

AMERICAN LAND LEASE INC
Form 10-K
March 26, 2003
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark one)

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

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-9360

AMERICAN LAND LEASE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

29399 U.S. Hwy 19 North Suite 320
Clearwater, Florida
(Address of Principal Executive Offices)

84-1500244
(I.R.S. Employer
Identification No.)

33761
(Zip Code)

Registrant's telephone number, including area code(727) 726-8868

Securities registered pursuant to section 12(b) of the Act:

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Title of Each Class
Common Stock,
par value \$.01 per share

Name of Each Exchange on Which Registered
New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

*Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2)
Yes No*

The aggregate market value of the voting common stock held by non-affiliates of the registrant, was approximately \$67 million as of June 30, 2002. As of February 28, 2003, there were 6,970,679 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated:

Portions of the Proxy Statement for the registrant's 2003 Annual Meeting of Stockholders to be held on May 28, 2003 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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AMERICAN LAND LEASE, INC.

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Annual Report on Form 10-K

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PART I

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Certain information included in this report, our Annual Report to Stockholders and our filings with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as well as information communicated orally or in writing between the dates of these SEC filings, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include projections relating to our cash flow, dividends, anticipated returns on real estate investments and opportunities to acquire additional communities. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, and performance or achievements expressed or implied by the forward-looking statements. Such factors include: general economic and business conditions; interest rate changes; financing and refinancing risks; risks inherent in owning real estate or debt secured by real estate; future development rate of home sites; competition; the availability of real estate assets at prices which meet our investment criteria; our ability to reduce expense levels, implement rent increases, use leverage and other risks set forth in our SEC filings. In addition to the risks above, the Company's continued qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code. Readers should carefully review the Company's financial statements and the notes thereto, as well as the risk factors described in the documents the Company files from time to time with the Securities and Exchange Commission.

Item 1. Business

In this report, the words the Company, we, our, ANL and us refer to American Land Lease, Inc., a Delaware corporation, our predecessor, A Investors Corporation, and, where appropriate, our subsidiaries.

Company Background

American Land Lease, Inc., a Delaware corporation, is a self-administered and self-managed real estate investment trust (REIT) engaged in the ownership, development, expansion, management and acquisition of residential land lease communities. Residential land lease communities own home sites that are leased to owners of homes situated on the leased land and own various amenities provided for common use by the homeowners. The amenities often consist of a clubhouse, pool, tennis courts, golf course, marina and other features that support the lifestyle of the community. The communities consist of one or more subdivisions with features comparable to any typical residential subdivision, including central entrances, paved streets, signage, and in some instances sidewalks. We collect various amounts from the homeowners in our communities related to the lease of the home site, use of common facilities and areas, maintenance of lawns and common areas, collection of trash, providing water and wastewater services, payment of ad valorem taxes, operation of security services and maintenance of common infrastructure. The extent of the services provided varies by community.

As of December 31, 2002, we held interests as owner or ground lessee in 29 residential land lease communities including one recreational vehicle park with an approximate total of 6,090 operational home sites, 1,123 developed home sites, 1,543 undeveloped home sites and 129 recreational vehicle sites. An

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operational home site is defined as a home site that is or has been occupied by a home owned by a resident. A developed home site is defined as a home site for which infrastructure is complete, but either a home has not yet been constructed or the home constructed has not been occupied by a resident. An undeveloped home site is defined as a planned home site for which infrastructure is not complete. A recreational vehicle site is defined as a site that is equipped to allow a recreational vehicle to connect to water and electricity.

In support of the development, redevelopment, and expansion of our residential land lease communities, we are engaged, through a taxable subsidiary corporation, in the sale of homes to future residents. The home sales business is operated like other homebuilders with model home centers, an inventory of completed homes and the ability to supply custom designed homes based upon the requirements of the new homeowner.

In May 1997, ANL contributed its net assets to Asset Investors Operating Partnership, L.P. (the Operating Partnership) in exchange for the sole general partner interest in the Operating Partnership and substantially all of the Operating Partnership's initial capital. Interests in the Operating Partnership held by limited partners other than ANL are referred to as OP Units. The holders of the OP Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends, if any, paid to holders of common stock. After holding the OP Units for one year, the limited partners generally have the right to redeem their OP Units for cash. Notwithstanding that right, the Operating Partnership may elect to acquire some or all of the OP Units tendered for redemption in exchange for shares of common stock in lieu of cash. At December 31, 2002, the Operating Partnership had 7,868,000 OP units outstanding and we owned 6,939,000 OP Units comprising 88% of the Operating Partnership.

Our principal executive offices are located at 29399 US Hwy 19 North, Suite 320, Clearwater, Florida 33761 and our telephone number is (727) 726-8868. Our common stock, par value \$.01 per share (common stock), is listed on the New York Stock Exchange under the symbol ANL. Our annual report on Form 10-K (the Annual Report), quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available as soon as reasonably practicable after we electronically file such material and free of charge through our Internet website at www.americanlandlease.com. The information contained on our website is not incorporated into this Annual Report.

Recent Developments

Continuing Conversion of Undeveloped Home Sites and Developed Home Site Inventory to Leased Sites

We own an inventory of developed vacant sites within our portfolio of residential land lease communities. In addition, we own undeveloped land that is contiguous to existing occupied communities. Our development activities convert the undeveloped land into developed home sites. Our home sales business facilitates the conversion of these developed home sites into leased sites with long-term cash flows. In 2002, we entered into 307 new land leases related to the purchase of new homes, a 29.5% increase in this activity compared to the prior year. These new leases, when adjusted for 56 leases terminated through removal of a home from the community or our repossession of a home through eviction proceedings, offset by the sale of 24 homes previously repossessed, resulted in a net increase of 275 new leased sites for 2002. In addition, we completed development activities on two new subdivisions increasing our inventory of developed and operational sites by 363 home sites to a total of 7,213 and reducing our inventory of undeveloped sites to a total of 1,543.

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Debt Financings

During the year ended December 31, 2002, we issued \$8.1 million of three and five year term, non-recourse mortgage notes payable with a weighted average interest rate of 6.50%. These notes provide for additional amounts totaling \$9.2 million to be advanced upon attaining increased occupancy at the mortgaged property. The initial proceeds of \$8.1 million were used to repay existing debt and to continue development of our residential land lease communities.

Property Dispositions

In 2002, we sold a 62 home/recreational vehicle site community in Mesa, Arizona to a third party for an aggregate sales price of approximately \$1.0 million. The net proceeds of \$0.9 million were used to repay a portion of our outstanding short-term indebtedness and for other corporate purposes. We recognized a loss under generally accepted accounting principles of approximately \$0.1 million, net of minority interest in the Operating Partnership.

Dividend Reinvestment and Stock Purchase Plan

In 2002, we initiated a Dividend Reinvestment and Stock Purchase Plan (the Plan) which allows shareholders to acquire additional shares of common stock by reinvesting some or all of the cash dividends paid on our outstanding common stock. In addition, the Plan permits monthly optional cash investments that are subject to a minimum purchase amount of \$250 and a maximum quarterly purchase limit of \$5,000 per shareholder, without approval from the Board of Directors. Optional cash investments in excess of \$5,000 per shareholder are subject to approval by the Board of Directors. Shares may be acquired pursuant to the Plan directly from us at a price equal to the average of the daily high and low sales prices of our common stock as reported on the New York Stock Exchange during the ten trading days prior to the date of the investment, less a possible discount determined by us of up to 5%, generally without payment of any brokerage commission or service charge by the investor. During 2002, approximately 25,000 shares of common stock were issued pursuant to the Plan.

Pending Acquisitions and Dispositions

In the ordinary course of business, we engage in discussions and negotiations regarding the acquisition of residential land lease properties, including interests in entities that own residential land lease properties. We frequently enter into contracts and non-binding letters of intent with respect to the purchase of properties. These contracts are typically subject to certain conditions and permit us to terminate the contract in our sole and absolute discretion if we are not satisfied with the results of our due diligence investigation of the properties. We believe that such contracts essentially result in the creation of an option to acquire the subject properties and give us greater flexibility in seeking to acquire properties.

We are currently offering for sale certain real estate properties that are inconsistent with our long-term investment strategies (as determined by management from time to time).

Industry Background

A residential land lease community is a residential subdivision designed and improved with sites for the placement of homes and related improvements and amenities. At this time, the homes constructed in residential land lease communities are primarily manufactured homes. Manufactured homes are detached, single-family homes which are produced off-site by manufacturers and installed on sites within the community. Manufactured homes are available in a variety of designs and floor plans, offering many amenities and custom options.

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Modern residential land lease communities are similar to typical residential subdivisions containing central entrances, paved streets, curbs and gutters, and parkways. The communities frequently provide a clubhouse for social activities and recreation and other amenities, which may include golf courses, swimming pools, shuffleboard courts and laundry facilities. Utilities are provided, or arranged for, by the owner of the community. Community lifestyles, promoted by community managers, include a wide variety of social activities that promote a sense of neighborhood. The communities provide an attractive and affordable housing alternative for retirees, empty nesters and start-up or single parent families.

Residential land lease communities are primarily characterized as all age communities and adult communities. In adult communities, in a minimum of 80% of the homes, one of the tenants must be at least 55 years old, and in all age communities there are no age restriction on tenants.

The owner of a home in our communities leases from us the site on which the home is located and acquires the right to utilize the community common areas and amenities. Typically, the leases are on a month-to-month or year-to-year basis, renewable upon the consent of both parties or, in some instances, as provided by statute for a term of four years. In some circumstances, we offer a 99-year non-transferable lease to tenants in order to enable the tenant to have some of the benefits of an owner of real property, including creditor protection laws in some states. These leases can be cancelled, depending on state law, for non-payment of rent, violation of community rules and regulations or other specified defaults. Generally, rental rate increases are made on an annual basis. The size of these rental rate increases depends upon the policies that are in place at each community. We may, as an inducement to new homebuyers, make rent concessions. Rental increases may be based on fixed dollar amounts, percentage amounts, inflation indices, or they may depend entirely on local market conditions. We own interests in the underlying land, utility connections, streets, lighting, driveways, common area amenities and other capital improvements and are responsible for enforcement of community guidelines and maintenance. Each homeowner within the residential land lease communities is responsible for the maintenance of his or her home and leased site, including lawn care in some communities.

Residential land lease communities, once fully occupied, tend to be a stable, predictable asset class. The investment by the individual in the ownership of a home on our land, combined with the cost and effort involved in relocating a home to another community, promotes a high level of home maintenance and encourages the owner of the home to resell it within the community. Additionally, the many individual homeowners within a community provide a further diversification of risk.

Financial Information about Industry Segments

We operate in one industry segment, the ownership and management of residential land lease communities. See the consolidated financial statements including their notes in Item 8 of this report on Form 10-K.

Growth and Operating Strategies

Our primary objective is to maximize total risk-adjusted stockholder returns over the long term by increasing the amount and predictability of Funds From Operations (FFO) per share, less an allowance for capital replacement spending, by implementing operating and financing strategies which include the following:

- improving net operating income from our existing portfolio of residential land lease communities;

- leasing unoccupied sites in our development portfolio, through the sale of homes by our home sales division;

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- acquiring additional communities at values that are accretive on a per share basis;
- acquiring additional development property that is suitable for development as a residential land lease community; and
- acquiring additional existing communities that meet our criteria.

Company Policies

Management has adopted specific policies to accomplish our objective of increasing the amount and predictability of our FFO on a per share basis, less a reserve for capital replacements. These policies include:

- acquiring residential land lease communities that have potential long-term appreciation of value through, among other things, rent increases, expense efficiencies and in-community home site development;
- improving the profitability of our communities through management of occupancy, rent collection, community development and operating expense controls;
- providing capital replacement expenditures in support of the continued maintenance of our communities (2002 expenditures approximated \$118 per developed home site);
- developing and maintaining resident satisfaction and a reputation for quality communities through maintenance of the physical condition of our communities and providing activities that improve the community lifestyle;
- selling homes to be situated on presently unoccupied sites at our development communities;
- using our home sales division to increase occupancy rates in our communities;
- using our home sales division to upgrade the quality of homes placed on home sites within the community;
- developing additional home sites on land we own that is contiguous to existing communities;
- seeking to reduce our exposure to downturns in regional real estate markets by diversifying the location of our portfolio of communities (at year end, based on total home sites, 75% of our properties are in Florida and 23% are in Arizona);
- using primarily long-term, non-recourse debt leverage to increase our financial returns;
- managing our exposure to interest rate fluctuations by utilizing primarily long-term, fixed-rate, fully-amortizing debt; and
- recruiting and retaining capable management and professional staff at the community management level.

Future Acquisitions

Our acquisition of interests in residential land lease communities can take many forms. In many cases, we acquire fee title to the community. Alternatively, we may enter into joint venture agreements on a community-by-community basis as opportunities arise. For communities with a significant quantity of unleased home sites, we seek a stable return from the community during the development and lease-up phase while also seeking to participate in future increased earnings after development is completed and the sites are leased. We may undertake these activities itself or seek to accomplish this goal by making participating loans to others in return for participating mortgages that are non-recourse to the borrowers and secured by the property. In general, these participating mortgages earn interest at fixed rates and, in addition, participate in profits or revenues from the community.

We believe that acquisition opportunities for residential land lease communities are attractive at this time because of:

- the increasing quality of and demand for manufactured homes, as shown by the number of individuals living in manufactured homes;

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the increasing price paid for, and investment by the owner in, manufactured homes; and

the continued constraints on development of new residential land lease communities.

We believe that our focus on the age-restricted portion of the residential land lease community business is attractive at this time because the number of households with persons 55 to 64 years old is projected to increase by over 47% by the year 2010, according to the U.S. Census Bureau.

We are actively seeking to acquire additional communities and we are currently engaged in various stages of negotiations relating to the possible acquisition of a number of communities. The acquisition of interests in additional communities could result in our becoming increasingly leveraged as we incur debt in connection with these transactions.

When evaluating and structuring potential acquisitions, we consider such factors as:

the location and type of property;

the value of the homes located on the leased land;

the improvements, such as golf courses and swimming pools, at the property;

the current and projected cash flow of the property and our ability to increase cash flow;

the potential for capital appreciation of the property;

the terms of tenant leases, including the potential for rent increases;

the tax and regulatory environment of the community in which the property is located;

the potential for expansion of the physical layout of the property and the number of sites;

the occupancy and demand by residents for properties of a similar type in the vicinity;

the credit of the residents in a community;

the prospects for liquidity through sale, financing or refinancing of the property;

the competition from existing residential land lease communities;

the potential for the construction of new communities in the area; and

the replacement cost of the property.

Expansion of Existing Communities

We expect to increase the number of leased home sites and the amount of earnings generated from our existing portfolio of residential land lease communities through marketing campaigns aimed at increasing new home sales that result in the origination of new leases and increased occupancy. We also expect to seek expansion through future acquisitions and expansion of the number of sites available to be leased to residents, if justified by local market conditions and permitted by zoning and other applicable laws. As of December 31, 2002, we held interests in 29 communities with approximately 6,090 operational home sites, 1,123 developed home sites 1,543 undeveloped home sites and 129 recreational vehicle sites.

Competition

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There are numerous housing alternatives that compete with our residential land lease communities in attracting residents. Our properties compete for residents with other residential land lease communities, multifamily rental apartments, single-family homes and condominiums. The number of competitors and relative price of competing alternatives in a particular area has a material effect on our ability to attract and maintain residents and on the rents we are able to charge for home sites. The relative price of competing product is measured based upon the total cost of occupancy to the resident. Historically, mortgage finance rates for manufactured homes have been substantially higher for borrowers of equivalent credit when compared to mortgage finance rates available for single family site built housing on owned land.

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In acquiring assets, we compete with other REITS, pension funds, insurance companies, and other investors, many of which have greater financial resources than we do and the ability to procure more attractively priced capital.

Taxation of the Company

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, commencing with our taxable year ended December 31, 1986, and we intend to continue to operate in such a manner. Our current and continuing qualification as a REIT depends on our ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership. In addition, our ability to qualify as a REIT depends in part upon the actions of third parties over which we have no control or limited influence.

If we qualify for taxation as a REIT, we will generally not be subject to U.S. federal corporate income tax on our net income that is currently distributed to stockholders. This treatment substantially eliminates the double taxation (at the corporate and stockholder levels) that generally results from investment in a corporation under current law. If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to U.S. federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if we qualify as a REIT, we may be subject to certain state and local income taxes and to U.S. federal income and excise taxes and penalties, including taxes on our undistributed income.

If in any taxable year we fail to qualify as a REIT and incur additional tax liability, we may need to borrow funds or liquidate certain investments in order to pay the applicable tax and we would not be compelled to make distributions under the Internal Revenue Code. Unless entitled to relief under certain statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause us to fail to qualify as a REIT or may cause our Board of Directors to revoke the REIT election.

At December 31, 2002, our net operating loss (NOL) carryover was approximately \$64,000,000 for the parent REIT entity and \$2,592,000 for our taxable subsidiaries that are consolidated for financial reporting, but not for federal income tax, purposes. Subject to certain limitations, the REIT's NOL carryover may be used to offset all or a portion of our REIT taxable income and to reduce the amount that we are required to distribute to stockholders to maintain our status as a REIT. It does not, however, affect the tax treatment to shareholders of any distributions that we make. The REIT's and the consolidated taxable REIT subsidiaries' NOL carryovers are scheduled to expire between 2007 and 2009, and 2020 and 2022, respectively.

We and our stockholders may be subject to state or local taxation in various state or local jurisdictions, including those in which they or we transact business or reside. The state and local tax treatment that we and our stockholders receive may not conform to the United States federal income tax treatment.

Regulation

General

Residential land lease communities, like other housing alternatives, are subject to various laws, ordinances and regulations, including regulations relating to recreational facilities such as swimming pools, clubhouses and other common areas. We believe that we have obtained the necessary permits and approvals to operate each of our properties in conformity with these laws. Changes in laws increasing

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the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which would adversely affect our cash flows from operating activities. In addition, future enactment of rent control or rent stabilization laws or other laws regulating housing may reduce rental revenue or increase operating costs in particular markets.

Americans with Disabilities Act

Our current properties and any newly acquired communities must comply with the Americans with Disabilities Act (the ADA). The ADA generally requires that public facilities, such as clubhouses, swimming pools and recreation areas be made accessible to people with disabilities. Many of our communities have public facilities. In order to comply with the ADA requirements, we have made improvements at our communities in order to remove barriers to access. If we should ever fail to comply with ADA regulations, we could be fined or we could be forced to pay damages to private litigants. We have made those changes which we believe are appropriate and required by the ADA and we believe that our properties are in compliance with the requirements of the ADA. In the event that we incur any further costs related to ADA compliance we believe these costs can be recovered from cash flow from the individual properties without causing any material adverse effect. If ongoing changes involve a greater expenditure than we currently anticipate, or if the changes must be made on a more accelerated basis than we anticipate, our ability to make distributions could be adversely affected.

Rent Control Legislation

State and local laws might limit our ability to increase rents on some of our properties, and thereby, limit our ability to recover increases in operating expenses and the costs of capital improvements. Enactment of rent control laws has been considered from time to time in jurisdictions in which we operate and are currently in effect at one property, located in New Jersey, which we own. We presently expect to maintain residential land lease communities and may purchase additional properties in markets that are either subject to rent control laws or in which such legislation may be enacted.

Environmental

Various federal, state and local laws subject property owners or operators to liability for the costs of removal or remediation of certain hazardous substances present on a property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of the hazardous substances. The presence of, or the failure to remediate properly, hazardous substances may adversely affect occupancy at affected communities and our ability to sell or finance affected properties. In addition to the costs associated with investigation and remediation actions brought by governmental agencies, the presence of hazardous wastes on a property could result in claims by private plaintiffs for personal injury, disease, disability or other infirmities. Various laws also impose liability for the cost of removal or remediation of hazardous substances at the disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous or toxic substances is potentially liable under such laws. These laws often impose liability whether or not the person arranging for the disposal ever owned or operated the disposal facility. In connection with the ownership, operation and management of our properties, we could potentially be liable for environmental liabilities or costs associated with our properties or properties we acquire or manage in the future.

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Insurance

We believe that our properties are covered by adequate fire, flood, property, and business interruption insurance policies. It is our policy to purchase insurance policies that contain commercially reasonable deductibles and limits from reputable insurers. In the event of changes in the insurance markets, we may be unable to purchase policies with deductibles and limits equal to the coverage currently in place or the costs to procure such coverage may increase at a rate in excess of our ability to recover these costs through increased rental rates. We also believe that we have obtained adequate title insurance policies insuring fee title to properties we have acquired. In the event that a community is subject to a casualty that results in our tenants' homes being destroyed, insurance proceeds may not be sufficient to replace the rental income lost from the termination of the tenants' leases until such time as we are able to originate new ground leases through our home sales operation. Because we have a diversified portfolio of residential land lease communities, we believe our properties present a target of lower interest relative to alternative targets for acts of terrorism. Because we may not be able to obtain coverage for terrorist acts at rates that correspond to the perceived level of risk, we may elect not to purchase insurance for such losses caused by acts of terrorism.

Capital Resources

We have used our available cash balances, our cash flow and our long-term and short-term financing arrangements to provide working capital to support our operations, to fund development in our existing communities, to pay dividends and to acquire assets. Future acquisitions and continued development of our communities will be financed by the most appropriate sources of capital, which may include our available cash balances; undistributed FFO; long-term secured debt; short-term secured debt; the issuance of additional equity securities, including interests in the Operating Partnership; or additional sources as determined by management. This flexibility allows us to offer multiple choices of acquisition currency to potential sellers of residential land lease communities, which may provide the ability to defer some or all of the tax consequences of a sale. We believe that this flexibility may offer sellers an incentive to enter into transactions with us on favorable terms.

Without further stockholder approval, we are authorized to issue up to 12,000,000 shares of common stock and 1,000,000 shares of preferred stock. As of February 14, 2003, approximately 6,939,000 shares of common stock were outstanding. The Board of Directors is authorized to issue additional classes of stock (including preferred stock) and OP Units (and other units in the Operating Partnership) without stockholder approval. Depending upon the terms set by the Board of Directors, the authorization and issuance of preferred stock or other new classes of stock could adversely affect existing stockholders. Future offerings of stock may result in the reduction of the net tangible book value per outstanding share and a reduction in the market price of the stock. We are unable to estimate the amount, timing or nature of such future offerings as any such offerings will depend on general market conditions or other factors. As of February 14, 2003, we have not authorized or issued additional classes of stock.

Restrictions on and Ownership of Common Stock

To qualify to be taxed as a REIT, we must comply with certain ownership limitations with respect to shares of our common stock. Our Certificate of Incorporation provides that no person is permitted to acquire or own, directly or indirectly, more than 5% of the aggregate value of the outstanding shares of any class of our stock unless our board of directors waives this restriction. If any unpermitted transfer of shares of our stock would result in a person owning greater than 5% of the aggregate value of the outstanding shares of any class of our stock, all shares that are in excess of the 5% limit will be transferred in trust for the benefit of a charitable beneficiary. Within 90 days of receiving notice from us

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that shares of stock have been transferred to the trust, the trustee of the trust shall sell the shares held in trust and distribute the proceeds from the sale of the shares in the following manner:

the prohibited owner whose shares were transferred to the trust will receive the lesser of the amount that the prohibited owner paid for the shares or the amount the trustee receives for the shares; and

any amounts remaining from the sale will be transferred to a charitable beneficiary.

At the end of each year, every owner of more than a prescribed percentage (5% where there are more than 2,000 record shareholders, and 1% where there are more than 200 but less than 2,000 record shareholders) of the outstanding shares of our stock will be required to provide us with written notice stating the name and address of the owner, the number of shares held and a description of the manner of ownership.

Effective July 25, 2002, our Board of Directors authorized a waiver for Third Avenue Real Estate Value Fund (the Third Avenue Fund) exempting the Third Avenue Fund, subject to the terms and conditions of the waiver, from the generally applicable ownership limit and subjecting the Third Avenue Fund to limits of 8.0 percent through the period ending August 12, 2003, and thereafter of 9.8 percent.

Effective August 11, 2000, our Board of Directors authorized waivers for certain other stockholders, including the Operating Partnership (which acquired stock of the Company in connection with its merger with Commercial Assets) and Mr. Terry Considine, from the 5% ownership limitations that generally apply. In the case of Mr. Considine, a special limitation restricts his maximum ownership to the lesser of (i) 29%, or (ii) 34% minus the sum of waivers given to other holders of our outstanding common stock except for the Operating Partnership.

Employees

As of December 31, 2002, we employed 180 persons that devoted their full-time attention to our communities and certain part-time employees as seasonal or other circumstances dictate. During 2002, certain administrative functions were performed on a shared basis with Brandywine Financial Services Corporation. We reimbursed Brandywine for the costs of these employees and certain overhead costs. During 2002, we paid \$90,000 to Brandywine as reimbursement for administrative functions and certain overhead costs. Pursuant to the consolidation of our offices from Chadds Ford, Pennsylvania and Denver, Colorado to Clearwater, Florida, we now perform these functions out of our Clearwater office. Effective March 31, 2002, we terminated our relationship with Brandywine Financial Services. Our employees are not represented by a union and we have never experienced a work stoppage. We believe that we maintain satisfactory relations with our employees.

Item 2. Properties.

The residential land lease communities in which we have interests are primarily located in Florida and Arizona and are concentrated in or around four metropolitan areas: Tampa, Fort Myers and Orlando, Florida and Phoenix, Arizona. We hold interests in each of these communities in different forms, generally as owner or in one instance, as ground lessee. The following table sets forth the states in which the communities we held an interest on December 31, 2002 are located:

	Number of Communities	Number of Sites			
		Operational Home Sites	Developed Home Sites	Undeveloped Home Sites	Recreational Vehicle Sites
Florida	17	4,346	935	1,408	
Arizona	10	1,626	188	135	129
New Jersey	1	90			
Pennsylvania	1	28			
Total	29	6,090	1,123	1,543	129

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The following table sets forth information as of December 31, 2002 regarding each residential land lease community in which we held an interest.

Community	Location	Operational Home Sites ¹	Occupancy
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