected its income from operations, gain on sale and related minority interest as discontinued operations for all periods presented.

For the nine months ended September 30, 2003, income from discontinued operations totaled \$285, as compared to \$84 for the nine months ended September 30, 2002, an increase of \$201, or 239%. We recorded a gain of \$3,333 on the sale of the community. We recorded minority interest on these results of \$501 for the nine months ended September 30, 2003 compared to \$12 for the nine months ended September 30, 2002, an increase of \$489.

Net Loss. As a result of the foregoing, our net loss was \$23,720 for the nine months ended September 30, 2003, as compared to \$12,668 for the nine months ended September 30, 2002, an increase of \$11,052. The increase was due to \$1,418 from property management expenses, \$3,479 from general and administrative expenses, \$17,255 from interest expense, \$11,561 from depreciation and amortization expenses and \$1,385 from retail home sales asset impairment and other expense partially offset by a \$18,472 increase in segment revenue less segment expenses, \$2,264 from minority interest in loss and \$3,045 from income and gain on sale of discontinued operations net of related minority interest.

Comparison of Year Ended December 31, 2002 to Year Ended December 31, 2001

Overview. Our results for the year ended December 31, 2002, as compared to the year ended December 31, 2001, include the operations of the 107 communities comprising 20,511 homesites and the retail home sales, insurance, consumer finance and other businesses we acquired in the reorganization for eight months in the year ended December 31, 2002. In addition to the effects of the reorganization, our results in the year ended December 31, 2002 also reflect the effects on our operations of the 19 and 20 individual community acquisitions we completed in 2002 and 2001, respectively.

Revenue. Revenue for the year ended December 31, 2002 was \$141,445 compared to \$43,612 for the year ended December 31, 2001, an increase of \$97,833, or 224%. This increase was due to an increase of \$56,866 in rental income and an increase of \$40,967 in other revenue consisting of sales of manufactured homes, utility income and other income.

Rental income increased by \$56,866, consisting of \$37,698 from the communities acquired in the reorganization, \$14,204 from other community acquisitions and \$4,964 from same communities. The increase in same communities revenues consists of \$1,831 from increased rental rates and \$3,524 from home renter rental income partially offset by \$391 from lower occupancy.

The increase in other income of \$40,967 was due to a \$31,942 increase in sales of manufactured homes acquired in the reorganization, and a \$9,025 increase in utility and other income primarily as a result of the reorganization.

Property Operations Expenses. For the year ended December 31, 2002, property operations expenses were \$35,467 compared to \$13,090 for the year ended December 31, 2001, an increase of \$22,377, or 171%. The increase was due primarily to increases in expenses of \$14,754 resulting from the inclusion of the results of the communities acquired in the reorganization, which was completed on May 2, 2002, \$4,850 in expenses from other community acquisitions, and increases of \$2,773 from same communities. The increase on a same community basis was due primarily to the following: salaries and benefits for 2002 increased by \$346, or 12% over 2001 due to increased staffing and to a lesser extent increases in wages and costs to provide employee benefits; bad debt expense increased \$287, or 113% over 2001 as a result of increased tenant delinquencies caused by general economic conditions and reserves for rent owed by certain finance companies which own repossessed homes in our communities; and insurance, utility, and repairs and maintenance costs increased \$1,473 primarily as a result of the larger rental home portfolio in 2002.

Real Estate Taxes Expense. Real estate taxes expense for the year ended December 31, 2002, was \$6,969 compared to \$2,738 for the year ended December 31, 2001, an increase of \$4,231, or 155%. The increase was due primarily to the reorganization and other community acquisitions of \$4,206.

Cost of Manufactured Homes Sold. The cost of manufactured homes sold was \$25,826 for the year ended 2002 due to our acquisition of the retail home sales business as part of the reorganization. The gross margin on manufactured homes sold was 19% for the year ended December 31, 2002.

Retail Home Sales, Finance, Insurance and Other Operations Expenses. For the year ended December 31, 2002, total retail home sales, finance, insurance and other operations expenses were \$8,597 due the inclusion of the results of the retail home sales business acquired in the reorganization.

Property Management Expenses. Property management expense for the year ended December 31, 2002, was \$4,105 compared to \$2,491 for the year ended December 31, 2001, an increase of \$1,614, or 65%. The increase was due primarily to inclusion of the results of the communities we acquired in the reorganization, which we completed on May 2, 2002.

General and Administrative Expenses. General and administrative expense for the year ended December 31, 2002, was \$13,088 compared to \$9,047 for the year ended December 31, 2001, an increase of \$4,041, or 45%. The increase is primarily due to the reorganization. As a percentage of total revenue, general and administrative expenses were 9% for the year ended December 31, 2002 as compared to 21% for the year ended December 31, 2001.

Interest Expense. Interest expense for the year ended December 31, 2002 was \$43,887 compared to \$14,972 for the year ended December 31, 2001, an increase of \$28,915, or 193%. The increase was due primarily to additional indebtedness acquired in the reorganization of \$380,750. Interest expense was partially offset by lower interest rates on variable rate debt. Interest expense for the year ended December 31, 2002 includes \$1,561 for the loss in value of the interest rate caps purchased in the reorganization and \$1,885 in exit fees for debt that was repaid in the reorganization.

Depreciation and Amortization Expense. Depreciation and amortization expense for the year ended December 31, 2002, was \$38,596 compared to \$16,905 for the year ended December 31, 2001, an increase of \$21,691, or 128%. The increase relates to the reorganization, other community acquisitions, related capital improvements and rental home acquisitions. This was partially offset by the effect of the increase in depreciable lives of community improvements

from 20 years to 30 years made in connection with the reorganization. Amortization expense for the year ended December 31, 2002 includes \$1,592 of charges incurred in the reorganization to write off previously incurred costs on debt that was repaid.

Impairment of Goodwill. At December 31, 2002 we analyzed the value assigned to goodwill in our real estate segment by applying a market capitalization rate to net operating income and to goodwill in our retail home sales, finance and insurance operations by applying market multiples to earnings before interest, taxes, depreciation and amortization. As a result of this analysis, no impairment charge was recorded for our community operations in 2002, and we recorded an impairment of goodwill in the retail home sales, finance and insurance operations of \$13,557. The impairment for the retail home sales and finance operations arose from a deterioration of its operating performance subsequent to the reorganization due to lower projected sales volumes caused by adverse

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market conditions of the manufactured home sales industry as a whole, the related finance industry, and the market for manufactured home sales businesses. The impairment for the insurance operation arose because the insurance operation derives the majority of its revenue from the retail home sales and finance operations.

Interest Income. Interest income earned on notes receivable, cash and cash equivalents, restricted cash and loan reserves decreased by \$1,481 or 52% from \$2,871 for the year ended December 31, 2001 to \$1,390 for the year ended December 31, 2002 primarily due to lower market interest rates which reduced interest earned on deposits and notes receivable.

Minority Interest. Minority interest for the year ended December 31, 2002 was \$6,274 as compared to \$13 for the year ended December 31, 2001. The increase was primarily due to the reorganization in which our OP unit holders received an effective 13.9% ownership interest as of May 2, 2002.

Net Loss. As a result of the foregoing, our net loss was \$40,834 for the year ended December 31, 2002, as compared to \$13,117 for the year ended December 31, 2001, an increase of \$27,717. The increase was primarily due to \$1,614 from property management expenses, \$4,041 from general and administrative expenses, \$28,915 from interest expense, \$21,691 from depreciation and amortization expenses and \$13,557 from the impairment of goodwill in the retail home sales, finance and insurance operations partially offset by a \$36,802 increase in segment revenue less segment expenses, \$6,261 from minority interest in loss before allocation to minority interest and \$519 from income on discontinued operations net of related minority interest.

Comparison of Year Ended December 31, 2001 to the Year Ended December 31, 2000

Overview. Our results for the year ended December 31, 2001, as compared to the year ended December 31, 2000, principally reflect the effects of our operations of the 19 and 22 individual community acquisitions we completed in 2001 and 2000, respectively.

Revenue. Revenue for the year ended December 31, 2001 was \$43,612 as compared to \$29,302 for the year ended December 31, 2000, an increase of \$14,310, or 49%. This increase was due to an increase of \$13,022 in rental income and an increase of \$1,288 in other revenue consisting of utility income and other income.

Rental income increased by \$13,022, consisting of \$10,640 from community acquisitions and \$2,382 from same communities. The increase in same communities revenue consists of \$1,665 from increased rental rates, \$383 from

rental home income and \$334 from higher occupancy.

The increase in utility and other income of \$1,288 was due to an increase in utility and other income.

Property Operations Expenses. For the year ended December 31, 2001, property operations expenses were \$13,090 compared to \$8,318 for the year ended December 31, 2000, an increase of \$4,772, or 57%. This increase was due primarily to community acquisitions that increased property operations expense in 2001 by approximately \$4,640.

Real Estate Taxes Expense. Real estate taxes expense for the year ended December 31, 2001, was \$2,738 compared to \$1,718 for the year ended December 31, 2000, an increase of \$1,020, or 59%. The increase was due primarily to community acquisitions and to a lesser extent increases in assessed property values at certain communities and purchases of rental homes. Community acquisitions increased real estate taxes expense by approximately \$976.

Property Management Expenses. Property management expense for the year ended December 31, 2001, was \$2,491 compared to \$2,436 for the year ended December 31, 2000, an increase of \$55, or 2%. The increase was due primarily to community acquisitions.

General and Administrative Expenses. General and administrative expense for the year ended December 31, 2001, was \$9,047 compared to \$7,173 for the year ended December 31, 2000, an increase of \$1,874, or 26%. The increase resulted from costs incurred to support community acquisitions and related capital expenditures and repairs and maintenance activities.

Interest Expense. Interest expense for the year ended December 31, 2001, was \$14,972 compared to \$14,279 for the year ended December 31, 2000, an increase of \$693, or 5%. The increase was due primarily to additional borrowings to fund acquisitions and capital expenditure improvements in 2001 partially offset by lower interest rates on variable rate debt.

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Depreciation and Amortization Expense. Depreciation and amortization expense for the year ended December 31, 2001, was \$16,905 compared to \$11,672 for the year ended December 31, 2000, an increase of \$5,233, or 45%. The increase relates to community acquisitions and related capital improvements and rental home acquisitions.

Interest Income. Interest income earned on notes receivable, cash and cash equivalents, restricted cash and loan reserves increased by \$703, or 32%, from \$2,168 for the year ended December 31, 2000 to \$2,871 for the year ended December 31, 2001 due primarily to higher average invested funds during 2001 compared to 2000.

Minority Interest. Minority interest for the year ended December 31, 2001 was \$13 as compared to \$14 for the year ended December 31, 2000, reflecting a small position held by our affiliates in both periods.

Net Loss. As a result of the foregoing, our net loss was \$13,117 for the year ended December 31, 2001, as compared to \$14,110 for the year ended December 31, 2000, a decrease of \$993. The decrease in net loss was primarily due to a \$8,518 increase in segment revenue less segment expenses, offset by an increase in expenses of \$55 from property management expenses, \$1,874 from general and administrative expenses, \$693 from interest expense, \$5,233 from depreciation and amortization expenses, \$1 from minority interest in loss before allocation to minority interest and \$372 from income on discontinued operations.

Same ARC Partnership Communities

The following tables present certain information relative to our real estate segment as of and for the three months ended September 30, 2003 and 2002 on a historical, "Same Communities" and "Same ARC Partnership Communities" basis. "Same Communities" reflects information for all communities owned by us at both January 1, 2002 and September 30, 2003. "Same Communities" does not include the 107 communities comprising 20,511 homesites that we acquired in the reorganization. "Same ARC Partnership Communities" reflects information for all communities that, as of January 1, 2002 and September 30, 2003, were owned by us or by one of the Limited Partnerships which we acquired in the reorganization on May 2, 2002.

The "Same ARC Partnership Communities" information essentially reflects a same-store presentation for substantially all the communities we own as if the reorganization had occurred at the beginning of the periods for which the "Same ARC Partnership Communities" information is presented. Our management believes that this presentation of financial and other information on a "Same ARC Partnership Communities" basis provides a meaningful period-over-period comparison of the actual performance of the manufactured home communities that comprise our portfolio that is not included in our historical financial statements because the results of operations of the Limited Partnerships were not combined with our results of operations prior to the reorganization in May 2002. For all periods presented on a "Same ARC Partnership Communities" basis, our management team managed each of the Limited Partnerships through a subsidiary of Holdings and held non-controlling ownership interests in Holdings. Therefore all the communities that comprise our portfolio were under the operational control of the same management for all periods presented. Our management operated these communities as a single portfolio to achieve operational efficiencies. Management uses this information in operating its business and believes that the "Same ARC Partnership Communities" information provides more complete historical information for the communities comprising our portfolio than is provided by the "Same Communities" information because the "Same ARC Partnership Communities" reflects information for a substantially larger portion of the communities and homesites we presently own.

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	Same ARC Partnership Communities (1) (5)		Same Communities (5)		Real Estate Segment (5)	
	2003	2002	2003	2002	2003	2002
For the three months ended September 30:						
Average total homesites	36,558	36,450	16,006	15,932	40,300	38,395
Average total rental homes	5,224	3,821	1,872	1,469	5,535	3,876
Average occupied homesites — homeowners	27,549	29,942	12,898	13,670	29,872	31,405
Average occupied homesites — rental homes	4,372	2,749	1,561	1,153	4,614	2,757
Average total occupied homesites	31,921	32,691	14,459	14,823	34,486	34,162
Average occupancy — rental homes	83.7%	71.9%	83.4%	78.5%	83.4%	71.1%
Average occupancy — total	87.3%	89.7%	90.3%	93.0%	85.6%	89.0%
For the three months ended September 30:						
Real estate revenue						
Homeowner rental income	\$ 22,680	\$ 22,913	\$ 11,993	\$ 11,985	\$ 24,550	\$ 24,095
Home renter rental income	7,798	5,411	2,915	2,327	8,431	5,494
Other	53	(42)	38	(1)	44	(42)
Rental income	30,531	28,282	14,946	14,311	33,025	29,547

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Utility and other income	3,348	2,939	1,606	1,363	3,689	3,100
Total real estate revenue	33,879	31,221	16,552	15,674	36,714	32,647
Real estate expenses						
Property operations expenses	11,072	9,683	5,017	4,535	12,219	10,492
Real estate taxes	2,343	1,860	1,098	943	2,588	2,000
Total real estate expenses	13,415	11,543	6,115	5,478	14,807	12,492
Average monthly real estate revenue per total occupied homesite (2)	\$ 354	\$ 318	\$ 382	\$ 353	\$ 355	\$ 319
Average monthly homeowner rental income per homeowner occupied homesite (3)	\$ 274	\$ 255	\$ 310	\$ 292	\$ 274	\$ 256
Average monthly real estate revenue per total homesite (4)	\$ 309	\$ 286	\$ 345	\$ 328	\$ 304	\$ 283
As of September 30:						
Total communities owned	190	190	83	83	212	206
Total homesites	36,558	36,459	16,006	15,941	40,435	38,953
Occupied homesites	31,703	32,799	14,375	14,832	34,282	34,730
Total rental homes owned	5,557	4,328	1,995	1,586	6,003	4,441
Occupied rental homes	4,519	3,073	1,603	1,235	4,843	3,086

(1) Real estate revenue and real estate expenses for "Same ARC Partnership Communities" reconcile to real estate revenues and real estate expenses for "Same Communities" as follows:

	Communities					
	Same Communities		Acquired in the Reorganization (a)		Same ARC Partnership Communities	
	2003	2002	2003	2002	2003	2002
For the three months ended September 30:						
Real estate revenue						
Homeowner rental income	\$ 11,993	\$ 11,985	\$ 10,687	\$ 10,928	\$ 22,680	\$ 22,913
Home renter rental income	2,915	2,327	4,883	3,084	7,798	5,411
Other	38	(1)	15	(41)	53	(42)
Rental income	14,946	14,311	15,585	13,971	30,531	28,282
Utility and other income	1,606	1,363	1,742	1,576	3,348	2,939
Total real estate revenue	16,552	15,674	17,327	15,547	33,879	31,221
Real estate expenses						
Property operations expenses	5,017	4,535	6,055	5,148	11,072	9,683
Real estate taxes	1,098	943	1,245	917	2,343	1,860
Total real estate expenses	6,115	5,478	7,300	6,065	13,415	11,543

(a) Represents communities owned at both January 1, 2002 and September 30, 2003 by the Limited Partnerships we acquired in the reorganization on May 2, 2002.

(2) Average monthly real estate revenue per total occupied homesite is defined as total real estate revenue divided by average total occupied homesites divided by the number of months in the period.

(3) Average monthly homeowner rental income per homeowner occupied homesite is defined as homeowner rental income divided by average homeowner occupied homesites divided by the number of months in the period.

(4) Average monthly real estate revenue per total homesite is defined as total real estate revenue divided by average total homesites divided by the number of months in the period.

(5)

Real estate revenue, real estate expenses and homesite data exclude discontinued operations related to our Sunrise Mesa community, which we sold in September 2003.

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The following tables present certain information relative to our real estate segment as of and for the nine months ended September 30, 2003 and 2002 on a historical, "Same Communities" and "Same ARC Partnership Communities" basis. "Same Communities" reflects information for all communities owned by us at both January 1, 2002 and September 30, 2003. "Same ARC Partnership Communities" reflects information for all communities that, as of January 1, 2002 and September 30, 2003, were owned by us or by one of the Limited Partnerships which we acquired in the reorganization on May 2, 2002.

	Same ARC Partnership Communities (1) (5)		Same Communities (5)		Real Estate Segment (5)	
	2003	2002	2003	2002	2003	2002
For the nine months ended September 30:						
Average total homesites	36,526	36,447	15,983	15,929	40,076	27,302
Average total rental homes	4,904	3,004	1,753	1,247	5,161	2,323
Average occupied homesites — homeowners	28,164	30,252	13,111	13,762	30,419	23,739
Average occupied homesites — rental homes	4,021	2,143	1,465	890	4,204	1,739
Average total occupied homesites	32,185	32,395	14,576	14,652	34,623	25,478
Average occupancy — rental homes	82.0%	71.3%	83.6%	71.4%	81.5%	74.9%
Average occupancy — total	88.1%	88.9%	91.2%	92.0%	86.4%	93.3%
For the nine months ended September 30:						
Real estate revenue						
Homeowner rental income	\$ 68,916	\$ 68,307	\$ 36,273	\$ 35,631	\$ 74,511	\$ 57,526
Home renter rental income	22,129	13,091	8,465	5,399	23,513	8,492
Other	106	(272)	101	(7)	107	(126)
Rental income	91,151	81,126	44,839	41,023	98,131	65,892
Utility and other income	9,730	8,426	4,574	3,820	10,620	6,576
Total real estate revenue	100,881	89,552	49,413	44,843	108,751	72,468
Real estate expenses						
Property operations expenses	31,420	27,516	14,088	12,657	34,705	22,107
Real estate taxes	7,109	5,647	3,430	2,694	7,756	4,645
Total real estate expenses	38,529	33,163	17,518	15,351	42,461	26,752
Average monthly real estate revenue per total occupied homesite (2)	\$ 348	\$ 307	\$ 377	\$ 340	\$ 349	\$ 316
Average monthly homeowner rental income per homeowner occupied homesite (3)	\$ 272	\$ 251	\$ 307	\$ 288	\$ 272	\$ 269
Average monthly real estate revenue per total homesite (4)	\$ 307	\$ 273	\$ 344	\$ 313	\$ 302	\$ 295
As of September 30:						
Total communities owned	190	190	83	83	212	206
Total homesites	36,558	36,459	16,006	15,941	40,435	38,953

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Occupied homesites	31,703	32,799	14,375	14,832	34,282	34,730
Total rental homes owned	5,557	4,328	1,995	1,586	6,003	4,441
Occupied rental homes	4,519	3,073	1,603	1,235	4,843	3,086

(1) Real estate revenue and real estate expenses for "Same ARC Partnership Communities" reconcile to real estate revenue and real estate expenses for "Same Communities" as follows:

	Same Communities		Communities Acquired in the Reorganization (a)		Same ARC Partnership Communities	
	2003	2002	2003	2002	2003	2002
	For the nine months ended September 30:					
Real estate revenue						
Homeowner rental income	\$ 36,273	\$ 35,631	\$ 32,643	\$ 32,676	\$ 68,916	\$ 68,307
Home renter rental income	8,465	5,399	13,664	7,692	22,129	13,091
Other	101	(7)	5	(265)	106	(272)
Rental income	44,839	41,023	46,312	40,103	91,151	81,126
Utility and other income	4,574	3,820	5,156	4,606	9,730	8,426
Total real estate revenue	49,413	44,843	51,468	44,709	100,881	89,552
Real estate expenses						
Property operations expenses	14,088	12,657	17,332	14,859	31,420	27,516
Real estate taxes	3,430	2,694	3,679	2,953	7,109	5,647
Total real estate expenses	17,518	15,351	21,011	17,812	38,529	33,163

(a) Represents the communities owned at both January 1, 2002 and September 30, 2003 by the Limited Partnerships we acquired in the reorganization on May 2, 2002.

(2) Average monthly real estate revenue per total occupied homesite is defined as total real estate revenue divided by average total occupied homesites divided by the number of months in the period.

(3) Average monthly homeowner rental income per homeowner occupied homesite is defined as homeowner rental income divided by average homeowner occupied homesites divided by the number of months in the period.

(4) Average monthly real estate revenue per total homesite is defined as total real estate revenue divided by average total homesites divided by the number of months in the period.

(5) Real estate revenue, real estate expenses and homesite data exclude discontinued operations related to our Sunrise Mesa community, which we sold in September 2003.

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The following tables present certain information relative to our real estate segment as of and for the years ended December 31, 2002 and 2001 on a historical, "Same Communities" and "Same ARC Partnership Communities" basis. "Same Communities" reflects information for those communities owned by us at both January 1, 2001 and December 31, 2002. "Same ARC Partnership Communities" reflects information for all communities that, as of January 1, 2001 and December 31, 2002, were owned by us or by one of the Limited Partnerships which we acquired in the reorganization on May 2, 2002.

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	Same ARC Partnership Communities (1) (5)		Same Communities (5)		Real Estate Segment (5)	
	2002	2001	2002	2001	2002	2001
For the year ended December 31:						
Average total homesites	32,127	32,118	11,851	11,838	30,005	13,437
Average total rental homes	2,943	944	985	270	2,874	283
Average occupied homesites — homeowners	26,286	26,914	10,171	10,286	25,735	11,678
Average occupied homesites — rental homes	2,152	689	754	205	2,041	206
Average total occupied homesites	28,438	27,603	10,925	10,491	27,776	11,884
Average occupancy — rental homes	73.1%	73.0%	76.5%	75.9%	71.0%	72.8%
Average occupancy — total	88.5%	85.9%	92.2%	88.6%	92.6%	88.4%
For the year ended December 31:						
Real estate revenue						
Homeowner rental income	\$ 77,414	\$ 74,101	\$ 34,538	\$ 33,096	\$ 80,164	\$ 37,432
Home renter rental income	17,436	9,058	5,829	2,305	16,900	2,623
Other	(281)	(679)	11	13	(152)	(9)
Rental income	94,569	82,480	40,378	35,414	96,912	40,046
Utility and other income	10,055	9,392	4,028	3,500	9,577	3,566
Total real estate revenue (1)	104,624	91,872	44,406	38,914	106,489	43,612
Real estate expenses						
Property operations expenses	35,264	27,716	13,378	10,605	35,467	13,090
Real estate taxes	5,957	5,691	2,079	2,054	6,969	2,738
Total real estate expenses	41,221	33,407	15,457	12,659	42,436	15,828
Average monthly real estate revenue per total occupied homesite (2)	\$ 307	\$ 277	\$ 339	\$ 309	\$ 319	\$ 306
Average monthly homeowner rental income per homeowner occupied homesite (3)	\$ 245	\$ 229	\$ 283	\$ 268	\$ 260	\$ 267
Average monthly real estate revenue per total homesite (4)	\$ 271	\$ 238	\$ 312	\$ 274	\$ 296	\$ 270
As of December 31:						
Total communities owned	169	169	63	63	209	83
Total homesites	32,137	32,118	11,861	11,861	39,704	15,941
Occupied homesites	28,382	27,795	10,886	10,635	34,603	14,463
Total rental homes owned	4,115	1,603	1,197	609	4,756	705
Occupied rental homes	3,062	1,170	941	463	3,536	508

(1)Real estate revenue, and real estate expenses for "Same ARC Partnership Communities" reconcile to real estate revenues and real estate expenses for "Same Communities" as follows:

	Same Communities		Communities Acquired in the Reorganization (a)		Same ARC Partnership Communities	
	2002	2001	2002	2001	2002	2001
For the year ended December 31:						
Real estate revenue						
Homeowner rental income	\$ 34,538	\$ 33,096	\$ 42,876	\$ 41,005	\$ 77,414	\$ 74,101
Home renter rental income	5,829	2,305	11,607	6,753	17,436	9,058
Other	11	13	(292)	(692)	(281)	(679)
Rental income	40,378	35,414	54,191	47,066	94,569	82,480

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Utility and other income	4,028	3,500	6,027	5,892	10,055	9,392
Total real estate revenue	44,406	38,914	60,218	52,958	104,624	91,872
Real estate expenses						
Property operations expenses	13,378	10,605	21,886	17,111	35,264	27,716
Real estate taxes	2,079	2,054	3,878	3,637	5,957	5,691
Total real estate expenses	15,457	12,659	25,764	20,748	41,221	33,407

(a) Represents the communities owned at both January 1, 2001 and December 31, 2002 by the Limited Partnerships we acquired in the reorganization on May 2, 2002.

(2) Average monthly real estate revenue per total occupied homesite is defined as total real estate revenue divided by average total occupied homesites divided by the number of months in the period.

(3) Average monthly homeowner rental income per homeowner occupied homesite is defined as homeowner rental income divided by average homeowner occupied homesites divided by the number of months in the period.

(4) Average monthly real estate revenue per total homesite is defined as total real estate revenue divided by average total homesites divided by the number of months in the period.

(5) Real estate revenue, real estate expenses and homesite data exclude discontinued operations related to our Sunrise Mesa community, which we sold in September 2003.

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The following tables present certain information relative to our real estate segment as of and for the years ended December 31, 2001 and 2000 on a historical, "Same Communities" and "Same ARC Partnership Communities" basis. "Same Communities" reflects information for all communities owned by us at both January 1, 2000 and December 31, 2001. "Same ARC Partnership Communities" reflects information for all communities that, as of January 1, 2000 and December 31, 2001, were owned by us or by one of the Limited Partnerships which we acquired in the reorganization on May 2, 2002.

	Same ARC Partnership Communities (2) (6)		Same Communities (6)		Real Estate Segment (6)	
	2001	2000	2001	2000	2001	2000
For the year ended December 31:						
Average total homesites	26,222	26,222	8,281	8,281	13,437	10,103
Average total rental homes (1)	—	—	—	—	283	—
Average occupied homesites — homeowners	22,414	22,255	7,351	7,252	11,678	8,830
Average occupied homesites — rental homes (1)	—	—	—	—	206	—
Average total occupied homesites	22,414	22,255	7,351	7,252	11,884	8,830
Average occupancy — rental homes (1)	—	—	—	—	72.8%	—
Average occupancy — total	85.5%	84.9%	88.8%	87.6%	88.4%	87.4%
For the year ended December 31:						
Real estate revenue						
Homeowner rental income	\$ 64,458	\$ 61,229	\$ 24,976	\$ 23,282	\$ 37,432	\$ 27,583
Home renter rental income (1)	2,127	—	383	—	2,623	—
Other	(1,028)	(2,216)	(189)	(494)	(9)	(559)
Rental income	65,557	59,013	25,170	22,788	40,046	27,024
Utility and other income	7,923	7,827	2,301	2,315	3,566	2,278

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Total real estate revenue	73,480	66,840	27,471	25,103	43,612	29,302
Real estate expenses						
Property operations expenses	22,098	22,087	6,876	6,744	13,090	8,318
Real estate taxes	4,501	4,533	1,552	1,508	2,738	1,718
Total real estate expenses	26,599	26,620	8,428	8,252	15,828	10,036
Average monthly real estate revenue per total occupied homesite (3)	\$ 273	\$ 250	\$ 311	\$ 288	\$ 306	\$ 277
Average monthly homeowner rental income per homeowner occupied homesite (4)	\$ 240	\$ 229	\$ 283	\$ 268	\$ 267	\$ 260
Average monthly real estate revenue per total homesite (5)	\$ 234	\$ 212	\$ 276	\$ 253	\$ 270	\$ 242
As of December 31:						
Total communities owned	118	118	41	41	83	63
Total homesites	26,222	26,222	8,285	8,285	15,941	11,861
Occupied homesites	22,509	22,486	7,447	7,359	14,463	10,520
Total rental homes owned (1)	—	—	—	—	705	—
Occupied rental homes (1)	—	—	—	—	508	—

(1)Data for our rental home program for 2000 does not exist as we did not begin detailed tracking of that data until 2001. Rental income from our rental home program in 2000, which was not material, is included in "Homeowner rental income".

(2)Real estate revenue, and real estate expenses for "Same ARC Partnership Communities" reconcile to real estate revenues and real estate expenses for "Same Communities" as follows:

	Communities					
	Same Communities		Acquired in the Reorganization (a)		Same ARC Partnership Communities	
	2001	2000	2001	2000	2001	2000
For the year ended December 31:						
Real estate revenue						
Homeowner rental income	\$ 24,976	\$ 23,282	\$ 39,482	\$ 37,947	\$ 64,458	\$ 61,229
Home renter rental income	383	—	1,744	—	2,127	—
Other	(189)	(494)	(839)	(1,722)	(1,028)	(2,216)
Rental income	25,170	22,788	40,387	36,225	65,557	59,013
Utility and other income	2,301	2,315	5,622	5,512	7,923	7,827
Total real estate revenue	27,471	25,103	46,009	41,737	73,480	66,840
Real estate expense						
Property operations expenses	6,876	6,744	15,222	15,343	22,098	22,087
Real estate taxes	1,552	1,508	2,949	3,025	4,501	4,533
Total real estate expenses	8,428	8,252	18,171	18,368	26,599	26,620

(a)Represents the communities owned at both January 1, 2000 December 31, 2001 by the Limited Partnerships we acquired in the reorganization on May 2, 2002.

(3)Average monthly real estate revenue per total occupied homesite is defined as total real estate revenue divided by average total occupied homesites divided by the number of months in the period.

(4)Average monthly homeowner rental income per homeowner occupied homesite is defined as homeowner rental income divided by average homeowner occupied homesites divided by the number of months in the period.

(5)Average monthly real estate revenue per total homesite is defined as total real estate revenue divided by average total homesites divided by the number of months in the period.

(6)Real estate revenue, real estate expenses and homesite data exclude discontinued operations related to our Sunrise Mesa community, which we sold in September 2003.

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Same ARC Partnership Communities – Comparison of Three Months Ended September 30, 2003 to Three Months Ended September 30, 2002

Real Estate Revenue. Total revenue for same ARC partnership communities increased \$2,658 from \$31,221 to \$33,879. The increase was due to a \$2,249 increase in rental income and an increase of \$409 in utility and other income. Total rental income for same ARC partnership communities increased 8% from \$28,282 to \$30,531. This increase in total rental income reflects a 7% increase in average monthly homeowner rental income per homeowner occupied homesite and a 59% increase in the average number of occupied rental homes, from 2,749 to 4,372, which was offset by an 8% decline in average homeowner occupied home sites. Our average total rental homes increased from 3,821 to 5,224 and average occupancy of our rental homes increased from 72% to 84%. Utility and other income increased 14% from \$2,939 to \$3,348. This was primarily due to increases in late fee income of \$304 and utility income of \$121.

Real Estate Expenses. Property operations expenses and real estate taxes increased by 16%, from \$11,543 to \$13,415, primarily due to increases in provisions for uncollectible rents and higher insurance, property taxes and repair and maintenance expenses related mainly to the increased number of rental homes.

Same ARC Partnership Communities – Comparison of Nine Months Ended September 30, 2003 to Nine Months Ended September 30, 2002

Real Estate Revenue. Total revenue for same ARC partnership communities increased \$11,329 from \$89,552 to \$100,881. The increase was due to a \$10,025 increase in rental income and an increase of \$1,304 in utility and other income. Total rental income for same ARC partnership communities increased 12% from \$81,126 to \$91,151. The increase in total rental income reflects an 8% increase in average monthly homeowner rental income per homeowner occupied site and an 88% increase in the average number of occupied rental homes, from 2,143 to 4,021, which was offset by a 7% decline in average homeowner occupied homesites. Our average total rental homes increased from 3,004 to 4,904 and average occupancy of our rental homes increased from 71% to 82%. Utility and other income increased 15% from \$8,426 to \$9,730. This was primarily due to increases in utility pass through income of \$640 and late fee income of \$622.

Real Estate Expenses. Property operations expenses and real estate taxes increased by 16%, from \$33,163 to \$38,529, primarily due to increases in provisions for uncollectible rents and higher insurance, property taxes and repair and maintenance expenses related mainly to the increased number of rental homes.

Same ARC Partnership Communities – Comparison of Year Ended December 31, 2002 to Year Ended December 31, 2001

Real Estate Revenue. Total revenue for same ARC partnership communities increased \$12,752 from \$91,872 to \$104,624. The increase was due to a \$12,089 increase in rental income and an increase of \$663 in utility and other income. Total rental income for same ARC partnership communities increased 15% from \$82,480 to \$94,569. The increase in total rental income reflects a 7% increase in average monthly homeowner rental income per homeowner occupied site and a 212% increase in the average number of occupied rental homes, from 689 total rental homes to 2,152 total rental homes, which was offset by a 2% decline in average homeowner occupied homesites. Our average

total rental homes increased from 944 to 2,943 and the average occupancy of our rental homes was 73% for both periods. Utility and other income increased 7% from \$9,392 to \$10,055. This was primarily due to increases in utility pass through income of \$927 and late fee income of \$119, partially offset by a decrease in cost reimbursement and miscellaneous income of \$416.

Real Estate Expenses. Property operations expenses and real estate taxes increased by 23%, from \$33,407 to \$41,221, primarily due to increases in provisions for uncollectible rents and higher insurance, property taxes and repair and maintenance expenses related primarily to the increased number of rental homes.

Same ARC Partnership Communities – Comparison of Year Ended December 31, 2001 to Year Ended December 31, 2000

Real Estate Revenue. Total revenue for same ARC partnership communities increased \$6,640 from \$66,840 to \$73,480. The increase was due to a \$6,544 increase in rental income and an increase of

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\$96 in utility and other income. Total rental income for same ARC partnership communities increased 11% from \$59,013 to \$65,557. The increase in total rental income reflects a 5% increase in average monthly homeowner rental income per homeowner occupied site, a 1% increase in average homeowner occupied homesites and higher home renter rental income due to the commencement of the rental home initiative at the end of 2000. Utility and other income increased 1% from \$7,827 to \$7,923. This was primarily due to increases in utility pass through income of \$738, partially offset by decreases in cost reimbursement and miscellaneous income of \$559 and late fee income of \$59.

Real Estate Expenses. Property operations expenses and real estate taxes decreased by 0.1%, from \$26,620 to \$26,599, primarily due to decrease in salaries and benefits of \$775 and other expenses of \$711 substantially offset by increases in repairs and maintenance expense of \$681 and utilities expense of \$559.

Liquidity and Capital Resources

We believe that our concurrent offerings and the financing transactions will improve our capital structure by increasing our common and preferred equity capitalization and reducing our overall leverage. Upon completion of our concurrent offerings and the financing transactions, we expect to have approximately \$950 million of outstanding indebtedness and our debt to total market capitalization will be approximately 50%. Approximately \$764 million, or 80%, of our total indebtedness will be fixed rate and approximately \$186 million, or 20%, will be variable rate. We expect to enter into a two-year interest rate swap agreement pursuant to which we will effectively fix the base rate portion of the interest rate with respect to \$100 million of our variable rate debt. As a result, we expect that approximately 91% of our total indebtedness upon completion of our concurrent offerings will be subject to fixed interest rates for a minimum of two years. In connection with the repayment of existing indebtedness in our financing transactions, we expect to incur approximately \$2.7 million in prepayment penalties. In connection with the new senior variable rate mortgage debt, we will be required to purchase interest rate caps to limit our interest costs in the event of increases in one-month LIBOR above 5.00%.

Our short-term liquidity needs include funds for distributions to our stockholders required to maintain our REIT status and to pay our estimated distribution described under "Distribution Policy," funds for dividend payments on our \$125 million Series A cumulative redeemable preferred stock bearing a dividend rate of 8.25% per annum (approximately

\$10.3 million annually), funds for capital expenditures for our existing communities and the communities acquired in the Hometown acquisition, funds for purchases of rental homes and funds for community acquisitions and the expansion of our in-community retail sales and financing initiative to facilitate the sale of homes in our communities. Our communities require recurring investment of funds for community related capital expenditures and general capital improvements, which we estimate will amount to approximately \$8.7 million annually. In addition, we expect to have significant non-recurring capital expenditures of approximately \$15 to \$20 million during the 12 to 18 months following our concurrent offerings to optimize our long-term returns from the Hometown acquisition by upgrading the Hometown communities to our standards of function and appearance. We also expect to invest during the first 12 to 18 months following our concurrent offerings approximately \$65 to \$75 million to purchase approximately 3,000 to 4,000 additional rental homes and approximately \$70 to \$90 million for the purchase, sale and financing of approximately 3,000 homes to new residents in our communities. However, we cannot assure that we will be able to generate this volume of sales and financings in 2004.

We expect to meet our short-term liquidity needs generally through net cash provided by operations, working capital generated from our concurrent offerings and the financing transactions, existing cash and funding under our senior revolving credit and retail home sales and consumer finance facilities. Simultaneously with the closing of our concurrent offerings and the financing transactions, we expect to enter into a \$125 million senior revolving credit facility and a \$250 million retail home sales and consumer finance debt facility, and the concurrent offerings will produce an additional \$68.2 million in cash. Under our new revolving credit facility, we expect to be able to borrow up to \$125 million to fund future acquisitions of manufactured home communities and additional rental homes, capital expenditures and other working capital needs, including the payment of distributions to our common stockholders. Under our new retail home sales and consumer finance

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debt facility we expect to be able to borrow up to \$225 million to fund qualified loans made to residents who purchase homes in our communities and \$25 million to purchase manufactured home inventory for sale to residents in our communities. In addition to our existing sources of capital, our company has significant experience in raising private equity, and we may in the future use that experience to enter into financing joint ventures or other similar arrangements from time to time if we determine that such a structure would provide the most efficient means of raising capital.

While we have obtained commitments for both the senior revolving credit facility and the retail home sales and consumer finance debt facility, completion of each of these facilities is subject to certain conditions, and we cannot assure that those conditions will be satisfied or that either of these facilities will be completed. Our ability to obtain funding from time to time under each of these facilities will be subject to certain conditions, and we cannot assure that all of these conditions will be met. If we are unable to complete our retail home sales and consumer finance debt facility or to meet the conditions necessary to continue funding under the facility, we will be unable to fund or expand our retail home sales and consumer financing initiative, and our ability to maintain or improve our occupancy and our results of operations will be adversely affected. If we are unable to complete the senior revolving credit facility or to continue to meet the conditions necessary to make drawings thereunder from time to time, our ability to meet certain of our short-term liquidity needs, including acquisitions of communities and rental homes and the payment of dividends on our capital stock, will be adversely affected.

We expect to meet our long-term liquidity requirements for the funding of community acquisitions, purchases of additional rental homes, purchase, sale and financing of homes to new residents in our communities, funding of distributions required to maintain our REIT status and to pay our estimated distribution described under "Distribution

Policy," to pay our preferred stock dividend and other non-recurring capital improvements through net cash provided by operations, long-term secured and unsecured indebtedness, the issuance of equity and debt securities and our retail home sales and consumer finance debt and senior revolving credit facilities. We expect to refinance our indebtedness as it comes due.

Commitments

Upon completion of our concurrent offerings, the financing transactions and the Hometown acquisition, we will have approximately \$950 million of indebtedness outstanding with the following repayment obligations:

	Amounts (in thousands)
Through December 31, 2003	\$ 6,231
2004	20,302
2005	13,011
2006 (1)	205,400
2007	10,998
2008	34,801
Thereafter	651,631
Total Commitments	942,374
Unamortized premium relating to indebtedness assumed in Hometown acquisition	7,314
	\$949,688

(1)The \$182,714 new senior variable rate mortgage due 2006 may be extended for three additional 12-month periods at our option and subject to certain conditions.

Consolidated Indebtedness to be Outstanding After Our Concurrent Offerings

Upon completion of our concurrent offerings, the financing transactions and the Hometown acquisition, we expect to have approximately \$950 million of outstanding consolidated indebtedness. This indebtedness will be comprised principally of mortgage indebtedness secured by our properties including those to be acquired in the Hometown acquisition. We expect the weighted average interest rate on this indebtedness to be approximately 5.7% and we expect our ratio of debt to total market capitalization to be approximately 50% (49% if the underwriters' over-allotment options for our

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concurrent offerings are exercised in full). We expect to enter into a two-year interest rate swap agreement pursuant to which we will effectively fix the base rate portion of the interest rate with respect to \$100 million of our variable rate debt. As a result, we expect that approximately 91% of our total indebtedness upon completion of our concurrent offerings will be subject to fixed interest rates for a minimum of two years. We expect to purchase an interest rate cap on our \$182.7 million variable rate mortgage debt facility in order to limit our exposure to interest rate risk in the event of increases in one-month LIBOR above 5.00%.

The following table sets forth certain information with respect to our pro forma indebtedness outstanding as of September 30, 2003, after giving effect to our concurrent offerings, the Hometown acquisition and the financing transactions, but without giving effect to the two-year interest rate swap agreement for approximately \$100 million that we expect to enter into in connection with our concurrent offerings.

	Amount of Debt	Percent of Total Debt	Weighted Average Interest Rate (dollars in thousands)	Maturity Date	Annual Debt Service	Balance at Maturity (1)
Fixed Rate Debt						
Existing senior fixed rate mortgage	\$307,481	32.4%	7.35%	2012	\$25,691	\$274,408
Existing various individual fixed rate mortgages (2)	43,460	4.6	7.65	2006-2028	4,106	25,058
New senior fixed rate mortgage due 2014	215,758	22.7	5.44	2014	14,600	183,600
New senior fixed rate mortgage due 2009	101,528	10.7	4.88	2009	6,448	93,072
Various individual fixed rate mortgages assumed in Hometown acquisition (3)	93,440	9.8	4.27	2004-2013	5,488	78,455
Existing other loans	1,811	0.2	8.67	2005	671	993
	763,478	80.4	6.13		57,004	655,586
Variable Rate Debt						
New senior variable rate mortgage due 2006	182,714	19.2	4.12	2006(4)	7,528	182,714
Existing floorplan lines of credit	3,496	0.4	5.75	2003	201	3,496
	186,210	19.6	4.15		7,729	186,210
	\$949,688	100.0%	5.74%		\$64,733	\$841,796

(1) Assumes no early repayment of principal.

(2) These loans in the aggregate are secured by mortgages on 15 communities and have a range of interest rates of 5.70% to 9.42%.

(3) These loans in the aggregate are secured by mortgages on 22 communities and have a range of interest rates of 5.29% to 9.04%.

(4) The new senior variable rate mortgage due 2006 may be extended for three additional 12-month periods at our option and subject to certain conditions.

Material Provisions of Consolidated Indebtedness to be Outstanding After Our Concurrent Offerings

The following is a summary of our material indebtedness:

Existing Senior Fixed Rate Mortgage Due 2012. The senior fixed rate mortgage due 2012 was entered into on May 2, 2002 with Morgan Stanley Dean Witter Mortgage Capital Inc., an affiliate of one of our underwriters, and GMAC Commercial Mortgage Corporation in connection with the reorganization. It is an obligation of certain special purpose subsidiaries of our operating partnership and is collateralized by 105 manufactured home communities owned by these subsidiaries. The senior fixed rate mortgage due 2012 bears interest at a fixed rate of 7.35% per annum, amortizes over 30 years and matures on May 2, 2012. Pursuant to the terms of the senior fixed rate mortgage due 2012, we have established reserves relating to the mortgaged properties for real estate taxes, insurance, capital spending and property operating expenditures. The senior fixed rate mortgage due 2012 contains customary defeasance-based prepayment penalties for repayments made prior to maturity.

New Senior Fixed Rate Mortgage Due 2014. We have obtained a commitment for a new senior fixed rate mortgage due 2014 that will be entered into with Citigroup Global Markets Realty Corp. and Merrill Lynch Mortgage Lending Inc., affiliates of our lead underwriters, in connection with the completion of our concurrent offerings and the Hometown acquisition. The commitment is subject to specified conditions, including satisfactory completion of the lenders' due diligence and the execution and delivery of definitive credit documentation. The final amount of the mortgage facility is also subject to a maximum of 80% of appraised value of the properties securing this facility, a minimum debt service coverage ratio of 1.2x and a minimum debt yield of 9.375%. The mortgage facility will be an obligation of certain real property subsidiaries of our operating partnership and will be collateralized by 46 manufactured home communities owned by these subsidiaries. The new senior fixed rate mortgage due 2014 will bear interest at a fixed rate to be determined at the time of completion of our concurrent offerings based upon a spread of 1.50% over the greater of 3.90% or the then-current yield on ten-year U.S. Treasury obligations (5.438% at September 30, 2003), subject to increase under limited circumstances, will be amortized based on a 30-year amortization schedule and will mature on or about February 18, 2014. Pursuant to the terms of the new senior fixed rate mortgage due 2014, we will establish reserves relating to the mortgaged properties for real estate taxes, insurance, capital spending and property operating expenditures. The new senior fixed rate mortgage due 2014 contains customary defeasance-based prepayment penalties for repayments made prior to maturity.

New Senior Fixed Rate Mortgage Due 2009. We have obtained a commitment for a new senior fixed rate mortgage due 2009 that will be entered into with Citigroup Global Markets Realty Corp. and Merrill Lynch Mortgage Lending Inc., affiliates of our lead underwriters, in connection with the completion of our concurrent offerings and the Hometown acquisition. The commitment is subject to specified conditions, including satisfactory completion of the lenders' due diligence and the execution and delivery of definitive credit documentation. The final amount of the mortgage facility is also subject to a maximum of 80% of appraised value of the properties securing this facility, a minimum debt service coverage ratio of 1.2x and a minimum debt yield of 9.375%. The mortgage facility will be an obligation of certain real property subsidiaries of our operating partnership and will be collateralized by 29 manufactured home communities owned by these subsidiaries. The new senior fixed rate mortgage due 2009 will bear interest at a fixed rate to be determined at the time of completion of our concurrent offerings based upon a spread of 2.05% over the greater of 2.80% or the then-current yield on five-year U.S. Treasury obligations (4.876% at September 30, 2003), subject to increase under limited circumstances, will be amortized based on a 30-year amortization schedule and will mature on or about February 18, 2009. Pursuant to the terms of the new senior fixed rate mortgage due 2009, we will establish reserves relating to the mortgaged properties for real estate taxes, insurance, capital spending and property operating expenditures. The new senior fixed rate mortgage due 2009 contains customary defeasance-based prepayment penalties for repayments made prior to maturity.

New Senior Variable Rate Mortgage Due 2006. We have obtained a commitment for a new senior variable rate mortgage that will be entered into with Citigroup Global Markets Realty Corp. and Merrill Lynch Mortgage Lending Inc., affiliates of our lead underwriters, in connection with the completion of our concurrent offerings and the Hometown acquisition. The commitment is subject to specified conditions, including satisfactory completion of the lenders' due diligence and the execution and delivery of definitive credit documentation. The final amount of the mortgage facility is also subject to a maximum of 80% of appraised value of the properties securing the facility, a minimum debt service coverage ratio of 1.16x for each loan closing and 1.25x for each extension option. This mortgage facility will be an obligation of certain real property subsidiaries of our operating partnership and will be collateralized by 44 manufactured home communities owned by these subsidiaries. The new senior variable rate mortgage will bear interest at a variable rate based upon a spread of 3.00% over the one-month LIBOR rate (4.12% at September 30, 2003) and will mature on or about February 18, 2006. At our option and subject to certain conditions,

the senior variable rate mortgage may be extended for three additional 12-month periods. In connection with the second and third extensions, we would be required to pay extension fees of 0.25% and 0.375%, respectively, of the principal balance outstanding. In connection with the new senior variable rate mortgage, we will be required to purchase interest rate caps to limit our interest costs in the event of increases in one-month LIBOR above 5.00%, and such caps are also required for any extensions. There will be an

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exit fee equal to 0.50% of the loan amount payable upon any repayment of the principal amount of the loan. The exit fee will be subject to reduction by an amount equal to 0.50% of the principal amount of any first mortgage loans provided by the lenders to refinance the new senior variable rate mortgage due 2006. Pursuant to the terms of the new senior variable rate mortgage, we will establish reserves relating to the mortgaged properties for real estate taxes, insurance, capital spending and property operating expenditures. We can repay the new senior variable rate mortgage subject to payment of a LIBOR based yield maintenance based prepayment penalty of the product of 0.25%, the number of payment dates remaining to maturity and the amount being repaid for prepayments made in months one through twelve and a prepayment fee of 1% for prepayments made in months 13 to 24.

Senior Revolving Credit Facility. We have obtained commitments from affiliates of each of Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse First Boston LLC, Morgan Stanley & Co. Incorporated, UBS Securities LLC, Wachovia Capital Markets, LLC and McDonald Investments Inc., each of which is an underwriter in our common stock offering, as well as from Bank One, for a \$125 million senior secured revolving credit facility for a term of three years. We intend to use the proceeds of this revolving credit facility for acquisitions of manufactured home communities and rental homes and for other working capital needs, including the payment of distributions to our common stockholders. The following is a summary of the principal terms of this revolving credit facility.

Advances made under this revolving credit facility will bear interest at a variable rate to be determined at the time the advance is made based upon at the borrower's option, a spread of between 1.375% and 2.50% over the then-current base rate of Citibank, N.A. or a spread of between 2.375% and 3.50% over then-current LIBOR, with the actual spread being determined within the specified range based upon the borrower's then-current leverage ratio. The borrower also will be required to pay a fee on the average unused commitment amount.

Completion of this revolving credit facility will be subject to several conditions, including:

- completion of our concurrent offerings;
- the absence of any material adverse change in our business, condition, operations, performance, properties or prospects since December 31, 2002; and
- satisfactory completion of the lenders' legal and financial due diligence.

We expect that this revolving credit facility will be secured by:

- 40 of our communities; and
- all our rental homes and all of the equity interests of ARC Housing, LLC, the subsidiary of our operating partnership that owns our rental homes.

Advances under this revolving credit facility will be subject to specified borrowing base requirements, including:

- a minimum debt service coverage ratio with respect to the assets securing the facility of 2.0x;

- advances made against the communities securing the facility may not exceed the lesser of 60% of appraised value or 75% of the capitalized real estate value of such communities;
- advances made against the rental homes securing the facility may not exceed the lowest of 45% of the capitalized purchase price, 70% of depreciated book value and a multiple of EBITDA from the rental homes based on the age of the applicable rental homes; and
- advances made under the facility against the rental homes, securing the facility may not exceed 35% of the total advances under the facility.

Our ability to draw advances under the revolving credit facility will be subject to specified conditions, including:

- accuracy of all representations and warranties under this revolving credit facility; and
- no event of default having occurred under this revolving credit facility.

We expect this revolving credit facility to contain customary affirmative and negative covenants, including negative covenants imposing limitations on the ability of the borrower and the guarantors under this facility to, among other things:

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- make distributions to our stockholders unless no event of default exists under the facility and either (i) the aggregate amount of such distributions to our stockholders over any period of four calendar quarters does not exceed 90% of our funds from operations (as defined under the facility) over such period of four calendar quarters, plus \$30 million in the aggregate for distributions made during the four fiscal quarters ending March 31, 2005 so long as the distribution per share of our common stock does not change during these four fiscal quarters, or (ii) such distribution is required in order for us to maintain our status as a REIT for federal income tax purposes;
 - make certain investments;
 - make guarantees;
 - incur recourse debt;
 - incur liens;
 - transfer certain assets;
 - incur debt, including secured debt;
 - engage in mergers, consolidations, acquisitions, asset dispositions and sale/leaseback transactions; and
 - engage in certain transactions with affiliates.

Pursuant to the senior revolving credit facility, we also will be subject to the following financial covenants from and after such time as we make our initial draw under the facility (with our ability to make such draw conditioned upon satisfying each of the following covenants as of the end of the most recent fiscal quarter for which financial statements are available at the time of such draw):

- we will be required to maintain as of the end of each fiscal quarter ending during the periods indicated, a leverage ratio (calculated as our total consolidated debt divided by the sum of the total value of our manufactured home community, rental home, consumer finance and joint venture (if any) assets plus the total amount of our restricted and unrestricted cash and cash equivalents) of less than: 75% for the period from December 31, 2003 through December 30, 2004, 70% for the period from December 31, 2004 through December 30, 2005, 65% for the period from December 31, 2005 through June 29, 2006 and 60% from and after June 30, 2006;
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we will be required to maintain at all times a minimum tangible net worth (calculated as the excess of the total value of our manufactured home community, rental home, consumer finance and joint venture (if any) assets, plus our unrestricted cash and cash equivalents over our consolidated total liabilities) of not less than the sum of \$190 million plus an amount equal to 75% of the proceeds of all issuances or sales of equity interests by us or any of our subsidiaries that we complete following the closing of the senior revolving credit facility;

- we will be required to maintain as of the end of each fiscal quarter ending during the periods indicated, a debt service coverage ratio (calculated as the ratio of the adjusted net income before interest, taxes, depreciation and amortization for the most recent fiscal quarter annualized to the sum of interest and discount amortization on all debt for borrowed money plus all principal amounts payable, in each case, for the four most recent fiscal quarters) greater than: 1.50:1.00 for the period from December 31, 2003 through December 30, 2004, 1.75:1.00 for the period from December 31, 2004 to June 29, 2006, and 2.00:1.00 from and after June 30, 2006;
- we will be required to maintain as of the end of each fiscal quarter ending during the periods indicated, a fixed charge coverage ratio (calculated in the same manner as the debt service coverage ratio, but also taking into account preferred stock dividends and lease expenses) greater than: 1.25:1.00 for the period from December 31, 2003 through December 30, 2004, 1.50:1.00 for the period from December 31, 2004 through June 29, 2006, and 1.75:1.00 for the period from and after June 30, 2006; and
- we will not be permitted at any time to allow our net operating income in respect of all our rental homes to exceed 20% of the aggregate net operating income with respect to all of our manufactured home community, rental home, consumer finance and joint venture (if any) assets.

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Retail Home Sales and Consumer Finance Debt Facility. We have obtained a commitment from Merrill Lynch Mortgage Capital Inc., an affiliate of one of our lead underwriters, to provide a \$250 million multi-year debt facility to fund a substantial expansion of our in-community retail home sales and consumer financing initiative, over the next 12 to 24 months. This facility is divided into two portions: a loan funding facility of up to \$225 million to fund the expansion of our in-community consumer financing initiative, and a floorplan facility of up to \$25 million to fund the expansion of our retail home sales initiative. The loan funding facility is expected to have a maximum term of 48 months, and the floorplan facility will have a maximum term of one year. The loan funding facility will bear interest at a variable rate based upon a spread of 3.00% over the one-month LIBOR rate (4.12% as of September 30, 2003), and the floorplan facility will bear interest at a variable rate based upon a spread of 3.50% over the one-month LIBOR rate (4.62% at September 30, 2003). This facility will include customary operating covenants, including minimum GAAP tangible net worth and maximum leverage covenants. We will pay a commitment fee of 1.00% on the committed amounts payable at the closing of this facility and additional annual commitment fees payable on each anniversary of the closing. Advances to fund the financing of manufactured housing conditional sales contracts under the loan funding facility will be subject to a number of conditions, including certain underwriting and credit screening guidelines and the conditions that the home must be located in one of our communities, the loan term may not exceed 12 years for a single-section home or 15 years for a multi-section home and the loan amount shall not exceed 90% of the value of the home.

The availability of advances under the retail home sales and consumer finance debt facility is subject to certain conditions that are beyond our control. Conditions that could result in our inability to draw on these facilities include a downgrade of Merrill Lynch & Co., Inc. and the absence of certain markets for financing debt obligations secured by securities or mortgage loans. Funding under these facilities may also be denied if Merrill Lynch Mortgage Capital Inc.

determines that the value of the assets serving as collateral would be insufficient to maintain the required 75% loan-to-value ratio upon giving effect to a request for funding. Merrill Lynch Mortgage Capital Inc. can also at any time require that we prepay amounts funded or provide additional collateral if in its judgment this is necessary to maintain the 75% loan-to-value ratio.

Cash Flows

Comparison of Nine Months Ended September 30, 2003 to Nine Months Ended September 30, 2002

Cash provided by operations was \$13,851 and \$13,044 for the nine months ended September 30, 2003 and 2002, respectively. The increase for 2003 was due primarily to changes in operating assets and liabilities including a reduction in manufactured homes inventory held for sale.

Cash used in investing activities was \$25,169 and \$115,182 for the nine months ended September 30, 2003 and 2002, respectively. The decrease in 2003 compared to 2002 was due primarily to reduced levels of community acquisitions and rental home purchases.

Cash provided by financing activities was \$9,076 and \$107,707 for the nine months ended September 30, 2003 and 2002, respectively. The decrease in 2003 as compared to 2002 was primarily due to lower borrowing for community acquisitions and rental homes, funds provided in 2002 from the reorganization and issuance of common shares, partially offset by funding of the rental home credit facility in 2003.

Comparison of Year Ended December 31, 2002 to Year Ended December 31, 2001

Cash provided by operations was \$14,267 and \$6,626 for the years ended December 31, 2002 and 2001, respectively. The improvement for 2002 was due primarily to improvements in operating results on a same community basis, a larger community base through community acquisitions and, subsequent to May 2, 2002, the reorganization.

Cash used in investing activities was \$137,473 and \$104,638 for the years ended December 31, 2002 and 2001, respectively. The increase in 2002 was due primarily to a higher level of rental home purchases as part of our initiative to improve operating performance.

Cash provided by financing activities was \$137,787 and \$84,340 for the years ended December 31, 2002 and 2001, respectively. The twelve months in 2002 as compared to 2001 includes net cash generated in the reorganization on May 2, 2002 of \$23,130, higher levels of financing of community

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acquisitions under the BFND credit facility of \$41,119, and additional borrowings of \$75,000 under the preferred interest. We used more cash in the 2002 period as compared to 2001 to establish loan reserves following the reorganization. We received approximately \$33,760 in each year from the issuance of additional common stock to certain of our existing investors.

Comparison of Year Ended December 31, 2001 to Year Ended December 31, 2000

Cash provided by (used in) operations was \$6,626 and \$(3,177) for the years ended December 31, 2001 and 2000, respectively. The improvement for 2001 was due primarily to improvements in operating results on a same

community basis and a larger community base through community acquisitions.

Cash used in investing activities was \$104,638 and \$91,185 for the years ended December 31, 2001 and 2000, respectively. The increase in 2001 was due primarily to a higher level of community acquisitions and rental home purchases as part of our initiative to improve operating performance.

Cash provided by financing activities was \$84,340 and \$111,976 for the years ended December 31, 2001 and 2000, respectively. The twelve months in 2001 as compared to 2000 includes approximately \$33,760 and \$67,520, respectively, from the issuance of common stock to certain of our existing investors and \$50,629 and \$52,382, respectively, of financing of community acquisitions under the BFND credit facility.

Inflation

Inflation in the U.S. has been relatively low in recent years and did not have a material impact on our results of operations for the three months or nine months ended September 30, 2003 and 2002. Although the impact of inflation has been relatively insignificant in recent years, it remains a factor in the United States economy and may increase the cost of acquiring or replacing property, plant, and equipment and the costs of labor and utilities.

Recent Accounting Pronouncements

In May 2002, the Financial Accounting Standards Board, or the FASB, issued SFAS No. 145, Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections, which is effective for fiscal years beginning after May 15, 2002. SFAS 145 rescinds SFAS 4, SFAS 44 and SFAS 64 and amends SFAS 13 to modify the accounting for sale-leaseback transactions. SFAS 4 required gains and losses resulting from extinguishments of debt to be classified as extraordinary items. SFAS 64 amended SFAS 4 and is no longer necessary because SFAS 4 has been rescinded. We elected to early adopt SFAS No. 145 effective for the year ended December 31, 2002, and accordingly classified as interest expense \$1,885 in exit fees for debt paid in the reorganization.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The principal difference between SFAS No. 146 and EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) relates to requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. We applied SFAS No. 146 in accounting for our retail home sales restructuring.

In November 2002, the FASB issued FASB Interpretation No. 45, or FIN 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 is intended to expand on existing disclosure requirements, and requires a company to recognize liabilities for the fair value or market value of its obligations under a guarantee when the guarantee is issued. It does not address the subsequent measurement of the guarantor's recognized liability over the term of the guarantee. FIN 45 is effective January 1, 2003 on a prospective basis only, with the exception of the disclosure requirements, which are effective for financial statements at and for the period ended December 31, 2002. The adoption of FIN 45 is not expected to have a material impact on our results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46, or FIN 46, Consolidation of Variable Interest Entities. A variable interest entity is a corporation, partnership, trust, or any other

legal structure used for business purposes that either (i) does not have equity investors with voting rights or (ii) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. A company that consolidates a variable interest entity is called the primary beneficiary.

Previous practice has dictated that one company would include another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. FIN 46 is effective for all variable interest entities created after January 31, 2003. For existing variable interest entities, public companies are required to adopt FIN 46 in the first interim or annual period after June 15, 2003. The adoption of FIN 46 is not expected to have a material impact on our results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Under SFAS No. 150, an issuer is required to classify financial instruments issued in the form of shares that are mandatorily redeemable, financial instruments that, at inception, embody an obligation to repurchase the issuer's equity shares and financial instruments that embody an unconditional obligation, as liabilities. We are currently evaluating the impact the adoption of SFAS No. 150 will have on our financial position, results of operations and cash flows.

FFO

As defined by NAREIT, FFO represents income (loss) before allocation to minority interest (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income.

We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions.

	Pro Forma Nine Months Ended September 30, 2003	Nine Months Ended September 30,		Pro Forma Year Ended December 31, 2002	Year Ended December 31,		
	2003	2003	2002	2002	2002	2001	2000
	(in thousands)						
Reconciliation of FFO:							
Net loss before preferred stock dividend	\$ (11,456)	\$ (26,837)	\$ (12,740)	\$ (34,304)	(\$40,983)	(\$12,747)	(\$14,112)
Plus:							
Depreciation and amortization	53,800	37,530	25,969	69,958	38,596	16,905	11,672
Income (loss) from discontinued operations		285	84		172	(370)	2
Depreciation from discontinued operations		295	379		488	574	549
Less:							
Amortization of loan origination fees	(3,572)	(2,925)	(2,595)	(5,200)	(4,129)	(1,896)	(1,212)
Depreciation expense on furniture, equipment and vehicles	(1,100)	(1,100)	(609)	(1,019)	(1,019)	(237)	(181)
Minority interest portion of FFO reconciling items	(2,790)	(4,717)	(3,215)	(3,620)	(4,528)	(15)	(11)
FFO	34,882	\$ 2,531	\$ 7,273	25,815	(\$11,403)	\$ 2,214	(\$3,293)
Less preferred stock dividend	(7,734)			(10,313)			
FFO available to common stockholders*	\$ 27,148			\$ 15,502			

* Pro forma FFO for the year ended December 31, 2002 includes charges incurred in the reorganization in connection with the repayment of debt including \$1,885 for exit fees and \$1,592 for the writeoff of unamortized loan costs, and includes a charge of \$13,557 to writeoff goodwill associated with our retail home sales and insurance businesses. For more details see our consolidated financial statements for the year ended December 31, 2002, 2001 and 2000. Pro forma FFO for the nine months ended September 30, 2003 includes a charge of \$1,385 for retail home sales asset impairment and other expense. For more details see our unaudited condensed consolidated financial statements as of September 30, 2003 and for the three and nine months ended September 30, 2003 and 2002. We expect to incur a charge of \$10,070 prior to completion of our concurrent offerings related to the issuance of restricted share awards to management and certain other employees, which is not included in pro forma FFO.

Quantitative and Qualitative Disclosures About Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use some derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based on their credit rating and other factors.

Upon completion of our concurrent offerings, the Hometown acquisition and the financing transactions we expect to have outstanding approximately \$950 million of consolidated debt. We expect approximately \$186.2 million, or 20% of our total consolidated debt to be variable rate debt. We expect that approximately 80% of our total indebtedness upon completion of our concurrent offerings, the Hometown acquisition and the financing transactions will be subject to fixed interest rates for a minimum of four years. We expect to enter into a two-year interest rate swap agreement pursuant to which we will effectively fix the base rate portion of the interest rate with respect to \$100 million of our variable rate debt. As a result, we expect that approximately 91% of our total indebtedness upon completion of our concurrent offerings will be subject to fixed interest rates for a minimum of two years.

If, after consideration of the interest rate cap agreement described above, LIBOR were to increase by 1.00%, the increase in interest expense on the variable rate debt would decrease future earnings and cash flows by approximately \$1.9 million annually. If, after consideration of the interest rate swap agreement described above, LIBOR were to increase by 1.00%, the increase in interest expense on the variable rate debt would decrease future earnings and cash flows by approximately \$0.9 million annually.

Interest risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic

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activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

As of September 30, 2003, our total outstanding debt was approximately \$773.5 million, which was comprised of \$502.8 million of fixed rate indebtedness. Approximately \$270.7 million, or 35%, of our total outstanding indebtedness was variable rate debt. With respect to \$242.0 million principal amount of our variable rate indebtedness outstanding as of September 30, 2003, we had entered into the interest rate cap agreements to limit our interest costs in the event of increases in one-month LIBOR above 5.00% to reduce our exposure to market rate changes.

The fair value of debt outstanding as of September 30, 2003 was approximately \$813 million.

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MANUFACTURED HOUSING INDUSTRY AND MANUFACTURED HOME COMMUNITY OVERVIEW

All statistical data contained in this prospectus is the most recently available data from the sources cited. Where no source is cited, statistical data has been derived from internal data prepared by our management.

Manufactured Housing Industry Overview

The manufactured housing industry represents a meaningful portion of the U.S. housing market, totaling approximately 14% of new housing starts and approximately 23% of new homes sold over the last five calendar years based on data published by MHI, and the U.S. Department of Commerce. In 2002 there were an estimated 22 million people living in manufactured homes in the U.S.

The manufactured housing industry is primarily focused on providing affordable housing to moderate-income customers. A manufactured home is a single-family house constructed entirely in a factory rather than at a homesite, with generally the same materials found in site-built homes and in conformity with federal construction and safety standards. There are two basic categories of manufactured homes: single-section and multi-section, typically ranging from 500 square feet to approximately 2,000 square feet or larger. Manufactured homes are available in a variety of architectural styles and floor plans, offering a variety of amenities and custom options including additional site-built structures, such as garages and storage sheds.

We believe the manufactured housing industry has captured a meaningful percentage of the overall U.S. housing market due to several compelling factors, including:

Affordability. Today's manufactured homes offer quality similar to many site-built homes at a more affordable price. According to 2002 data reported by MHI, manufactured housing represents a 10% to 35% savings from comparable entry-level site-built housing. The affordability of manufactured housing allows many individuals to achieve home ownership without jeopardizing their financial security.

Comparability to Site-Built Homes. Today, manufactured home producers offer larger homes that contain many of the amenities of site-built housing. Since 1976, all manufactured homes have been required to meet stringent federal standards, resulting in significant increases in the quality and safety of the product. HUD's standards for manufactured housing construction quality and safety are the only federal standards governing housing of any type in the U.S. These standards regulate manufactured home design and construction, strength and durability, fire resistance and energy efficiency, and the installation and performance of heating, plumbing, air conditioning, thermal and electrical systems.

The purchase of a new manufactured home by a consumer involves four primary industry sectors – manufacturing, retailing, financing and real estate – each addressing a specific step in the distribution and sales process. Some companies participate in all four sectors while the majority of companies tend to focus on only one or two sectors.

Manufacturing. Manufactured housing manufacturers generally utilize an assembly-based process which relies on geographically located plants in order to minimize transportation costs. The sector is characterized by (i) low barriers to entry, (ii) a large number of participants, with MHI reporting an estimated 66 manufacturers as of December 2002 and (iii) a high concentration, with the ten largest manufacturers responsible for approximately 80% of 2002 production, according to data published by MHI.

Retailing. Manufactured housing retailers typically rely on two primary sales channels – retail dealerships located on active thoroughfares with a variety of environmentally displayed homes and community sales similar to model home displays in traditional suburban housing developments. The sector is characterized by (i) local owners who typically own one or two locations, (ii) low barriers to entry and (iii) a large, nationwide dealership base.

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Financing. Manufactured housing finance companies provide financing to the consumer in order to complete the purchase of a home. Because many manufactured homes are financed with chattel

loans, while the balance are financed with real estate loans, the majority of sales are financed through specialty finance companies focused on manufactured housing, as opposed to traditional sources of mortgage financing. This sector of the manufactured housing industry historically has been characterized by high market concentration, reliance on the asset-backed securities market and companies possessing the scale required to efficiently process and manage loan portfolios.

Real Estate. Manufactured homes generally are placed on private land or in land-lease manufactured home communities.

Manufactured Home Community Overview

A manufactured home community is a land-lease community designed and improved with homesites for the placement of manufactured homes and includes related improvements and amenities. Modern manufactured home communities generally are similar to typical residential subdivisions and contain centralized entrances, paved streets, curbs and gutters. In addition, such communities often provide a variety of amenities and facilities to residents such as a clubhouse, swimming pool, playground, basketball court, picnic area, tennis court and cable television service. Utilities are provided or arranged for through public or private utilities, while some community owners provide these services from on-site facilities. Manufactured home communities typically range in size from a dozen homesites to over 1,000 homesites in a master planned development setting. Manufactured home communities primarily fall into two categories – all-age communities and age-restricted communities, commonly referred to as retirement communities.

Each homeowner in a manufactured home community leases a site from the community. The manufactured home community owns the underlying land, utility connections, streets, lighting, driveways, common area amenities and other capital improvements and is responsible for enforcement of community guidelines and maintenance of the community. Generally, each homeowner is responsible for the maintenance of his home and upkeep of his leased site. In some cases, customers may rent homes or enter into a lease-to-own contract with the community owner maintaining ownership and responsibility for the maintenance and upkeep of the home during the lease period. Both of these options provide flexibility for customers seeking a more affordable, shorter term housing option and allows the community owner to meet a broader demand for housing, thus improving occupancy and cash flow.

We believe manufactured home communities have several characteristics that make them an attractive investment when compared to certain other types of real estate, particularly multifamily, including:

Significant Barriers to Entry: We believe the supply of new manufactured home communities will be constrained due to significant barriers to entry present in the industry, including: (i) various zoning restrictions and negative zoning biases against manufactured home communities, (ii) substantial upfront costs associated with the development of infrastructure, amenities and other offsite improvements required by various governmental agencies and (iii) a significant length of time before lease-up and revenues can commence.

Large and Growing Demographic Group of Potential Customers: We consider households earning between \$25,000 and \$50,000 per year to be our core customer base. This demographic group represents approximately 30% of overall U.S. households, according to 2000 U.S. Census data. Fannie Mae reported in its 2002 Statistics Fact Sheet that while millions of working class families need affordable housing to buy or rent, the number of low income rental units is declining by almost half a million per year. In addition, Fannie Mae reports that between 1997 and 2001 there was a 67% rise in the number of households spending more than half their income on housing. The average sale price of existing homes increased from \$115,300 in 1990 to \$176,200 in 2000, or by an average of 4.3% per year according to National Association of Homebuilders versus an average 3.4% increase in median household income, according to 2000 U.S. Census data.

In addition, our Hispanic marketing initiative targets the fastest growing population segment in the U.S. According to U.S. Census data, from 1990 to 2000, the Hispanic population grew by approximately 58%, increasing from 22 million to 35 million versus an overall population growth rate of 13%. According to U.S. Census data, the Hispanic population increased from 9% to nearly 13% of the overall population from 1990 to 2000. This population segment currently has a homeownership rate of about 49%, nearly 20 percentage points below the national average, according to Fannie Mae's 2002 Statistics Fact Sheet.

Stable Resident Base: We believe manufactured home communities tend to achieve and maintain a stable rate of occupancy, with an average residency tenure of approximately seven years, due to the following factors: (i) residents generally own their own homes, (ii) moving a manufactured home from one community to another involves substantial cost and effort and often results in the abandonment of on-site improvements made by the resident such as decks, garages, carports and landscaping and (iii) residents enjoy a sense of community inherent in manufactured home communities similar to residential subdivisions.

Fragmented Ownership of Communities: Manufactured home community ownership in the U.S. is highly fragmented, with a majority of manufactured home communities owned by individuals. The top five manufactured home community owners control approximately 6% of the total number of manufactured home community homesites. There are only four publicly traded entities primarily focused on the ownership and management of manufactured home communities and only two with an equity market capitalization in excess of \$150 million.

Low Recurring Capital Requirements: While manufactured home community owners are responsible for maintaining the infrastructure of the community, each resident is responsible for the upkeep of his or her own home and homesite, thereby reducing the manufactured home community owner's ongoing maintenance expenses and capital requirements.

Affordable Homeowner Lifestyle: Manufactured home communities offer an affordable lifestyle typically unavailable in apartments, including lack of common walls, a yard for each resident, three bedroom/two bathroom or larger floor plans and a sense of community based on length of residency tenure, community layout and resident interaction fostered through community activities and programs.

Current Industry and Community Operating Environment

The manufactured housing industry continues to face a challenging operating environment which has resulted in losses, exits from the industry and significant curtailment of activity among manufacturers, retailers and consumer finance companies. According to MHI, industry shipments (a measure of manufactured home production and sales) have declined from 372,843 homes in 1998 to an estimated 137,000 for 2003. We believe this dramatic decline in production and sales is largely the result of an over-supply of consumer credit from 1994 to 1999, which led to over-stimulation in the manufacturing, retail and finance sectors of the industry. Current industry conditions are further exacerbated by historically low mortgage interest rates and less stringent credit requirements for the purchase of entry-level site-built homes, thereby reducing the price competitiveness of manufactured housing.

We expect industry conditions to remain difficult for the foreseeable future, based partly on overall economic conditions throughout the U.S. and a continued shortage of available consumer financing for manufactured home buyers. We anticipate that demand for manufactured housing and manufactured home communities will improve if home mortgage interest rates return to higher historic levels, which should reduce the pricing differential between home mortgage interest rates and interest rates for financing the purchase of a manufactured home.

Within the manufactured home community sector, community operators are currently facing several challenges, including: (i) an increase in repossessions and abandonments of manufactured homes resulting in an increase in bad

debt expense, (ii) a shortage of available consumer financing for buyers of manufactured homes, (iii) weak overall economic conditions throughout the U.S., and (iv) a

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relatively low mortgage interest rate environment for financing purchases of entry-level site-built homes. Despite these conditions, which have combined to create downward pressure on occupancy, manufactured home community owners and operators have been relatively less affected than the other sectors of the manufactured housing industry, primarily due to a customer base with a long average residency tenure.

The operating results of publicly traded manufactured home community REITs have been comparatively less affected by the negative conditions currently affecting the other major sectors of the manufactured housing industry. Despite a more than 50% decline in manufactured home shipments in the U.S. from 1998 to 2002, the four publicly traded manufactured home community REITs continued to generate compound annual growth in same-store net operating income of 5.0% over this period according to SNL Data Source. We believe the financial performance of these four companies illustrates the stability of the asset type, and that this stability is primarily due to the long average residency tenure.

We believe the current disruption in the manufactured housing industry will present opportunities for us to acquire manufactured home communities from owners lacking the infrastructure, personnel or access to capital necessary to maintain their current operating results and financial performance. We have developed an operating platform to recognize and capitalize on changing industry conditions. We are pro-actively addressing the operating challenges prevalent in our industry through our rental home program and our in-community home sales and financing initiative, and through improved marketing and resident retention programs.

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BUSINESS AND PROPERTIES

Overview

We are a fully integrated, self-administered and self-managed equity REIT focused primarily on the acquisition, renovation, repositioning and operation of all-age manufactured home communities. We are in the business of providing affordable housing to an underserved and growing demographic of the U.S. population. Upon completion of our pending acquisition of 90 communities with approximately 26,000 homesites from Hometown, we will be the largest owner and operator of manufactured home communities in the U.S. based on number of communities and homesites owned. We also acquire manufactured homes in quantities and at prices enabling us to provide homes for rent or for sale at reasonable costs, finance sales of manufactured homes, and act as an agent in the sale of homeowners' insurance and other related insurance products, all exclusively to residents in our communities.

Upon completion of the Hometown acquisition, we will own and operate a portfolio of 302 manufactured home communities with approximately 67,000 homesites, including approximately 12,000 vacant homesites for future

lease-up which provide opportunities to increase our occupancy and our operating margins. These communities also include undeveloped land with approximately 3,000 additional expansion homesites. These communities are located in 29 states and represent over 70 markets across the U.S. Our five largest markets will be Dallas-Fort Worth, Texas, with 11.0% of total homesites; Atlanta, Georgia, with 7.6% of total homesites; Salt Lake City, Utah, with 5.0% of total homesites; the Front Range of Colorado, with 4.9% of total homesites; and Jacksonville, Florida, with 3.8% of total homesites.

Our senior management team has significant experience in all aspects of the manufactured home community industry, as well as experience in capital markets, corporate finance and asset and loan restructuring. Our co-founders, Scott D. Jackson, our Chairman and Chief Executive Officer and John G. Sprengle, our Vice Chairman, Executive Vice President and Chief Financial Officer, have been in the business of acquiring and operating manufactured home communities since 1995. All of our communities have been acquired and operated under their leadership and management. George W. McGeeney, our President and Chief Operating Officer, joined our company in 2000, bringing a strong customer service focus based on his 12 years of experience at PepsiCo Inc. and Pepsi Bottling Group, Inc. The top nine members of our management team have in excess of 50 years of combined experience in the manufactured housing industry. We conduct all of our business activities through our operating partnership, of which we are the sole general partner and in which we will hold a 94.3% ownership interest upon completion of our concurrent offerings.

Organizational History and 2002 Reorganization

Beginning in 1995, Mr. Jackson and Mr. Sprengle co-founded several companies under the name "Affordable Residential Communities" or "ARC" for the purpose of engaging in the business of acquiring, renovating, repositioning and operating manufactured home communities, as well as certain related businesses. These companies included three separate real property partnerships formed between 1995 and 1997 to acquire manufactured home communities, as well as Holdings, which was organized as the parent company for both the general partner of these three real property partnerships and the related retail home sales, insurance and other complementary businesses.

We were formed in July 1998 as a Maryland corporation for the purpose of acting as the investment vehicle for and a co-general partner with ARC LLC of our operating partnership, the fourth real property partnership organized and operated by our co-founders. Subsequently in May 2002, we completed a \$328.6 million reorganization transaction, in which we acquired the Limited Partnerships and all the other related businesses formerly owned by Holdings for total equity consideration consisting of 5.8 million shares of our common stock, 2.7 million OP units and approximately \$113 million in cash. Each of our OP units issued in the reorganization was issued as part of a paired unit which includes 1.9268 shares of our special voting stock, and each of these paired units is exchangeable by its holder for cash or, at our election, one share of our common stock. Each

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paired unit entitles its holder to one vote on all matters submitted to a vote of our stockholders who have voting rights generally. The value of the common shares and OP units that were issued in the reorganization was determined based on equity valuations calculated for each of the Limited Partnerships and the operating partnership and for the businesses owned by Holdings using both direct capitalization and discounted cash flow methodologies. Final determinations for these equity valuations were arrived at through negotiation among the various constituent parties to the reorganization, and the transaction was approved by a vote of the limited partners of each of the three Limited Partnerships and by the boards of our company and Holdings. As a result of the reorganization, the businesses formerly conducted by Holdings and the Limited Partnerships are now conducted through subsidiaries of our

operating partnership.

Prior to the date of this prospectus our co-founders raised over \$400 million in equity capital, largely from sophisticated, high net-worth individuals and institutional investors such as Thomas H. Lee Partners, UBS Capital Americas, LLC, Nassau Capital and Citigroup Investments, an affiliate of one of our lead underwriters. This equity capital was raised through our operating partnership and the Limited Partnerships, which acquired over 200 manufactured home communities with approximately 40,000 total home sites in 21 states, excluding the Hometown acquisition.

In managing the Limited Partnerships and our operating partnership, our co-founders and the other members of our senior management team developed significant expertise in acquiring, renovating and repositioning manufactured home communities, including rebuilding/renovating the physical infrastructure, upgrading the quality of the resident base, developing marketing programs to improve occupancy, upgrading community management and improving relations with various governmental and community organizations. We utilize a thorough and comprehensive four-stage acquisition and repositioning process which we call B-F-F-R (Buy-acquisition, Fix-physical infrastructure and resident quality, Fill-occupancy level, Run-ongoing, long-term operations) to take newly acquired communities from acquisition through stabilization in as compressed a timeframe as possible.

Hometown Acquisition

On October 14, 2003, we entered into an agreement with Hometown to acquire 90 manufactured home communities with 26,406 homesites, for a purchase price of \$478.5 million, plus the assumption of approximately \$86.1 million in mortgage debt encumbering 22 of these communities. Pursuant to the agreement with Hometown, we also have agreed to acquire related community assets comprised of rental homes, for-sale home inventory and consumer loans, as well as a secured note receivable, for a total purchase price of approximately \$23.0 million. We also have agreed to pay Hometown an additional \$7.5 million fee if we complete our common stock offering on or before the later of March 31, 2004 and the thirtieth day after we complete the Hometown acquisition. We expect to incur approximately \$8.1 million in fees and transaction costs in connection with completing the Hometown acquisition, including \$2.8 million in financial advisory fees to be paid to affiliates of our lead underwriters. Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, our lead underwriters, acted as our financial advisors in connection with the Hometown acquisition.

At September 30, 2003 the Hometown communities had an occupancy rate of approximately 76%. We believe that over time we can substantially improve the occupancy, revenue and cash flow of the Hometown communities based on our operating experience in overlapping markets and our extensive experience in renovating and repositioning under-performing and non-stabilized communities by utilizing our B-F-F-R process. Approximately 57% of the homesites are located in states where we have an existing presence. In addition, the portfolio provides a strong market entry into the Atlanta, Georgia market, with approximately 5,000 homesites representing approximately 19% of the total acquired homesites.

We expect to have significant non-recurring capital expenditures of approximately \$15 to \$20 million during the 12 to 18 months following our concurrent offerings to optimize our long-term returns from the Hometown acquisition by upgrading the Hometown communities to our standards of function and appearance. We also expect to invest during the first 12 to 18 months following our

concurrent offerings approximately \$65 to \$75 million to purchase approximately 3,000 to 4,000 additional rental homes for all of our communities, including those we acquire from Hometown, and approximately \$70 to \$90 million for the purchase, sale and financing of approximately 3,000 homes to new residents in our communities, including those we acquire from Hometown.

At the time we entered into the Hometown agreement, we paid Hometown a deposit of \$12.5 million and delivered to Hometown a promissory note for \$2.5 million. The promissory note will automatically terminate, without any payments having to be made by us, on the closing date of the acquisition. On November 14, 2003 and January 5, 2004, we paid Hometown additional cash deposits of \$2.5 million and \$2.5 million, respectively. Either party may terminate the agreement if the acquisition has not been completed on or before January 31, 2004, the termination date, except that we may extend the termination date to February 29, 2004 by making a second deposit payment of \$5 million to Hometown on or before February 5, 2004, and we may further extend the termination date to March 31, 2004 by making a third deposit payment of \$5 million to Hometown on or before March 1, 2004. If we elect to extend the termination date beyond January 31, 2004, we will be responsible for all incremental costs, including extension costs and exit fees, incurred by Hometown with respect to its financing of the Hometown communities as a result of such extension, subject to a cap of \$2.5 million if the extension is to February 29, 2004 and a cap of \$5.0 million if the extension is to March 31, 2004.

We negotiated the right to begin managing the Hometown communities during the period prior to our completion of the acquisition in order to accelerate the timing of our integration of these communities into our operations and to improve the effectiveness of that integration. We assumed management or submanagement of the Hometown communities on November 1, 2003 pursuant to a management agreement with Hometown, and on December 15, 2003 and January 15, 2004, we paid Hometown cash deposits of \$2.5 million and \$2.5 million, respectively, in accordance with the terms of our acquisition agreement, in connection with our assumption of these management and submanagement duties. Hometown may terminate the management agreement and our management rights at any time and for any reason, provided that it immediately returns to us all such cash deposits made by us.

We will not receive any compensation from Hometown in consideration for managing the Hometown communities, and we do not expect to incur significant costs in connection with our management of these communities prior to completion of the Hometown acquisition. We hired all Hometown employees actively employed at the Hometown communities effective January 1, 2004, although Hometown will be obligated to reimburse us for the costs associated with such employment until we complete the Hometown acquisition. We are submanaging 22 of the Hometown communities comprising 6,297 Hometown homesites subject to Hometown's oversight and control. After the closing of the Hometown acquisition we will manage all of the Hometown communities.

The total amount of all deposit payments we make will be credited against the purchase price payable to Hometown upon completion of the transaction. If the Hometown acquisition is not completed by the termination date, as it may be extended as described above, then either party may terminate the agreement, but Hometown will not be obligated to return our deposit to us, and the \$2.5 million promissory note delivered to Hometown will become payable, unless the failure to complete the acquisition by such time is the result of

a breach of any one or more of the representations or warranties made by Hometown in the agreement, which breaches, alone or taken together, constitute a material adverse effect with respect to the Hometown communities,

- a material breach by Hometown of one or more of its covenants in the agreement,
- any judgment, injunction or other order preventing completion of the acquisition, or

Hometown's willful breach of the acquisition agreement by refusing to complete the transaction at the time that it is obligated to do so under the terms of the agreement.

In the event that the acquisition does not close and Hometown is not required to return the deposit, payment of the deposit and the promissory note will constitute liquidated damages and will be Hometown's sole and exclusive remedy against us for failure to close.

We have agreed to assume all liabilities and obligations of whatever kind or nature associated with the communities and other assets we will acquire from Hometown, whether absolute or contingent, accrued or unaccrued, known or unknown, or arising before or after the time we complete the Hometown acquisition, subject to specific exceptions. We will not receive a credit against the purchase price payable to Hometown to reflect our assumption of these liabilities and obligations (other than with respect to the \$86.1 million of mortgage debt). In addition, none of the representations and warranties made by Hometown in the agreement will survive the closing, and Hometown is not obligated to indemnify us for breaches of any of these representations and warranties or for any liabilities related to the Hometown communities arising prior to the completion of the Hometown acquisition except for certain specified liabilities.

We have agreed to bear certain costs and expenses associated with the Hometown communities and our completion of the Hometown acquisition, including the cost of scheduled improvements to the Hometown communities made prior to closing, all assumption fees required in connection with indebtedness we will assume in the acquisition, all recording fees, and all expenses associated with obtaining title commitments, title policies, surveys, environmental reports and other due diligence reports.

In the event that, at the time we are prepared to complete the Hometown acquisition, we have not obtained the consent of any lender required in order for us to acquire any Hometown community and assume the indebtedness secured by such community, our acquisition of that community will be deferred for up to 90 days in order to permit us to continue to seek such consent, after which time we must either acquire the property or pay Hometown \$200,000 for each such property we choose not to acquire.

Our obligation to complete the Hometown acquisition is not conditioned upon our having the financing necessary to complete the transaction at the time of completion. Accordingly, while we have negotiated the terms of the financing transactions described in this prospectus to finance part of the purchase price in the Hometown acquisition, there can be no assurance that all conditions to completion of that financing will be satisfied or that we will complete that financing upon the terms set forth in this prospectus or at all.

We expect to complete the Hometown acquisition simultaneously with completion of our concurrent offerings. Each party's obligation to complete the Hometown acquisition is subject to satisfaction of certain conditions, including:

- the absence of any governmental or court order or other legal restraint preventing completion of the transaction,
- the absence of any material inaccuracy or breach of the representations and warranties made by the other party in the agreement, and
- the absence of a material breach by the other party of any of its covenants in the Hometown agreement.

In addition, our obligation to complete the Hometown acquisition is subject to the condition that there be no material adverse effect on the Hometown communities taken as a whole since the date of the Hometown agreement. We believe that the representations, warranties and covenants in the Hometown acquisition agreement are standard for transactions of this nature. However, we cannot assure you that all conditions to the Hometown acquisition will be satisfied or that we will complete our acquisition of the Hometown communities.

Our Competitive Strengths and Operating Strategies

Our principal business objectives are to achieve sustainable long-term growth in cash flow per share and to maximize returns to our stockholders. Our key competitive strengths and operating strategies include the following:

Proven Growth Platform. Members of our senior management team have extensive experience in acquiring and operating stabilized and non-stabilized communities. Over the

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last eight years, partnerships managed by our co-founders have acquired over 200 communities with approximately 40,000 homesites, excluding the Hometown acquisition. We invest in dedicated resources, including acquisition, due diligence, construction and marketing teams allowing us to significantly broaden our acquisition universe, incorporating stabilized and non-stabilized communities. We have compiled a proprietary computer database containing detailed information on over 28,000 manufactured home communities located throughout the U.S., which enables us to take advantage of acquisition opportunities quickly, often before the community has been marketed publicly.

Strong Operating Performance. We utilize a comprehensive four-stage process that we call B-F-F-R (Buy – acquisition, Fix – physical infrastructure and resident quality, Fill – occupancy level, Run – ongoing, long-term operations) to renovate and reposition the communities we acquire and improve their operating performance. We target communities that demonstrate opportunities for improvement in operating results due to: (i) below market-rate leases, (ii) high operating expenses, (iii) poor infrastructure and resident quality, (iv) inadequate capitalization and/or (v) a lack of professional management. Average total occupancy for communities we owned for at least one year at the end of the indicated period, excluding the Hometown acquisition, has increased from 87.6% for the year ended December 31, 2000, to 88.6% for the year ended December 31, 2001, to 92.2% for the year ended December 31, 2002, and was 91.2% for the nine months ended September 30, 2003.

Significant Presence in Key Markets. Upon completion of the Hometown acquisition, approximately 66% of our homesites will be located in our 20 largest markets, of which we believe we will have a leading market share in 15 of these markets, based on number of homesites. We focus our growth in select markets characterized by limited development, expensive alternative housing costs, a strong, diversified economic base and an ability to increase our market share and achieve economies of scale. Increasing our presence and market share enables us to (i) achieve operating efficiencies and economies of scale by leveraging our local property management infrastructure and other operating overhead over a larger number of communities and homesites, (ii) provide potential residents with a broader range of affordable housing options in their market, (iii) increase our visibility and brand recognition and leverage advertising costs and (iv) obtain more favorable terms and faster turnaround time on construction, renovation, repairs and home installation services. We believe the significant size and geographic diversification of our portfolio reduces our exposure to risks associated with geographic concentration, including the risk of economic downturns or natural disaster in any one market in which we operate.

Broad-Based Marketing Efforts. We have developed and implemented numerous marketing initiatives to enhance the visibility of our communities and to maintain and improve our occupancy. We have active marketing teams at both the corporate and local market level. We have established relationships with manufactured home dealers in the markets in which we operate to ensure that potential homebuyers are offered the opportunity to rent homesites in our communities. Our Hispanic marketing initiative is targeted at addressing the specific needs and cultural preferences of the fastest growing segment of the U.S. population. See "—Key Programs and Initiatives—Hispanic Marketing Initiative."

Proactive Management to Maximize Occupancy. In response to challenging industry conditions, particularly the shortage of available consumer financing, we have developed and implemented a range of programs aimed primarily at increasing and maintaining our occupancy, improving resident satisfaction and retention and increasing revenue and improving our operating margin. See "—Key Programs and Initiatives—Rental Home Program," "—In Community Retail Home Sales" and "—In Community Financing (Consumer Finance)."

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Customer Satisfaction and Quality Control. Our goal is to meet the needs of our residents for housing alternatives in a clean and attractive environment at a price that they can afford. We approach our business with a value-added consumer product focus with an emphasis on value and quality. We focus on meeting the needs of our residents through a variety of corporate policies and programs and through sales of products and services to our residents such as homeowners' insurance and other insurance related products. We have an intense focus on quality assurance programs executed through employee training and strict adherence to guidelines developed by our senior management, based in part upon surveys of our customers. Our customer focus and quality controls provide consistency and quality of product and enable our community managers to effectively merchandise our communities and improve our occupancy and resident retention across our portfolio.

Key Programs and Initiatives

Toward the end of 2000, our management identified a severe shortage in the availability of consumer financing, a primary determinant for new resident move-ins in our communities. This shortage was caused, in part, by historically relaxed lending criteria on the part of consumer finance companies, which led to increased default rates by manufactured home buyers and resulted in significant losses among consumer finance companies. Several of the largest finance companies exited the industry completely while two others filed for bankruptcy protection and significantly curtailed their lending activities. This shortage of available financing has negatively impacted new home shipments, which declined sharply from 372,843 homes in 1998 to an estimated 137,000 homes in 2003. Declining new home shipment activity typically indicates declining move-in activity and associated decreases in occupancy levels for manufactured home community owners and operators. This industry trend is reflected in the decreases in occupancy reported for the last several fiscal years by publicly-traded manufactured home community owners.

We recognized an opportunity to address this development and capitalize on low manufactured home prices by implementing our rental home program. Subsequently, we developed additional initiatives aimed at addressing the ongoing shortage of consumer financing and the resulting downward pressure on our occupancy. All of these programs and initiatives are focused on maximizing our occupancy, enhancing resident satisfaction and retention, and increasing the value of our communities.

Rental Home Program. Our real estate revenue (revenue in our real estate segment) consists of homeowner rental income, home renter rental income and utility and other income. We receive homeowner rental income from manufactured homeowners who lease homesites in our communities, and we receive home renter rental income from persons who rent manufactured homes and homesites from us in our communities pursuant to our rental home program which we implemented in the fourth quarter of 2000. We acquire manufactured homes, place them on unoccupied homesites in selected communities in our portfolio and lease them, typically for a one-year lease term. As of September 30, 2003, we owned 6,003 rental homes with an occupancy rate of approximately 81%, excluding approximately 600 rental homes we plan to acquire in the Hometown acquisition. This represents an investment of approximately \$130 million. For the year

ended December 31, 2002 and the nine months ended September 30, 2003, home renter rental income totaled \$16.9 million, or approximately 16% of total real estate revenue and approximately 12% of total revenue, and \$23.5 million, or approximately 22% of total real estate revenue and approximately 18% of total revenue, respectively and homeowner rental income totaled \$80.2 million, or approximately 75% of our total real estate revenue, and \$74.5 million, or approximately 69% of our total real estate revenue, respectively. Our net loss available to our common stockholders for the year ended December 31, 2002 and the nine months ended September 30, 2003 was \$40.8 million and \$23.7 million, respectively. For the nine months ended September 30, 2003, our average monthly home renter rental income was \$621.

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Leases for homeowners who lease homesites in our communities are typically month-to-month, unless a longer term is required by state law, and require homeowners to maintain their home to applicable community standards. By contrast, leases for rental homes are typically for a term of one year and require us to maintain the home. Both types of leases provide for security deposits, typically require the tenant to pay for utilities and contain provisions governing resident conduct.

We generally acquire our rental homes in large bulk orders in varying amounts each quarter depending on local market conditions and other factors. As a result of these purchases, our rental home occupancy level may decline during the time that newly purchased homes are absorbed into our rental home program and leased to new residents in our communities. Management's objective is to attain a rental home occupancy rate in our mature base of rental homes of approximately 88%-90%. The table below presents certain historical information regarding the number of rental homes we purchased each quarter, total rental homes we owned at the end of each quarter, the number of additional rental homes we leased and our rental home occupancy at the end of the quarter.

	2002		2003		
	Q3	Q4	Q1	Q2	Q3
Cumulative Rental Homes	4,441	4,756	4,916	5,225	6,003
Rental Homes Purchased, net	1,172	315	160	309	778
Occupied Rental Homes	3,086	3,536	4,018	4,429	4,843
Rental Homes Leased, net	650	450	482	411	414
Occupancy	69.5%	74.3%	81.7%	84.8%	80.7%

We expect to invest approximately \$65 to \$75 million during the first 12 to 18 months following our concurrent offerings to purchase approximately 3,000 to 4,000 additional rental homes. In addition, we are acquiring approximately 600 rental homes in the Hometown acquisition. Based on market conditions from time to time, we may modify our rental home program.

In-Community Retail Home Sales Initiative. Through our retail home sales business, we acquire manufactured homes in quantities and at prices enabling us to provide our prospective residents a convenient turnkey housing option in our communities at a reasonable price. Homes available for purchase include a mix of new and used single-section and multi-section homes. We strive to provide homes that generally are priced lower than comparable homes available in the marketplace by eliminating retail gross profits and passing along these savings to our homebuyers.

We have extensive experience in the retail sale of manufactured homes. Our retail home sales subsidiary was formed in 1995 as a subsidiary of Holdings, which we acquired in the reorganization. At the time of the reorganization our retail home sales subsidiary was engaged in the retail sale of manufactured homes to third parties through 19 separate, stand-alone retail locations in five states (Colorado, Kansas, Nebraska, North Carolina and Wyoming). Due to significant changes in the industry, particularly the shortage of consumer financing to support sales of manufactured homes, beginning in late 2002 we redirected our retail home sales subsidiary's sales efforts away from a retail dealership presence and began focusing exclusively on sales of homes in our communities by relocating our retail home sales resources entirely within our communities. At September 30, 2003 we had sold 13 of our stand-alone dealership locations and ceased operations in the remaining six retail dealership locations, and going forward we will conduct our retail home sale business exclusively through sales of homes located onsite within our communities. We have no stand-alone retail sales locations with sales to third parties that may or may not be located in our communities and all sales occur in our communities to parties that will become residents of our communities. Our in-community retail home sales business will operate in conjunction with our consumer finance business through which we intend to provide credit to qualified buyers of homes in our communities.

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As of September 30, 2003, giving effect to the Hometown acquisition, we have 647 homes (135 homes owned by us and 512 homes to be acquired in the Hometown acquisition) in our for-sale inventory valued at approximately \$12.8 million. For the nine months ended September 30, 2003, we sold a total of 74 homes to residents in our communities pursuant to this initiative, excluding the Hometown communities. We do not intend to acquire additional manufactured home inventory for sale until we sell some of the homes we currently own, and, to the extent necessary, the proceeds from the sale of existing manufactured home inventory will be used to pay interest expense associated with any debt incurred for the purchase of new manufactured home inventory.

In-Community Financing Initiative (Consumer Finance). Our in-community finance initiative is designed to increase and maintain occupancy and provide a service to residents seeking a convenient turnkey housing option. We provide loans to qualified residents to facilitate purchases of manufactured homes that are located in our communities. We focus on financing lower priced homes, generally ranging from \$20,000 to \$30,000, through loans with terms of 10 to 15 years, which we believe will result in greater value to the resident and better performing loans for us. We have obtained a commitment from Merrill Lynch Mortgage Capital Inc., an affiliate of one of our lead underwriters, to provide a \$250 million multi-year debt facility to fund a substantial expansion of our in-community retail home sales and financing initiative over the next 12 to 24 months. We utilize Vanderbilt Mortgage and Finance, Inc. for loan origination, underwriting and servicing functions related to this program. We derive our revenues from this program from the spread between our costs of funds, and our origination and servicing costs on the loans and the interest we earn on the loans. We expect to invest approximately \$70 to \$90 million during the first 12 to 18 months following our concurrent offerings through a combination of working capital and our consumer finance credit facility for the purchase, sale and financing of approximately 3,000 homes to new residents in our communities. However, we cannot assume that we will be able to generate this volume of sales and financings in 2004.

As of September 30, 2003, and giving effect to the Hometown acquisition, we had \$7.9 million of consumer loans outstanding representing 378 consumer financing contracts.

Hispanic Marketing Initiative. The Hispanic population represents the fastest growing segment of the U.S. population according to the 2000 U.S. Census. We began the design and implementation of our Hispanic marketing initiative in 2003. We have adapted our standard

resident service to address the needs and cultural preferences of this population segment, both for our existing Hispanic residents and potential new residents. We have translated many of our leases and related documents as well as our consumer finance related documents into Spanish, prepared signage and other collateral materials in Spanish, established a national toll-free customer service line to assist our Hispanic residents and to serve as a resource for our community managers, and utilized print, radio and billboard media advertising to assist in communicating our message and commitment to this growing demographic. As of August 30, 2003, the program has been rolled out in eight of our markets. We are rolling out our Hispanic marketing initiative throughout the rest of our markets over the next 12 months.

Ancillary Services. We strive to develop programs and initiatives to provide services and value to our residents in order to promote resident satisfaction and retention and improve occupancy. These services include (i) our insurance activities, through which we act as agent in the sale of homeowners' insurance and other personal lines and products focused on manufactured housing, our buyers and our residents, (ii) storage sheds marketed to and rented by our residents and (iii) other products, promotions and services aimed at serving our residents.

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B-F-F-R

We believe we have established the most effective operating model for value creation in the manufactured home community industry. Our model is characterized by:

- a proven platform for identifying and executing opportunistic acquisitions,
- our comprehensive proprietary database of manufactured home community owners and retail home dealers,
- a comprehensive and streamlined process for renovating and repositioning underperforming and non-stabilized communities,
- a focus on increasing our presence in select growth markets to achieve operating efficiencies,
 - broad-based marketing efforts, including our Hispanic marketing initiative,
 - established relationships with home manufacturers and retail home dealers,
- business programs and initiatives aimed at maximizing occupancy, including our rental home program and our retail home sales and financing initiative,
- the ability to acquire manufactured homes in quantities and at prices enabling us to provide homes for rent or for sale at reasonable cost, and
 - an active focus on customer satisfaction.

Management has developed a four-stage process for the acquisition and operation of communities, known internally as B-F-F-R (**B**uy, **F**ix, **F**ill, **R**un), in order to develop specialized core competencies within each department and to ensure accountability and measurability of performance. B-F-F-R is applied both to analyze a potential acquisition and in executing all stages of the operations process. B-F-F-R is described below:

Buy. The Buy stage of new community acquisitions is facilitated through two departments, the acquisitions department and the due diligence department. We have dedicated acquisition teams originating transactions directly with community owners across the United States. We actively maintain a comprehensive database, profiling over 28,000 manufactured home communities supplemented with an estimated 100,000 digital photographs. Our database provides comprehensive comparable data, including the size of the community, rent and occupancy levels, type and condition of infrastructure, location and current owner, allowing us to evaluate individual

communities and the markets generally.

Fix. The Fix stage of the process involves bringing a newly acquired community up to our standards from a physical standpoint and a resident quality standpoint. Physical improvements include infrastructure repairs (roads, homesite upgrades, utilities and metering) and marketing improvements such as new amenities (playgrounds, pools, etc.), common areas and signage. Resident quality and satisfaction is facilitated through implementation of a set of resident rules and regulations designed to maintain our standards and introduce a sense of community.

Fill. When a recently acquired community enters the Fill stage it may have less than a desired occupancy level either because it was purchased with low occupancy or because occupancy decreased during the Fix stage. We are generally able to increase occupancy through five primary channels:

1. Business-to-Business Marketing – Manufactured home retailers and their salespeople heavily influence the selection of a community for a newly purchased manufactured home purchased by a consumer. We actively market to the retail salesperson, highlighting the quality and location of our communities and the ease, efficiency and friendliness of our move-in process.

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2. Rental Home Program – We utilize rental homes on a portion of our homesites to address the current shortage of consumer financing and provide additional housing options for prospective residents.

3. Community Marketing – Our commitment to operating excellence, standardization of our move-in process, signage and community standards and rules enforcement allow our marketing managers to build on our brand development, name recognition and reputation in our key markets to enhance our move-in rate and improve overall occupancy.

4. In-Community Retail Home Sales and Consumer Financing Initiative – We serve as a "one-stop shop" for prospective residents in an attempt to make their introduction to our communities as simple and hassle-free as possible. We also acquire manufactured home inventory in quantities and at prices enabling us to provide retail home products to our residents at reasonable costs, finance sales of manufactured homes and sell homeowners' insurance and other related insurance products, all exclusively to residents in our communities.

5. Hispanic Initiative – Our Hispanic marketing initiative is targeted at addressing the specific needs and cultural preferences of the fastest growing segment of the U.S. population. We have translated many of our leases and related documents into Spanish, prepared marketing materials and established a customer service line to assist our Hispanic residents and to serve as a resource for our community managers.

Run. The Run stage comprises two main functions: (i) maximizing revenue and minimizing expenses and (ii) maintaining our standards for resident satisfaction, community appearance and long-term asset quality. See "—Operations" for a more complete description.

The following tables provide total real estate revenue, total real estate expenses and expense ratio (total real estate expenses divided by total real estate revenue) data for our historical portfolio and for the Hometown communities for the nine months ended September 30, 2003, based on the occupancy levels of such communities. The data indicates that for our historical communities above 90% occupancy we achieved an expense ratio of 33.2% for the nine months ended September 30, 2003 versus 39.0% for our overall portfolio and 42.2% and 48.6% for our communities between 80%-90% occupancy and below 80% occupancy, respectively.

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ARC Community Occupancy	Number of Communities	Number of Homesites	Percentage of Total Homesites	Total Real Estate Revenue	Total Real Estate Expenses(1)	Expense Ratio(2)
greater than 90%	94	18,340	45.4%	\$ 57,463	\$ 19,100	33.2%
80% to 90%	57	9,433	23.3	24,177	10,194	42.2
less than 80%	61	12,662	31.3	27,111	13,167	48.6
Total	212	40,435	100.0%	\$ 108,751	\$ 42,461	39.0%

(1) Real estate expenses include property operating expenses and real estate taxes and do not include property management expenses, general and administrative expenses, depreciation and amortization, interest expense and impairment of fixed assets.

(2) Represents total real estate expenses divided by total real estate revenue.

We believe the Hometown acquisition affords similar opportunities for improvement of occupancy and a decrease in expense ratio. Approximately 49.2% of the Hometown homesites are located in communities with occupancy under 80%, with an expense ratio of approximately 51.3%. For those Hometown communities with occupancy greater than 90%, the expense ratio was 38.4% as compared to 33.2% for our communities with similar occupancy.

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Hometown Community Occupancy	Number of Communities	Number of Homesites	Percentage of Total Homesites	Total Real Estate Revenue	Total Real Estate Expenses(1)	Expense Ratio(2)
greater than 90%	20	4,357	16.5%	\$ 11,727	\$ 4,509	38.4%
80% to 90%	32	9,055	34.3	23,809	9,128	38.3
less than 80%	38	12,994	49.2	22,887	11,746	51.3
Total	90	26,406	100.0%	\$ 58,423	\$ 25,383	43.4%

(1) Real estate expenses include property operating expenses and real estate taxes and do not include property management expenses, general and administrative expenses, depreciation and amortization, interest income or interest expense and impairment of fixed assets. Reflects real estate expenses incurred by Hometown with respect to the Hometown communities for the nine months ended September 30, 2003. See "Properties Acquired from Hometown America, L.L.C." on page F-91.

(2) Represents total real estate expenses divided by total real estate revenue.

Operations

Our operating objectives include the following:

• Aggressively manage our communities to increase operating cash flow and margins through rent and occupancy increases and expense control (notably utility metering).

• Incorporate business planning and controls through annual business plans and budgets.

• Measure and reward executives, managers and employees based on specific performance targets.

• Maintain and improve strong internal controls covering cash management, accounting procedures and other financial activities.

• Provide access to on-site managers to maximize resident retention, encourage home maintenance and improvements, foster a sense of pride in the community and minimize resident turnover.

- Emphasize management and development of our human and intellectual capital.
- Implement uniform operating procedures that standardize operations, employee standards and expectations and resident experiences to fully develop our brand.
- Utilize information technology to identify and track competing communities, other alternative forms of housing, resident satisfaction and dissemination and analysis of financial and operating data to our field organization.
- Maintain and upgrade on a continuous basis our manufactured home communities through a regular preventative maintenance program.

Our operating structure is centered on providing leadership, management support and information systems to our field organization, especially our community managers. Our field organization is led by district managers, each of whom is responsible for managing all our communities located within a specified geographic region. We expect to have ten district managers, overseeing an average of 6,600 homesites depending on geographic limitations, upon completion of the Hometown acquisition. Each district manager leads a team consisting of a facilities/construction manager, a marketing manager and a field-training specialist. The district management teams provide leadership and support for our community managers, who handle day-to-day operational and resident-related matters. Our district managers that we have recruited over the last three years have extensive experience in customer service oriented organizations, multi-site operations and full financial and operating control environments.

Each community is subject to planning and budgeting processes which take into account local market, economic and industry conditions and its place in the B-F-F-R lifecycle. These budgets are used to measure financial performance, including actual versus budget and to measure and reward employee performance. We have developed an incentive-based compensation system whereby our

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district managers earn a majority of their compensation through performance-based criteria. To a lesser degree, our other field employees are similarly incentivized.

Optimum performance by our field organization is supported by access to information and our extensive information technology infrastructure. All of our communities are able to access a variety of financial and operating reports through our intranet, which provides real time data. These reports include: occupancy reports, revenue and rent rolls, expense reports providing drill down capabilities to invoices, delinquency reports and vendor payment status reports. We control distribution of our monthly billing statements to our residents allowing us to tailor services to, and communication with, our residents. We rely on an Oracle data warehouse to support our overall financial and operating reporting needs and utilize a variety of software programs to support our various departments.

Acquisitions

Our acquisition strategy is focused on acquiring a mix of stabilized and non-stabilized manufactured home communities that exhibit the potential to benefit from our operating abilities and, in the case of non-stabilized communities, our repositioning expertise. Our management believes future acquisitions of stabilized and non-stabilized communities (including poorly performing recent developments) and the expansion and renovation of owned communities represent the best opportunities to maximize returns for our stockholders. We intend to pursue acquisitions of communities located in our existing markets or in markets that we believe will become key markets in the future.

We have developed a comprehensive acquisition program that we believe enables us to identify and execute on opportunities to acquire communities and improve their occupancy and operating results. Our ability to identify, diligence and acquire a range of stabilized and non-stabilized manufactured home communities (i) significantly broadens our acquisition universe, (ii) eliminates the need to pursue high risk, high cost greenfield development and (iii) substantially enhances our ability to attain leading market share and operating efficiencies in our key markets. These acquisitions may include large, high occupancy manufactured home communities with a quality resident base and well located manufactured home communities suffering from poor management, poor infrastructure, deferred maintenance and/or a poor quality resident base. Throughout this prospectus we refer to communities which do not have any significant renovation and refurbishment requirements or resident quality issues and which have achieved an occupancy of 85% or greater as stabilized communities and communities that either have significant renovation and refurbishment requirements or resident quality issues that will likely result in occupancy decreasing below 85% before these issues are resolved or where occupancy has not reached 85% as non-stabilized communities.

Our acquisitions group, consisting of eight people, maintains a proactive effort to identify and develop relationships with manufactured home community owners. Given the highly fragmented nature of our industry and the lack of institutional ownership, acquisition activity occurs at the local level and at an active pace. The majority of our acquisitions were originated directly by our acquisition teams and acquired in single asset transactions. We believe our direct relationships with and active research of owners, manufactured home communities and markets and our proprietary manufactured home community database allow us to pursue a more active and intense acquisition process than our competitors and often allow us to avoid competitive bidding situations. As a public company, we believe our liquidity and public ownership profile will further enhance our ability to acquire communities, including through the issuance of OP units to those sellers who wish to defer taxable gains. These acquisitions may be completed through our subsidiaries or through joint ventures, mergers, partnerships or other structures involving third-parties.

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The growth in the number of communities acquired through our operating partnership and the Limited Partnerships is illustrated below:

In evaluating acquisition opportunities we take into account the following market and asset considerations.

Market Considerations Our acquisition process and ongoing corporate review process entails a rigorous review of market conditions, including:

- Population growth, demand for affordable housing and cost of alternative housing;
- Economic dynamics and the tax and regulatory environment of the surrounding area and Metropolitan Statistical Area, or MSA;
- Ability to attain or enhance our market share with an objective of becoming the market share leader in the target market;
- Ability to achieve economies of scale with our existing manufactured home communities or anticipated acquisitions;
- Supply constraints marked by a difficult or expensive development approval process or expensive alternative forms of housing;
- Community location with a particular emphasis on access to major thoroughfares, major centers of employment and good school districts; and
- Existing and potential competition from other manufactured home communities, multifamily developments and other forms of housing.

Asset Considerations In connection with our review and consideration of community acquisition opportunities we take into account a variety of factors including:

Quality of the design and construction, current physical condition, occupancy and resident quality;

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Terms and structure of resident leases and other potential constraints to managing the manufactured home community;

Opportunities to enhance value through professional property management and renovating/repositioning of the manufactured home community;

Below-market rents as compared to other manufactured home communities or other forms of competing housing in the relevant market;

- High expenses due to inefficient operations or lack of capital; and
- Expansion opportunities.

Our Markets

At September 30, 2003, on a pro forma basis giving effect to the Hometown acquisition, we owned communities in 70 markets. Management believes we have leading market share in 15 of our top 20 markets, which collectively represent approximately 66% of our total homesites and 70% of our total rental income. Our concentration within markets allows us to achieve management efficiencies and operating scale. These benefits are further enhanced by the geographical diversification of our portfolio allowing for greater investment opportunities and decreasing risk associated with local real estate markets and economies.

Our two largest markets are Dallas-Fort Worth, Texas, with 11.0% of our homesites, and Atlanta, Georgia, with 7.6% of our homesites. No other market represents more than 5.0% of our homesites.

The table below provides summary information on our portfolio for our 20 largest markets, as of September 30, 2003 giving effect to completion of the Hometown acquisition:

Market (1)	Number of Total Pro Forma Homesites	Percentage	
		of Total Pro Forma Homesites	Pro Forma Occupancy as of 9/30/2003
Dallas/Ft. Worth, TX	7,369	11.0%	82.7%
Atlanta, GA	5,074	7.6	80.6
Salt Lake City, UT	3,310	5.0	94.4
Front Range of CO	3,301	4.9	92.6
Jacksonville, FL	2,525	3.8	82.1
Kansas City/Lawrence/Topeka, MO-KS	2,436	3.6	90.5
Wichita, KS	2,315	3.5	76.4
St. Louis, MO-IL	2,159	3.2	84.3
Orlando, FL	1,996	3.0	86.6
Oklahoma City, OK	1,911	2.9	84.0
Greensboro/Winston Salem, NC	1,416	2.1	70.5
Davenport/Moline/Rock Island, IA-IL	1,410	2.1	86.3

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Montgomery, AL	1,288	1.9	56.7
Charleston/North Charleston, SC	1,233	1.8	78.5
Elkhart/Goshen, IN	1,225	1.8	79.9
Inland Empire,CA	1,223	1.8	85.4
Southeast Florida	1,124	1.7	93.4
Raleigh/Durham/Chapel Hill, NC	1,095	1.6	86.2
Tampa/Lakeland/Winter Haven, FL	1,005	1.5	74.7
Sioux City, IA-NE	996	1.5	84.2
Subtotal–top 20 markets	44,411	66.4%	83.5
All Other Markets	22,430	33.6	77.4
Total Homesites/Weighted Average Occupancy	66,841	100.0%	81.5%

(1)Markets are defined by our management.

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Our Communities

As of September 30, 2003, on a pro forma basis giving effect to the Hometown acquisition, our portfolio consisted of 302 manufactured home communities comprising approximately 67,000 homesites located in 29 states, generally oriented toward all-age living. Of these manufactured home communities, 195 have more than 150 homesites, with the largest having 961 homesites. Our manufactured home communities provide residents with attractive amenities, such as access to a clubhouse, a swimming pool, playground and cable television service.

As of September 30, 2003, on a pro forma basis giving effect to the Hometown acquisition, our communities had an occupancy rate of 82%, and the average monthly rental income per occupied homesite was \$307. Leases for homeowners are generally month-to-month, or in limited cases year-to-year, and require security deposits. In the case of our residents renting homes from us, lease terms are typically one year, and require a security deposit.

We believe, due in part to our operating platform, our communities historically have had and will continue to have low turnover relative to multifamily housing. In recent periods, the industry and our communities have experienced higher turnover due to the increase in home repossessions by consumer finance companies and the lack of available home financing for consumers. For the year ended December 31, 2002 and the nine-month period ended September 30, 2003, our communities averaged an annual turnover of homes (where the home is moved out of the community) of 8.5% and 9.1%, respectively. During these same periods, the turnover of residents (where the home is sold and remains within the community, typically without interruption of rental income) has been 19.4% and 21.7%, respectively. In contrast, according to data published by the Institute of Real Estate Management, multifamily residential apartments had an average national turnover rate in excess of 50%. We expect turnover of residents in our rental home program will be more in line with turnover rates in the multifamily housing market.

We believe expansion opportunities provide a meaningful growth opportunity at substantially lower risk than new development. Such expansion can offer significant cost advantages to the extent common area amenities and on-site management personnel can service the property expansions. As of September 30, 2003, giving effect to the Hometown acquisition, we had undeveloped land within or adjacent to existing communities containing approximately 3,000 additional expansion homesites. The undeveloped land is expected to facilitate future growth to the extent conditions warrant. In addition, we will consider upgrading or adding facilities and amenities to certain communities in order to make those communities more attractive in their markets to the extent we expect to achieve enhanced returns on our

investment.

The following table sets forth certain information regarding our communities, arranged from our largest to smallest market, as of September 30, 2003 on a pro forma basis giving effect to the Hometown acquisition.

Community Name	Hometown Community(*)	City	State	Number of Homesites	Occupancy as of September 30, 2003	Rental Income Per Occupied Homesite Per Month
<u>Dallas – Ft. Worth, TX</u>						
Meadow Glen	*	Keller	TX	409	81.4%	\$255
Brookside Village	*	Dallas	TX	394	83.8	259
Southfork (1)		Denton	TX	341	93.8	387
Creekside (2)		Seagoville	TX	319	78.1	285
Summit Oaks (3)		Fort Worth	TX	292	77.7	344
Village North (2)		Lewisville	TX	289	93.4	369
Chalet City (3)		Crowley	TX	257	88.7	314
Twin Parks		Arlington	TX	249	62.7	364
Lakewood (3)		Royse City	TX	240	79.6	381
Arlington Lakeside	*	Arlington	TX	233	79.8	320
Quail Run		Hutchins	TX	231	75.8	340

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Community Name	Hometown Community(*)	City	State	Number of Homesites	Occupancy as of September 30, 2003	Rental Income Per Occupied Homesite Per Month
Willow Terrace (3)		Fort Worth	TX	227	74.9	362
Mesquite Meadows (3)		Dallas	TX	216	79.2	278
Amber Village		Dallas	TX	206	70.9	294
Highland Acres (3)		Lewisville	TX	199	88.4	372
Terrell Crossing		Terrell	TX	196	59.7	348
Eagle Ridge (3)		Lewisville	TX	193	88.1	361
Denton Falls (1)		Denton	TX	188	79.3	342
Rolling Hills (3)		Dallas	TX	183	89.6	277
Dynamic (2)		DeSoto	TX	156	91.7	324
Cottonwood Grove (3)		Plano	TX	152	91.4	485
Mesquite Ridge (3)		Dallas	TX	146	74.7	296

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Silver Leaf	*	Mansfield	TX	145	95.9	246
Willow Springs (2)		Fort Worth	TX	140	77.9	362
Aledo		Aledo	TX	139	93.5	277
Golden Triangle		Coppell	TX	138	92.8	393
Dynamic II		DeSoto	TX	136	90.4	348
Shadow Mountain (3)		Sherman	TX	129	88.4	244
El Lago (2)		Fort Worth	TX	123	96.7	330
Mesquite Green (3)		Dallas	TX	122	90.2	257
Hampton Acres		DeSoto	TX	119	72.3	451
Creekside at Kimberly (2)		Seagoville	TX	114	81.6	295
Sunset Village (3)		Gainesville	TX	112	85.7	249
Shady Creek (3)		Seagoville	TX	96	80.2	302
Oak Park Village (2)		Coppell	TX	95	91.6	404
Creekside Estates (2)		Seagoville	TX	92	83.7	321
Hidden Oaks		Fort Worth	TX	87	77.0	410
El Dorado (2)		Sherman	TX	79	83.5	258
Mulberry Heights		Fort Worth	TX	68	75.0	421
Zoppe's		Seagoville	TX	60	90.0	179
El Lago II (2)		Fort Worth	TX	59	83.1	365
Dallas – Fort Worth Totals / Weighted Average				7,369	82.7%	\$326
<u>Atlanta, GA</u>						
Hunter Ridge	*	Jonesboro	GA	838	77.0%	\$307
Landmark Village	*	Fairburn	GA	524	78.4	316
Shadowood	*	Acworth	GA	506	80.2	332
Riverdale	*	Riverdale	GA	481	70.5	316
Lamplighter Village	*	Marietta	GA	431	83.5	342
Stone Mountain	*	Stone Mountain	GA	354	82.2	358
Castlewood Estates	*	Mableton	GA	334	81.7	321
Woodlands of Kennesaw	*	Kennesaw	GA	273	82.4	357
Smoke Creek	*	Snellville	GA	264	80.7	324
Four Seasons	*	Fayetteville	GA	214	89.3	303
Marnelle	*	Fayetteville	GA	205	84.4	294
Friendly Village	*	Lawrenceville	GA	203	95.6	373
Plantation Estates	*	Douglasville	GA	138	76.8	256
Golden Valley	*	Douglasville	GA	131	74.0	285
Lakeside	*	Lithia Springs	GA	103	87.4	246
Jonesboro	*	Jonesboro	GA	75	100.0	268
Atlanta, GA Totals / Weighted Average				5,074	80.6%	\$321

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Community Name	Hometown Community(*)	City	State	Number of Homesites	Occupancy as of September 30, 2003	Rental Income Per Occupied Homesite Per
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						Month
<u>Salt Lake City, UT</u>						
Camelot		Salt Lake City	UT	379	99.2%	\$365
Country Club Mobile Estates		Salt Lake City	UT	323	99.7	356
Crescentwood Village		Sandy	UT	273	100.0	333
Windsor Mobile Estates		West Valley City	UT	249	96.4	346
Evergreen Village	*	Pleasant View	UT	238	78.6	286
Riverdale		Riverdale	UT	232	98.3	308
Villa West		West Jordan	UT	211	99.1	334
Lakeview Estates		Layton	UT	209	96.2	314
Sunset Vista	*	Magna	UT	207	83.1	317
Riverside		West Valley City	UT	201	82.1	518
Sundown		Clearfield	UT	200	91.5	306
Viking Villa		Ogden	UT	192	97.9	261
Washington Mobile Estates		Ogden	UT	186	95.7	293
Brookside		West Jordan	UT	170	97.1	331
Redwood Village		Salt Lake City	UT	40	97.5	341
Salt Lake City, UT Totals / Weighted Average				3,310	94.4%	\$335
<u>Front Range of CO</u>						
Harmony Road		Fort Collins	CO	486	92.0%	\$405
Stoneybrook		Greeley	CO	429	80.7	350
Wikiup		Henderson	CO	339	98.2	444
Villa West		Greeley	CO	333	91.9	379
The Meadows		Aurora	CO	303	96.4	444
Mountainside Estates		Golden	CO	229	87.3	477
Thornton Estates		Denver	CO	207	99.5	454
Countryside		Greeley	CO	173	97.7	330
Inspiration Valley		Arvada	CO	143	90.9	466
Pleasant Grove (2)		Fort Collins	CO	114	85.1	397
Loveland		Loveland	CO	113	97.3	365
Sheridan		Arvada	CO	111	96.4	457
Grand Meadow		Longmont	CO	104	98.1	344
Mobile Gardens		Denver	CO	100	100.0	475
Shady Lane		Commerce City	CO	66	93.9	363
Commerce Heights (3)		Commerce City	CO	51	100.0	405
Front Range of CO Totals / Weighted Average				3,301	92.6%	\$410
<u>Jacksonville, FL</u>						
Portside (2)		Jacksonville	FL	929	97.2%	\$328
Country Village	*	Jacksonville	FL	643	83.7	336
Ortega Village		Jacksonville	FL	284	79.9	308
Camden Point	*	Kingsland	GA	268	32.8	232
Deerpointe		Jacksonville	FL	212		