

AFFORDABLE RESIDENTIAL COMMUNITIES INC

Form S-11

October 26, 2005

As filed with the Securities and Exchange Commission on October 26, 2005

Registration No. 333-

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM S-11/S-3

FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933  
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

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## AFFORDABLE RESIDENTIAL COMMUNITIES LP

(Exact Name of Registrant Issuer as Specified in Its Governing Instruments)

## AFFORDABLE RESIDENTIAL COMMUNITIES INC.

(Exact Name of Registrant Issuer as Specified in Its Governing Instruments)

**600 Grant Street, Suite 900  
Denver, CO 80203  
(303) 291-0222**

(Address, Including Zip Code, and Telephone Number Including Area Code, of Registrants' Principal Executive Offices)

**Scott L. Gesell  
600 Grant Street, Suite 900  
Denver, CO 80203  
(303) 291-0222**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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*Copies to:*

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Denver, Colorado 80202-4437  
(303) 223-1100**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.  x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  o

Total other expenses

118,284

124,297

190,950

127,620

Interest income

(1,523

)(5)

(1,439

)

(1,616

)

(1,439

)

Loss from continuing operations

(37,733

)

(38,756

)

(84,913

)

(43,267

)

Income from discontinued operations

1,915

31

Gain (loss) on sale of discontinued operations

(8,549

)

3,333

Net loss

(37,733

)

(38,756

)

(91,547

)

(39,903

)

Preferred unit distributions

(9,752

)

Net loss attributable to common unitholders

\$

(37,733

)

\$

(38,756

)

\$

(101,299

)

\$

(39,903

)

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(1) Same communities information excludes results of communities acquired in the Hometown, D.A.M. and other acquisitions after January 1, 2003 and the communities sold or held for sale before December 31, 2004.

(2) Excludes segment results as a result of the restructuring in September 2003 in which we closed all stand-alone retail stores existing on January 1, 2003 at which time we had no significant in-community sales operations.

(3) Excludes \$10.1 million of compensation expense related to stock issued in connection with ARC's IPO.

(4) Excludes property management expenses incurred in connection with the Hometown acquisition.

(5) Excludes interest earned on additional cash received in connection with ARC's IPO, the financing transaction and the Hometown acquisition.

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*Comparison of Year Ended December 31, 2003 to Year Ended December 31, 2002*

*Overview.* Our results for the year ended December 31, 2003, as compared to the year ended December 31, 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 year ended December 31, 2003 and for approximately eight months for the year ended December 31, 2002. In addition to the effects of the reorganization, our results for the year ended December 31, 2003 also reflect the effects on our operations of the 22 community acquisitions we completed between January 1, 2002 and December 31, 2003 and exclude the 30 communities that we discontinued in the third and fourth quarters of 2004.

*Revenue.* Revenue for the year ended December 31, 2003 was \$163.2 million, as compared to \$136.5 million for the year ended December 31, 2002, an increase of \$26.7, or 20%. This increase was due to an increase of \$33.3 million in rental income and a decrease of \$6.6 million in other revenue consisting of sales of manufactured homes and utility and other income.

Rental income increased by \$33.3 million, consisting of \$20.8 from the communities acquired in the reorganization, \$8.0 million from other community acquisitions and \$4.5 million from same communities. The increase in same communities revenues consists of \$4.2 million from increased rental rates, \$3.1 million from home renter rental income partially offset by \$2.8 million from lower occupancy.

The decrease in other income of \$6.6 million is due to a \$10.3 million decrease in sales of manufactured homes partially offset by a \$3.7 million increase in utility and other income.

*Property Operations Expense.* For the year ended December 31, 2003, total property operations expense was \$44.3 million, as compared to \$33.3 million for the year ended December 31, 2002, an increase of \$11.0 million, or 33%. The increase was due to increases in expenses of \$7.8 million from communities we acquired in the reorganization, \$3.1 million from other community acquisitions and \$1.0 million from same communities. The increase on a same community basis was due primarily to higher salaries and benefits of \$513,000, due to increased staffing and, to a lesser extent, increases in wages and employee benefits and higher bad debt expense of \$478,000, 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.

*Real Estate Taxes Expense.* Real estate taxes expense for the year ended December 31, 2003 was \$10.2 million, as compared to \$6.6 million for the year ended December 31, 2002, an increase of \$3.6 million, or 55%. The increase was due primarily to communities we acquired in the reorganization, other community acquisitions and an increase in the number of rental homes we own.

*Cost of Manufactured Homes Sold.* The cost of manufactured homes sold was \$18.4 million for the year ended December 31, 2003, as compared to \$25.8 million for the year ended December 31, 2002, a decrease of \$7.4 million, or 29%. The decrease was due primarily to a 121 unit decrease in sales of manufactured homes from 629 units sold for the year ended December 31, 2002 to 508 units sold for the year ended December 31, 2003, partially offset by the inclusion of the results of the retail home sales business we acquired in the reorganization for the entire year in 2003. The gross margin for manufactured homes sold was 15% for the year ended December 31, 2003 and 19% for the year ended December 31, 2002.

*Retail Home Sales, Finance, Insurance and Other Operations Expense.* For the year ended December 31, 2003, total retail home sales, finance, insurance and other operations expense was \$7.4 million, as compared to \$8.6 million for the year ended December 31, 2002, a decrease of \$1.2 million, or 14%. This decrease is due to lower sales of manufactured homes and a lower cost structure as a result of eliminating the costs of maintaining stand-alone retail stores, partially offset by increases in expenses



resulting from the inclusion of results of the retail home sales business we acquired in the reorganization for the entire period in 2003 as compared to eight months for 2002.

*Property Management Expense.* Property management expense for the year ended December 31, 2003 was \$5.5 million, as compared to \$4.1 million for the year ended December 31, 2002, an increase of \$1.4 million, or 34%. The increase was due primarily to inclusion of the results of the communities we acquired in the reorganization for an entire year in 2003.

*General and Administrative Expense.* General and administrative expense for the year ended December 31, 2003 was \$16.9 million, as compared to \$13.1 million for the year ended December 31, 2002, an increase of \$3.8 million, or 29%. The increase was due primarily to the reorganization, a \$900,000 one time charge for vacating unused office space, a non-recurring credit of \$291,000 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 10% for the year ended December 31, 2003, as compared to 9.6% for the year ended December 31, 2002.

*Depreciation and Amortization Expense.* Depreciation and amortization expense for the year ended December 31, 2003 was \$46.5 million, as compared to \$37.1 million for the year ended December 31, 2002, an increase of \$9.4 million, or 25%. 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 years to 30 years made in connection with the reorganization.

*Retail Home Sales and Insurance Asset and Goodwill 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 operates in conjunction with our consumer finance business through which we provide credit to qualified buyers of homes in our communities.

During the year ended December 31, 2003, we substantially completed the redirection of our retail home sales efforts by selling 11 of our retail dealerships, ceasing operations in the remaining five retail dealerships and beginning in-community retail home sales activities in nearby communities owned by us. With respect to five retail dealerships we closed, we relocated the inventory to nearby manufactured home communities we own.

In connection with these activities, we recorded a charge of \$1.4 million, net of sales proceeds of \$1.3 million, to write off fixed assets and to record the cost of remaining lease obligations at the retail dealerships we closed in 2003.

At December 31, 2002, we recorded an impairment of goodwill in the retail home sales, finance and insurance operations of \$13.6 million. 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 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. We had no impairment of goodwill for the year ended December 31, 2003.

*Interest Expense.* Interest expense for the year ended December 31, 2003 was \$57.4 million, as compared to \$43.8 million for the year ended December 31, 2002, an increase of \$13.6 million, or 31%. The increase was due primarily to: additional indebtedness acquired in the reorganization of





\$380.8 million, additional borrowings of \$27.0 million under the rental home credit facility, \$20.0 million under the preferred interest, \$18.8 million under the BFND credit facility, and \$4.3 million 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.

*Interest Income.* Interesto

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

**CALCULATION OF REGISTRATION FEE**

| <i>Discontinued Operations.</i>  | <b>Amount To Be Registered</b> | <b>Proposed Maximum Offering Price Per Unit</b> | <b>Proposed Maximum Aggregate Offering Price</b> |
|--|--------------------------------|---|--|
| In the third quarter of 2004, we entered into a real estate auction agreement to sell a total of 12 communities and two parcels of land. In addition, we separately entered into a sales agreement to sell our Sea Pines, Camden Point and Butler Creek communities. In the fourth quarter of 2004 we entered into agreements to sell an additional 15 communities. During the year ended December 31, 2003, we sold |                                |   |  |

the Sunrise  
Mesa  
community.

During the year  
ended  
December 31,  
2003, we have  
reflected \$31,000  
of income from  
the operation of  
these assets and  
\$3.3 million gain  
on the sale of the  
Sunrise Mesa  
community sale  
as discontinued  
operations.

During the year  
ended  
December 31,  
2002, we have  
reflected  
\$1.0 million of  
income from the  
operation of these  
assets as  
discontinued  
operations.

*Net Loss  
Attributable to  
Common  
Partnership  
Unitholders.* As  
a result of the  
foregoing, our  
net loss  
attributable to  
common  
partnership  
unitholders  
was  
\$39.9 million  
for the year  
ended  
December 31,  
2003, as  
compared to  
\$47.1 million  
for the year  
ended  
December 31,  
2002, a  
decrease of  
\$7.2 million,

or 15%. The decrease was due to increases of \$33.3 million in rental income, \$3.7 million in utility and other income, and \$2.3 million in income and gain on sale of discontinued operations and decreases of \$7.4 million in cost of manufactured homes sold, \$1.2 million in retail home sales, finance, insurance and other operations expense and retail home sales and insurance asset and goodwill impairment of \$12.1 million offset by decreases of \$10.3 million in manufactured home sales, and increases of \$11.1 million in property operations expense, \$3.6 million in real estate taxes, \$1.4 million in property

management  
expenses,  
\$3.7 million in  
general and  
adn:center;">

geable

\$96,600,000(1) 78

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The following tables present certain information relative to our real estate segment as of and for the year ended December 31, 2003 and 2002 on a historical and Same Communities basis. Same Communities reflects information for all communities owned by us at both January 1, 2002 and December 31, 2003. Same Communities does not include the twenty-two communities we acquired subsequent to January 1, 2003 or the community sold during 2003 (in thousands, except home, occupancy, community, and per unit information).

|  | Same Communities(4) |   |           | Real Estate Segment(4) |   |           |   |
|--|---------------------|---|-----------|------------------------|---|-----------|---|
|  | 2003                |   | 2002      | 2003                   |   | 2002      |   |
| <b>For the year ended December 31:</b>                                     |                     |   |           |                        |   |           |   |
| Average total homesites  | 15,717              |   | 15,824    | 37,316                 |   | 27,463    |   |
| Average total rental homes   | 1,812               |   | 1,333     | 5,183                  |   | 2,626     |   |
| Average occupied homesites homeowners                                      | 13,030              |   | 13,785    | 29,281                 |   | 24,895    |   |
| Average occupied homesites rental homes                                    | 1,376               |   | 908       | 3,695                  |   | 1,830     |   |
| Average total occupied homesites   | 14,406              |   | 14,693    | 32,976                 |   | 26,725    |   |
| Average occupancy rental homes   | 76.0                | % | 68.1      | % 71.3                 | % | 69.7      | % |
| Average occupancy total  | 91.7                | % | 92.9      | % 88.4                 | % | 97.3      | % |
| <b>For the year ended December 31:</b>                                     |                     |   |           |                        |   |           |   |
| Real estate revenue  |                     |   |           |                        |   |           |   |
| Homeowner rental income  | \$ 48,749           |   | \$ 47,479 | \$ 94,591              |   | \$ 72,476 |   |
| Home renter rental income  | 10,760              |   | 7,695     | 31,157                 |   | 19,865    |   |
| Other  | 104                 |   | (39)      | 167                    |   | (167)     |   |
| Rental income  | 59,613              |   | 55,135    | 125,915                |   | 92,174    |   |
| Utility and other income   | 6,088               |   | 5,095     | 13,487                 |   | 10,147    |   |
| Total real estate revenue  | 65,701              |   | 60,230    | 139,402                |   | 102,321   |   |
| Real estate expenses   |                     |   |           |                        |   |           |   |
| Property operations expenses   | 19,151              |   | 18,165    | 45,181                 |   | 33,320    |   |
| Real estate taxes  | 4,566               |   | 3,681     | 10,137                 |   | 6,671     |   |
| Total real estate expenses   | 23,717              |   | 21,846    | 55,318                 |   | 39,991    |   |
| Real estate net segment income   | \$ 41,984           |   | \$ 38,384 | \$ 84,084              |   | \$ 62,330 |   |
| Average monthly real estate revenue per total occupied homesite(1)         | \$ 380              |   | \$ 342    | \$ 352                 |   | \$ 319    |   |
| Average monthly homeowner rental income per homeowner occupied homesite(2) | \$ 312              |   | \$ 287    | \$ 269                 |   | \$ 243    |   |
|  | \$ 348              |   | \$ 317    | \$ 311                 |   | \$ 310    |   |



**SUBJECT TO COMPLETION, DATED OCTOBER 26, 2005**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**PROSPECTUS**

**\$96,600,000**

**36,805**

Occupied homesites

14,095

14,593

32,190

33,097

Total rental homes owned

2,012

1,636

5,558



4,423

Occupied rental homes

1,503

1,197

4,114

3,002

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

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- (2) Average monthly homeowner rental income per homeowner occupied homesite defined as homeowner rental income divided by average homeowner occupied homesites divided by the number of months in the period.
- (3) Average monthly real estate revenue per total homesite defined as total real estate revenue divide by average total homesites divided by the number of months in the period.
- (4) Real estate segment and homesite data excludes discontinued operations.

A reconciliation of our net segment income to net loss attributable to common unitholders is as follows:

|                     | Twelve Months Ended December 31,  |      |   |      |
|---------------------|---|------|---|------|
|                     | Same<br>Communities<br>2003   | 2002 | As Reported<br>2003   | 2002 |
| Net segment income: | <p style="text-align: center;"><b>AFFORDABLE<br/>RESIDENTIAL<br/>COMMUNITIES LP</b></p> <p style="text-align: center;"><b>AFFORDABLE<br/>RESIDENTIAL<br/>COMMUNITIES INC.</b></p> <p style="text-align: center;">7 1/2% Senior Exchangeable<br/>Notes due 2025</p> <p style="text-align: center;"><b>and</b></p> <p style="text-align: center;"><b>Shares of Common Stock<br/>Issuable Upon Exchange of<br/>the Notes</b></p> <p>Affordable Residential Communities LP, or the Partnership, issued \$96,600,000 aggregate principal amount of 7 1/2% Senior Exchangeable Notes due 2025, which are referred to in this prospectus as the notes, in private placements in August 2005. This prospectus will be used by selling securityholders to resell their notes and the common stock of the Partnership's general partner, Affordable Residential Communities Inc., or ARC, issuable upon exchange of their notes. We will not receive any proceeds from this offering.</p> <p>The notes bear interest at the rate of 7 1/2% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year, beginning February 15, 2006. The notes will mature on August 15, 2025. The notes are the Partnership's senior unsecured obligations and rank equal in right of payment with the</p> |      | <p> Holders may require the Partnership to repurchase for cash all or a portion of their notes on August 15, 2010, August 15, 2015 and August 15, 2020 at a purchase price equal to 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest, if any, to the repurchase date. In addition, if a fundamental change, as described in this prospectus, occurs at any time prior to maturity, holders of notes may require the Partnership to repurchase their notes in whole or in part for</p> |      |

Partnership's other senior unsecured indebtedness and effectively rank junior in right of payment to all of the Partnership's secured indebtedness, to the extent of the value of the assets securing such indebtedness, and to the indebtedness and all other liabilities of the Partnership's subsidiaries. As of June 30, 2005, the Partnership had outstanding \$25.8 million of senior unsecured indebtedness and \$1,063.2 million of secured indebtedness, and the Partnership's consolidated subsidiaries had outstanding an aggregate of \$59.1 million of other liabilities.

Subject to the restrictions on ownership of common stock of ARC, and the conditions described in this prospectus, holders may exchange at any time on or prior to maturity or redemption any outstanding notes (or portions thereof) into shares of ARC common stock, initially at an exchange rate of 69.8812 shares of ARC common stock per \$1,000 principal amount of notes (equivalent to an initial exchange price of \$14.31 per share of ARC common stock).

cash equal to 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest, if any, to the repurchase date.

Prior to August 20, 2010, the notes will not be redeemable at the Partnership's option. Beginning on August 20, 2010, the Partnership may redeem the notes in whole or in part at any time at a redemption price equal to 100% of the principal amount of the notes plus accrued and unpaid interest, if any, on the notes to the redemption date if the closing price of ARC common stock has exceeded 130% of the exchange price for at least 20 trading days in any consecutive 30-day trading period.

There is no public market for the notes and we do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes through any automated quotation system. The notes currently trade on the Private Offerings, Resales and Trading through Automated Linkages, or PORTAL, system of the National Association of Securities Dealers, Inc. ARC's common stock is listed on the New York Stock Exchange under the symbol ARC. On October 21, 2005, the last quoted sale price of ARC's common stock was \$9.81 per share.

Neither the Partnership nor ARC will receive any proceeds from the sale by the selling securityholders of the notes or the

common stock issuable upon exchange of the notes. The selling securityholders may offer the notes or the underlying common stock in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices. In addition, the common stock may be offered from time to time through ordinary brokerage transactions on the New York Stock Exchange. Certain selling securityholders may be deemed to be underwriters as defined in the Securities Act of 1933. If any broker-dealers are used by selling securityholders, any commissions paid to broker-dealers and, if broker-dealers purchase any notes or common stock as principals, any profits received by such broker-dealers

on the resale of the notes or common stock, may be deemed to be underwriting discounts or commissions under the Securities Act of 1933. In addition, any profits realized by the selling securityholders may be deemed to be underwriting commissions. Other than selling commissions and fees and stock transfer taxes, we will pay all expenses of registering the notes and common stock and certain other expenses.

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**Investing in the notes and the common stock issuable upon their exchange involves risks.**

**See Risk  
Factors  
beginning  
on  
page 16.**

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is [            ], 2005





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AFFORDABLE RESIDENTIAL COMMUNITIES

LP SECURITY OWNERSHIP OF CERTAIN

BENEFICIAL OWNERS AND MANAGEMENT

AFFORDABLE RESIDENTIAL COMMUNITIES

LP PARTNERSHIP AGREEMENT

121

DESCRIPTION OF THE NOTES

125

DESCRIPTION OF OTHER INDEBTEDNESS

142

(13,030 ) (4,658 ) (43,267 ) (48,109 )

Income from discontinued operations

DESCRIPTION

OF ARC

CAPITAL

STOCK

AND

PARTNERSHIP

UNITS

146

CERTAIN U.S. FEDERAL INCOME TAX

CONSIDERATIONS

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SELLING SECURITYHOLDERS

174

Gain on sale of discontinued operations

3,333

31

1,040

PLAN OF DISTRIBUTION

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## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that ARC has filed with the Securities and Exchange Commission, or the SEC, using a shelf registration process. Under this shelf registration process, the selling securityholders may, from time to time, offer for sale the notes owned by them or shares of ARC common stock issuable upon exchange of the notes. Each time the selling securityholders offer notes or shares for sale under this prospectus, they will provide a copy of this prospectus and, if applicable, a copy of a prospectus supplement to prospective purchasers. You should read both this prospectus and, if applicable, any supplement thereto.

You should rely only on the information contained in this prospectus and, if applicable, any supplement hereto. We have not and the selling securityholders have not, authorized anyone to provide you with different information. Neither the notes nor any shares of ARC common stock issuable upon exchange of the notes are being offered in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus speaks only as of the date of this prospectus, unless otherwise specified.

Financial information regarding both ARC and the Partnership is presented in this prospectus because the notes were issued by the Partnership and are exchangeable for shares of ARC common stock.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Forms S-11 and S-3 under the Securities Act of 1933 with respect to the notes and the ARC common stock issuable upon exchange of the notes. This prospectus does not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to:

Net loss attributable to common partnership unitholders

\$

(13,030

)

\$

(4,658

)

[www.sec.gov](http://www.sec.gov).

ARC is, and as a result of the offering of the notes, the Partnership will become, subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, or Exchange Act, and, in accordance with these requirements, ARC files and the Partnership will file reports and other information with the SEC. We are required to file electronic versions of these documents with the SEC. Our reports, proxy statements and other information can be inspected and copied at prescribed rates at the public reference facilities maintained by the SEC as described above and are available on the SEC's website.

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The SEC allows ARC to incorporate by reference certain of the information required by this prospectus, which means that ARC can disclose important information to you by referring you to those documents. The infoyle="font-size:10.0pt;">\$

(39,903

)

\$

(47,069

)

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(1) Same communities real estate net segment income excludes results of communities acquired after January 1, 2002 and community sold before December 31, 2003.

(2) Excludes segment results as a result of the restructuring in September 2003 in which we closed all stand-alone retail stores existing on January 1, 2003 at which time we had no significant in-community sales operations.

### **Liquidity and Capital Resources**

Our principal liquidity demands have historically been, and, to a greater or lesser degree depending on the nature of the expenditures, are expected to continue to be, recurring and non-recurring capital improvements of communities, debt repayment, the purchase of new and used homes for lease and sale, funding loans to home buyers, property acquisitions, and partnership interest distributions. We intend to meet these liquidity requirements through our working capital provided by operating activities, available financing under our floor plan line of credit for home purchases, our consumer finance facility to fund home loans, our lease receivables line of credit to be secured by homes in our rental portfolio, other available unsecured financing, and the potential net proceeds from the sale of communities. We consider these sources to be adequate to meet all operating requirements, including recurring capital improvements, debt service, other normally recurring expenditures of a capital nature and, if necessary and

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appropriate, payment of dividends to ARC's stockholders to maintain qualification as a REIT in accordance with the Internal Revenue Code.

Our operating cash flows have not been sufficient to cover the distributions to our partners that were made since ARC's IPO in February 2004. On May 23, 2005, we declared a reduced distribution to our partners for the second quarter of 2005. On September 21, 2005, ARC's board of directors announced that no distributions would be made on the Partnership's common partnership units for third quarter of 2005. ARC's board of directors reviews our practices with respect to the payment of distributions on a quarterly basis. Should our operating cash flows not improve, we may need to take additional action with respect to the payment of distributions, which may include the further reduction or elimination of our distributions to our partners.

Our plan is to increase occupancy through the following activities, as well as other initiatives that may be available to us. To accomplish our plans and objectives for the next 12 months, we may invest significant funds for the purchase of manufactured homes for sale, rent and lease with option to purchase. We expect to commit to these expenditures only as demand warrants and funds permit and we have entered into no significant forward purchase commitments with respect to such purchases. We also plan to make recurring capital expenditures, as necessary and appropriate, to keep our communities up to our standards and for general capital improvements.

We expect to fund our short-term liquidity needs through net cash provided by operations, borrowings under our \$50 million floorplan line of credit, borrowings under our lease receivables line of credit which was expanded from \$75 million to \$150 million in October 2005 and other sources of capital, including the net proceeds from the sale of up to 79 communities that we have identified as held for sale. We also have the ability to sell additional communities if conditions warrant.

In addition, in order to facilitate sales of new and existing homes, we also plan to finance a significant portion of our home sales during 2005. We have a \$125 million consumer finance facility to support our in-community home sales financing program under which we may finance up to 90% of the principal amount of qualifying loans made to qualifying home buyers.

We have extended the maturity date of our \$85 million revolving credit mortgage facility to September 2006, and expect to refinance or extend our senior variable rate mortgage when due in 2006. In addition to our existing sources of capital, we have 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 if we determine that such a structure would provide an efficient means of raising capital.

Notwithstanding the foregoing and based on our historical results, we do not believe that we will be able to fully fund our debt service obligations and recurring capital expenditures, as well as our operating plans and objectives described above, out of operating cash flows. Accordingly, our ability to implement our plans and occupancy objectives described above will depend upon our ability to obtain adequate funding from the financing sources described above or from other available funding sources. We cannot assure that we will be able to sell any or all of the 79 communities currently held for sale or additional communities, sell new or used homes, borrow under our consumer finance line of credit, refinance expiring credit lines or make other arrangements necessary to fund some or all of our activities to increase occupancy. Should we not be able to obtain sufficient funds for these purposes, we may determine that it is necessary to substantially defer or eliminate some or all of our plans and growth objectives that require these funds. Information incorporated by reference is considered to be a part of this prospectus, and information that ARC files later with the SEC will automatically update and supersede information contained in documents filed earlier with the SEC or contained in this prospectus. ARC incorporates by reference in this prospectus the documents listed below and any future filings made with the SEC under sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until all of the securities offered hereby are sold:

- Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004;
- Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2005;
- Current Reports on Form 8-K filed on January 12, March 18, March 23, April 5, April 12, May 9, May 23, June 10, July 19, July 29, August 1, August 9, August 22, August 23, September 13, September 27, October 19, and October 26, 2005; and
- Description of ARC's capital stock contained in its registration statement on Form 8-A filed on February 9, 2004.

Upon receipt of an oral or written request we will provide, free of charge, to any person to whom a prospectus is delivered, a copy of any or all of the information that has been incorporated by reference in the prospectus but not delivered with the prospectus, other than the exhibits to those documents. Please direct your written requests to: Investor Relations, Affordable Residential Communities Inc., 600 Grant Street, Suite 900, Denver, CO 80203. Please direct your oral requests to: Investor Relations at (866) 847-8931.

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In addition, for as long as any of the notes remain outstanding and during any period in which we are not subject to Section 13 or Section 15(d) of the Exchange Act, we will make available to any prospective purchaser or beneficial owner of the securities in connection with the sale thereof that information required by Rule 144A(d)(4) under the Securities Act.

**FOR NEW HAMPSHIRE RESIDENTS ONLY**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION OR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE UNIFORM SECURITIES ACT WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED TO SELL SECURITIES IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

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**MARKET AND INDUSTRY DATA**

Market data used or incorporated by reference in this prospectus is based on the good faith estimates of our management, which estimates are based upon their review of internal surveys, independent industry publications and other publicly available information. Although we believe these sources are reliable, we do not guarantee the accuracy or completeness of statements regarding the market and industry data presented or incorporated by reference in this prospectus. Our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading Risk Factors.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act, as amended by the Private Securities Litigation R including community and home purchases, consumer loans, and non-recurring capital expenditures.

## Cash Flows

### *Comparison of the Six Months Ended June 30, 2005 to the Six Months Ended June 30, 2004*

Cash provided by operations was \$1.0 million for the six months ended June 30, 2005, as compared with \$19.0 million for the same period in 2004. The decrease in cash provided by operations primarily was due to payments made in the first half of 2005 for substantial accruals incurred at the end of 2004 for capital expenditures and repairs and maintenance activities as compared to a relatively low level of such payments in the first half of 2004.

Cash used in investing activities was \$39.2 million in the six months ended June 30, 2005, compared with \$576.8 million for the same period in 2004. The decrease in cash used in investing activities primarily was due to the Hometown and D.A.M. portfolio acquisitions in the first half of 2004, as well as proceeds from community sales in the first half of 2005. Purchases and sales of homes are included in investing activities as these assets are considered by the company to be long-term revenue generating assets.

Cash provided by financing activities was \$18.0 million in the six months ended June 30, 2005, compared with \$579.0 million for the same period in 2004. The decrease in cash provided by financing activities primarily was due to the issuance of additional indebtedness and common and preferred unit issuances in connection with ARC's IPO in the first half of 2004, as well as increases in the repayment of existing indebtedness and distribution payments in the first half of 2005.

### *Comparison of the Year Ended December 31, 2004 to the Year Ended December 31, 2003*

Cash provided by operations was \$27.0 million and \$10.7 million for the years ended December 31, 2004 and 2003, respectively. The increase in cash provided by operations for 2004 as compared to 2003 was due primarily to increased homesites resulting from our Hometown and D.A.M. portfolio acquisitions.

Cash used in investing activities was \$607.6 million and \$47.7 million for the year ended December 31, 2004 and 2003, respectively. The increase in 2004 as compared to 2003 was due primarily to the Hometown and D.A.M. portfolio acquisitions and an increase in acquisitions of other communities and manufactured homes. Purchases and sales of homes are included in investing activities as these assets are considered by the company to be long-term revenue generating assets.

Cash provided by financing activities was \$593.8 million and \$25.4 million for the year ended December 31, 2004 and 2003, respectively. The increase in 2004 as compared to 2003 was primarily due to issuance of additional indebtedness and common and preferred partnership unit issuances in connection with ARC's IPO, partially offset by the repayment of existing indebtedness and the payment of both common and preferred unit distributions.

### *Comparison of the Year Ended December 31, 2003 to the Year Ended December 31, 2002*

Cash provided by operations was \$10.7 million and \$14.3 million for the year ended December 31, 2003 and 2002, respectively. The decrease for 2003 was due primarily to changes in operating form Act of 1995. All statements, other than statements of historical facts, included in this prospectus that address results or developments that we expect or anticipate will or may occur in the future, where statements are preceded by, followed by or include the words *believes*, *expects*, *may*, *will*, *would*, *could*, *should*, *seeks*, *approximately*, *intends*, *plans*, *anticipates* or the negative of these words and phrases or similar words on assets and liabilities partially offset by a reduction in manufactured home inventory held for sale.

Cash used in investing activities was \$47.7 million and \$137.5 million for the year ended December 31, 2003 and 2002, respectively. The decrease in 2003 compared to 2002 was due primarily to reduced levels of community acquisitions and rental home purchases. Purchases and sales of homes are included in investing activities as these assets are considered by the company to be long-term revenue generating assets.

Cash provided by financing activities was \$25.4 million and \$137.8 million for the year ended December 31, 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 partnership units, partially offset by funding of the rental home credit facility in 2003.

**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 and six months ended June 30, 2005 and 2004 or the years ended December 31, 2004 and 2003. 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.

**Commitments**

At June 30, 2005, adjusted for the effect of the offering of the notes, we had \$1,049.3 million of pro forma consolidated indebtedness outstanding with the following repayment obligations (in thousands):

| <b>Debt<br/>Repayment</b> | <b>Operating</b>  |
|---------------------------|---|
|                           | <p>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. These risks, along with the risks disclosed in the section of this prospectus entitled Risk Factors and the following factors, could cause actual results to vary from our forward-looking</p> |

statements:

- competition from other forms of single or multifamily housing;
- changes in market rental rates, supply and demand for affordable housing, the cost of acquiring, transporting, setting or selling manufactured homes;
- the availability of manufactured homes from manufacturers;
- the availability of cash or financing for us to acquire additional manufactured homes;
- 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, have funds available for acquisitions, the pace of acquisitions and/or dispositions of communities and new or 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 decision and ability to sell additional communities;
- ARC's ability to maintain its REIT status;
- our ability to pay dividends or make other distributions to ARC's stockholders and the Partnership's partnership unitholders;
- environmental uncertainties and risks related to natural disasters;
- changes in and compliance

with real estate permitting, licensing and zoning laws including legislation affecting monthly leases and rent control and increases in property taxes; and

- changes in and compliance with licensing requirements regarding the sale or leasing of manufactured homes.

Consequently, all of the forward-looking statements made in this prospectus are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized, or even substantially realized, and that they will have the expected consequences to or effects on us and our business or operations. Forward-looking statements made in this prospectus speak as of the date hereof or as of the date specifically referenced in any such statement set forth herein. We undertake no obligation to

update or revise  
any  
forward-looking  
statement in this  
prospectus.

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## SUMMARY

*Unless the context otherwise requires or indicates, references in this prospectus to we, our company, the company, our and us refer collectively to Affordable Residential Communities Inc., a Maryland corporation, which we refer to in this prospectus as ARC, and Affordable Residential Communities LP, a Delaware limited partnership, which we refer to in this prospectus as the Partnership, together with their subsidiaries. This summary is not complete and does not contain all of the information that you should consider before investing in the notes and the shares of ARC common stock issuable upon exchange of the notes. You should read the entire prospectus carefully, including Risk Factors and our historical financial statements and the notes to those financial statements, which are included or incorporated by reference in this prospectus, and the other financial information appearing elsewhere or incorporated by reference in this prospectus. Unless otherwise indicated, the information contained in this prospectus is as of June 30, 2005.*

### Affordable Residential Communities LP

#### Overview

The Partnership is a Delaware limited partnership whose sole general partner is ARC. As of June 30, 2005, ARC owned approximately 94.8% of the Partnership's outstanding partnership interests. ARC is a fully integrated, self-administered and self-managed Maryland corporation that elected to be taxed as a real estate investment trust, or REIT.

We acquire, renovate, reposition and operate primarily all-age manufactured home communities. We also lease with the option to purchase, 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 and prospective residents in our communities.

As of June 30, 2005, we owned and operated 315 manufactured home communities (excluding one community held for sale) in 27 states containing 62,942 homesites. These properties are located in 67 markets across the United States. Our five largest markets are Dallas/Fort Worth, Texas, with 11.5% of our total homesites; Atlanta, Georgia, with 7.9% of our total homesites; Salt Lake City, Utah, with 6.0% of our total homesites; the Front Range of Colorado, with 5.2% of our total homesites; and Kansas City/Lawrence/Topeka, Kansas/Missouri with 3.9% of our total homesites. On September 21, 2005, ARC's board of directors authorized the sale of up to 79 communities in 33 markets, either at auction or through various negotiated sales. Following these sales and assuming that all these communities are sold, ARC will continue to own approximately 237 communities that it believes meet its business plan objectives and operating strategy objectives. After taking into account the proposed sale of these communities, on a pro forma basis as of June 30, 2005, our five largest markets are Dallas/Fort Worth, Texas, with 13.1% of our total homesites; Atlanta, Georgia, with 10.0% of our total homesites; Salt Lake City, Utah, with 7.6% of our total homesites; the Front Range of Colorado, with 6.6% of our total homesites; and Jacksonville, Florida, with 4.5% of our total homesites. See Affordable Residential Communities LP Selected Consolidated Historical and Pro Forma Financial Data and Selected Unaudited Pro Forma Financial Data for a further discussion of the anticipated effect on the Partnership and ARC of these sales and the sale of the notes.

ARC's predecessor was formed in 1995. In the first quarter of 2004, ARC completed its initial public offering, or IPO, of 25,300,209 shares of ARC common stock (including 2,258,617 shares sold by selling securityholders) and 5,000,000 shares of ARC's 8.25% Series A cumulative redeemable preferred stock. In conjunction with the IPO, we also completed a financing transaction involving Merrill Lynch Mortgage Capital Inc., an affiliate of the initial purchaser of the notes, consisting of \$500 million of new mortgage debt and the repayment of some of our existing indebtedness. We used a portion of the proceeds from ARC's IPO and the financing transaction to acquire 90 manufactured home communities from Hometown

Lease

Total

Obligations



7

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America, L.L.C., or Hometown. See Note 3 to the Partnership's annual audited financial statements included in this prospectus for a further discussion of the Hometown transaction.

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) 383-7500. Our internet address is *www.aboutarc.com*. The information contained on our website is not part of this prospectus.

### **Our Business Objectives**

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 operating objectives include the following:

*Community Renovation and Repositioning.* We utilize a comprehensive four-stage process that we call B-F-F-R to renovate and reposition the communities we acquire and improve their operating performance. B-F-F-R stands for: Buy acquisition, Fix physical infrastructure and resident quality, Fill occupancy level, Run ongoing, long-term operations. Our prior acquisitions generally have targeted communities that demonstrate opportunities for improvement in operating results due to one or more of the following characteristics:

#### **•Obligations**

#### **Obligations**

2005

\$

107,101

\$

756

\$

107,857

2006(1)

122,455

below market rate leases;

- high operating expenses;
- poor infrastructure and quality of residents;
- inadequate capitalization; or

•&#eak-after:avoid;text-align:right;">

109

122,564

2007

43,046

112

43,158

2008

a lack of professional management.

While community acquisition opportunities have historically been a significant focus of our activities, we are currently significantly less focused on such opportunities and more focused on community operations.

With respect to the other stages of the B-F-F-R process, we have established district and regional management that has a sufficiently limited span of control to allow for strong focus on community development. We also have established a mobile management team positioned to address

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specific issues related to particular markets and drive new programs. We focus on our communities utilizing B-F-F-R according to their relative occupancy levels as follows:

- For communities above 90% occupancy, we primarily focus on improving operating margins through expense and overhead management, utility recovery and creation of additional revenue sources (as of June 30, 2005, 131 communities with 23,222 homesites averaging 96% occupancy, or, on a pro forma basis, after giving effect to the proposed sale of the 79 communities, 111 communities with 20,246 homesites averaging 95.5% occupancy);
- For communities between 80% and 90% occupancy, we focus on sales and leasing activities, resident retention and delivering the necessary homes to the community to allow for occupancy growth (as of June 30, 2005, 96 communities with 20,331 homesites averaging 86% occupancy, or, on a pro forma basis, after giving effect to the proposed sale of the 79 communities, 77 communities with 17,262 homesites averaging 85.9% occupancy); and
- For communities below 80% occupancy, we focus on developing community management and sales staff, making capital expenditures, supplying necessary homes to provide for occupancy growth and establishing resident standards with respect to behavior and rent payment (as of June 30, 2005, 47 communities with 10,057 homesites between 70% and 80% occupancy averaging 76% occupancy and another 41 communities with 9,332 homesites below 70% occupancy averaging 63% occupancy, or, on a pro forma basis, after giving effect to the proposed sale of the 79 communities,

28 communities with 6,825 homesites between 70% and 80% averaging 76% occupancy and another 21 communities with 5,135 homesites below 70% averaging 64.3% occupancy).

*Significant Presence in Key Markets.* As of June 30, 2005, approximately 69% of our homesites were located in our 20 largest markets. Upon completion of the proposed sale of the 79 communities, approximately 79% of our homesites will be in our 20 largest markets. We believe we have a leading market share in 15 of these markets, based on number of homesites. To the extent that we acquire new communities, we focus our growth in select markets characterized by limited development, expensive alternative housing costs, a strong, diversified economic base and/or opportunity 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

65,765

56

65,821

2009

97,463

18

97,481

Thereafter

609,259

*Broad Based Marketing Efforts.* We have developed and implemented a number of marketing initiatives to enhance the visibility of our communities, maintain and improve our occupancy and identify, reward and lengthen the lease duration of our good customers. We have active marketing and sales teams at both the corporate and local market level. Our home lease with option to purchase program allows residents who might not otherwise qualify for home ownership through traditional purchase or financing avenues the opportunity to work towards home ownership while they lease. Our ability to provide financing to our residents and prospective residents is supported by our consumer finance facility. We have also established a Hispanic marketing initiative targeted at addressing the specific needs and cultural preferences of the fastest growing segment of the U.S. population.

*Proactive Management to Maximize Occupancy.* In response to challenging industry conditions, particularly the shortage of available consumer financing for the purchase of manufactured housing, we have developed and implemented a range of programs aimed primarily at increasing and maintaining our occupancy, improving resident satisfaction and retention, increasing revenue and improving our operating margins. We focus on converting long-term renters into homeowners and improving occupancy through the sale of older homes for cash, the financing of sales of newer homes and the leasing of newer homes with an option to purchase.

*Customer Satisfaction and Quality Control.* Our goal is to meet the needs of our residents or prospective residents for housing alternatives in a clean and attractive environment at affordable prices. We have established a nationwide call center with bilingual staff to manage resident communications and enhance our sales and marketing efforts. We approach our business with a consumer product focus having an emphasis on value and quality for our residents and prospective residents. We have quality assurance programs executed through employee training and adherence to guidelines developed by our senior management, based in part upon surveys of our customers. Our customer focus and quality controls are designed to provide consistency and quality of product and to enable our community managers to effectively market our communities and improve occupancy and resident retention across our portfolio.

*Community Acquisitions/Dispositions.* Over the last ten years, ARC has acquired over 340 communities with over 70,000 homesites. We have invested in dedicated resources, including acquisition, due diligence, construction and marketing teams which allowed us to significantly broaden our acquisition prospects, incorporating stabilized and non-stabilized communities. We have compiled a proprietary computer database containing detailed information on over 28,000 manufactured home communities

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located throughout the United States, which enables us to take advantage of acquisition opportunities quickly, often before the community has been marketed publicly. However, while community acquisition opportunities have historically been a significant focus of our activities, we are currently significantly less focused on such opportunities and more focused on community operations. In addition, we also sold more than 30 communities, and have announced plans to sell up to an additional 79 communities, when it became evident that these communities did not fit our market or performance objectives. We continue to evaluate our property portfolio and may sell additional properties in the future.

**Key Programs and Initiatives**

*Home Rental Program.* Our real estate segment revenue consists of homeowner rental income, home renter rental income and utility and other income. We receive homeowner rental income from 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 home rental program and our home lease with option to purchase program. For the six months ended June 30, 2005, and the year ended December 31, 2004, home renter rental income totaled \$22.9 million, or approximately 20% of o"margin:0pt 0pt .0001pt;page-break-after:avoid;">

609,259

Commitments

1,045,089

1,051

1,046,140

Unamortized premium related to indebtedness assumed in Hometown and DAM acquisitions

4,251

4,251

\$

1,049,340

\$

1,051

*Home Lease with Option to Purchase.* Our home lease with option to purchase program is a program that we initiated in 2004 to address the demand for home ownership in that segment of the population that might not otherwise qualify to finance the purchase of a home or pay cash. Under this program, a resident enters into a long term lease of a home, typically 24 to 72 months. Over the term of the lease, the resident makes rental payments for the home, and makes additional monthly payments which, if the resident elects to exercise the purchase option, are applied to the purchase price of the home. The resident pays a non-refundable option fee at the time of execution of the home lease. The lease may be terminated at any time by the payment of a termination fee by the resident as provided in the lease, and in the event of such termination, the resident forfeits all additional payments made through the date of termination of the lease. The resident has the right to purchase the home at any time during the term of the lease for a stated purchase price as provided in the lease. The resident also executes a separate homesite lease as part of this program, and agrees that upon the exercise of the purchase option to maintain the home in our community for an additional period of at least 48 months. This program is only offered on homes we own located in our communities.

*In-Community Retail Home Sales and Consumer Financing Initiative.* Our retail home sales business consists of the sales of manufactured homes in our communities to residents and prospective residents at reasonable prices. Through our consumer financing initiative, we provide loans to qualified residents and prospective residents to facilitate purchases of manufactured homes located in our communities. It is our practice to acquire additional manufactured home inventory for sale in coordination with the sale of our existing inventory.

**Our Industry**



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The manufactured housing industry represents a meaningful portion of the U.S. housing market. In 2000, there were an estimated 22 million people living in manufactured homes in the United States. 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

10

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\$

1,050,391

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(1) \$140.5 million of senior variable rate mortgage debt due 2006 may be extended for three additional 12-month periods at our option and subject to certain conditions.

The fair value of debt outstanding as of June 30, 2005, adjusted for the effect of the offering of the notes, was approximately \$1,076.4 million.

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**Consolidated Indebtedness to be Outstanding After Our Offering**

The following table sets forth certain information with respect to our pro forma consolidated indebtedness outstanding as of June 30, 2005 after giving effect to the sale of the notes and the discontinued operations resulting from the proposed sale of the 79 communities (dollars in thousands):

| Amount of Debt | Percentage of Total Debt | Weighted Average Interest Rate | Maturity Date | Annual Balance at Debt Maturity Service |
|----------------|--------------------------|--------------------------------|---------------|---|
|----------------|--------------------------|--------------------------------|---------------|---|

homesite, with generally the same materials found in site-built homes and in conformity with federal construction and safety standards.

Each homeowner in a manufactured home community leases a homesite from the owner of the community. The manufactured home community owner 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 their home and upkeep of their leased site.

We believe that manufactured home communities have several characteristics that make them an attractive investment when compared to some other types of real estate, particularly multi-family real estate, including the following:

- significant barriers to the entry of new manufactured home communities into the market;
- large and growing demographic group of potential customers;
- comparatively stable resident base;
- 

- **comparatively low recurring capital requirements;**
- improved economies of scale in operation of multiple sites; and

l Rate

- affordable homeowner lifestyle.

The manufactured housing industry faces a challenging operating environment<sup>2</sup>  
 face="Times New Roman"  
 style="font-size:1.0pt;font-weight:bold;">

|    |          |                           |       |      |        |         |          |
|----|----------|---------------------------|-------|------|--------|---------|----------|
| or | \$83,067 | <b>We expect industry</b> | 7.9 % | 5.05 | % 2009 | \$5,476 | \$77,590 |
|----|----------|---------------------------|-------|------|--------|---------|----------|

**conditions to remain difficult for the foreseeable future, based partly on overall economic conditions throughout the United States 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 historical levels, which should reduce the pricing differential between home mortgage interest rates and interest rates for financing the purchase of a manufactured home.**

**Recent Developments**

On September 21, 2005, ARC announced that Larry D. Willard, a member of ARC's board of directors, had assumed the additional position of Chairman of ARC's board of directors and Chief Executive Officer of ARC and that ARC director James F. Kimsey had become President and Chief Operating Officer of ARC. Mr. Scott D. Jackson, ARC's former Chairman and Chief Executive Officer, had assumed the position of Vice Chairman of ARC's board of directors and would direct ARC's sales of communities.

On the same date, ARC also announced that its board of directors had authorized a \$0.515625 dividend on ARC's Series A cumulative redeemable preferred stock and a distribution of \$0.39 per unit on the Partnership's Series C preferred partnership units. The dividend and distribution are

each payable on

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October 30, 2005 to holders of record on October 15, 2005. ARC's board of directors also eliminated the quarterly dividend on ARC's common stock and the quarterly distribution on the Partnership's common partnership units, in each case, for the quarter ended September 30, 2005.

Also on September 21, 2005, ARC's board of directors authorized the sale of approximately 79 communities in 33 markets, either at auction or through various negotiated sales. Following these sales, and assuming all 79 communities are sold, ARC will continue to own 237 communities that it believes meet its business plan objectives and operating strategy objectives.

In September 2005, we amended our revolving credit mortgage facility to extend the maturity of the facility to September 2006. As amended, the facility bears interest at the rate of one-month LIBOR plus 2.75% (6.61% at September 30, 2005). See Description of Other Indebtedness Revolving Credit Mortgage Facility Due 2006 for a further discussion of this amendment.

In October 2005, we amended our lease receivables facility to increase the size of the facility from \$75 million to \$150 million. The amendment also (i) increased the limit on borrowings under the lease receivables facility from an amount equal to approximately 55% of the net book value of the eligible manufactured housing units owned by two of our indirect wholly owned subsidiaries, ARC Housing LLC and ARC HousingTX LP (collectively, Housing ) and located in ARC's communities, to 65%, subject to certain other applicable borrowing base

requirements, (ii) increased the interest rate on borrowings under the facility from 3.25% plus

|    |         |        |      |        |        |    |     |
|----|---------|--------|------|--------|--------|----|-----|
| or | 276,278 | 26.3 % | 7.35 | % 2012 | 23,480 | 12 | 200 |
|----|---------|--------|------|--------|--------|----|-----|

rate  
gage  
2012

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**The Offering**

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the notes, see

Description of Notes in this prospectus.

Issuer of Notes

Affordable Residential Communities LP

Notes Offered

\$96,600,000 aggregate principal amount of 7½% Senior Exchangeable Notes due 2025.

Maturity Date

August 15, 2025, unless previously redeemed, repurchased or exchanged prior to such date by the Partnership in accordance with their terms.

Inter-break-after:avoid;text-align:right;"> 244,675

Senior fixed rate mortgage due 2014

189,522

18.1

% 5.53 % 2014 7½% per year, payable semiannually in arrears in cash on February 1 and August 15



each year, beginning February 1 2006.

Exchange Rights

Holders may present their notes for exchange prior to the close of business on the second business day immediately preceding the stated maturity date based on the applicable exchange rate. The exchange rate is subject to adjustment as described in

Description of Notes Exchange Rights Exchange Rate Adjustments.

13,163 179,975

Various individual fixed rate mortgages due 2005 through 2031

The initial exchange rate is 69.8812 shares of ARC common stock per \$1,000 principal amount of notes. This is equivalent to an initial exchange price of approximately \$14.31 per share of ARC common stock.

121,641  
Upon exchange of a note, a holder will not receive any cash payment of interest, subject to certain exceptions, and we will not adjust the exchange rate to account for accrued and unpaid interest. If a holder elects to exchange its notes in connection with

certain specified fundamental changes, as defined herein, that occur prior to August 20, 2015, the holder will be entitled to receive additional shares of ARC common stock as a make whole premium upon exchange in certain circumstances. In lieu of delivering shares of ARC common stock upon exchange of any notes, we may elect to pay holders surrendering notes for exchange an amount in cash per note (or a portion of a note) equal to the average closing price of ARC common stock over the five trading day period starting on and including the third trading day following the exchange date multiplied by the exchange rate in effect on the exchange date (or portion of the exchange rate applicable to a portion of a note if a combination of ARC common stock and cash is to be delivered). See Description of Notes Exchange Rights.

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|--|--|
| <p>Provisional Redemption of the Notes at the Partnership's Option</p> | <p>Prior to August 20, 2010, the notes will not be redeemable at the Partnership's option. Beginning on August 20, 2010, the Partnership may redeem the notes in whole or in part for cash (in principal amounts of \$1,000 and integral multiples thereof) at any time at a redemption price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest to but not including the redemption date if the closing price of the common stock has exceeded 130% of the exchange price for at least 20 trading days in any consecutive 30-day trading period.</p> |
| <p>Repurchase of the Notes at Option of Holders on Specified Dates</p> | <p>Holder may require the Partnership to repurchase all or a portion of their notes for cash (in principal amounts of \$1,000 and integral multiples thereof) on August 15, 2010, August 15, 2015, and August 15, 2020 at a purchase price</p>   |

|      |  |   |        |              |        |  |
|------|--|---|--------|--------------|--------|--|
|      |  |   |        |              |        | equal to 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest, if any, to the purchase date.   |
|      | Repurchase of the Notes at Option of Holders upon a Fundamental Change |   |        |              |        | If a fundamental change, as defined in this prospectus, occurs at any time prior to maturity, holders of notes may require the Partnership to repurchase their notes in whole or in part for cash (in principal amounts of \$1,000 and integral multiples thereof) in an amount equal to 100% of the principal amount of the notes to be repurchased plus unpaid interest, if any, accrued to the repurchase date. |
| 11.6 | Senior Exchangeable Notes due 2025                                     | % | 7.20 % | 2005 to 2031 | 9,984  | 80,425   |
|      | Other loans  |   |        |              | 7.50 % | 2025 792   |
|      |  |   |        |              | 8.67 % | 2005 17,   |
|      |  |   |        |              |        | The notes:   |
|      |  |   |        |              |        | Ranking  |
|      |  |   |        |              |        | • will be senior unsecured obligations ranking equally in right of payment with the Partnership s other unsecured senior indebtedness;   |
|      |  |   |        |              |        | • will be effectively  |

junior in right of payment to any of the Partnership s existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and

- will be effectively junior in right of payment to any existing and future indebtedness and other liabilities or preferred stock of the Partnership s subsidiaries, including trade payables.

73.2 %

6.65

As of June 30, 2005, on a pro forma basis, the Partnership had outstanding \$122.4 million of senior unsecured indebtedness, including the notes, and \$926.9 million of secured indebtedness and the Partnership s consolidated subsidiaries had outstanding an aggregate of \$195.4 million of other liabilities.



Use of  
Proceeds

Registration  
Rights

The terms of the indenture under which the notes are issued do not limit our or any of our affiliates' or subsidiaries' ability to incur additional indebtedness, including secured indebtedness, or issue preferred equity.

We will not receive any proceeds from the sale of the securities offered by this prospectus.

Pursuant to a registration rights agreement, we have filed, at our expense, with the SEC a shelf registration statement on Forms S-11 and S-3 covering resales by holders of the notes and the ARC common stock issuable upon exchange of the notes. Under the terms of the registration rights agreement, we have agreed to use our reasonable best efforts to:

- cause the registration statement to become effective as promptly as practicable, but in no event later than 180 days after the earliest date of original issuance of any of the notes; and
- keep the registration statement effective until the holders of the notes and the ARC common stock issuable



|                                       |  |  |
|---------------------------------------|--|--|
| <p>Transfer Restrictions</p>          | <p>upon exchange of the notes are able to sell all such securities immediately without restriction pursuant to the volume limitations of Rule 144(k) under the Securities Act or any successor rule or otherwise. We will be required to pay liquidated damages, subject to certain limitations, to the holders of the notes if we fail to comply with our obligations to register the notes and the ARC common stock issuable upon exchange of the notes or the registration statement does not become effective within the specified time periods. See Description of Notes Registration Rights.</p> | <p>Our registration of the resale by the holders of the notes and the ARC common stock issuable upon exchange of the notes may not be available to all holders at all times. See Plan of Distribution.</p> |
| <p>Form and Denomination</p>          | <p>The notes will be issued only in fully registered, book-entry form, in minimum denominations of \$1,000 and any integral multiple of \$1,000, except under limited circumstances described in</p>   | <p>Description of Notes Book-Entry System.</p>   |
| <p>Trading<br/>Variable Rate Debt</p> | <p>Roman"<br/>style="font-size:9.0pt;font-weight:bold;"&gt;%</p>   | <p>59,520 680,265<br/>108,520 10.3 % 6.22 % 2006</p>   |

Senior variable  
rate mortgage  
due 2006

15

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New York  
 Stock Exchange  
 Symbol for ARC  
 Common Stock

ARC's common stock is traded on the New York Stock Exchange under the symbol ARC.

Tax  
 Revolving credit mortgage facility due 2005

The notes and the ARC common stock issuable upon exchange of the notes will be subject to special and complex United States federal income tax rules. Prospective purchasers are strongly urged to consult their own tax advisors with respect to the federal, state, local and foreign tax consequences of purchasing, owning and disposing of the notes and shares of ARC common stock. See Certain U.S. Federal Income Tax Considerations in this

58,764 5.6% 6.17 prospectus.  
 Risk Factors See Risk Factors and other information included or incorporated by reference in this prospectus for a

discussion of the factors you should carefully consider before deciding to purchase notes or ARC common stock issuable upon exchange of the notes. There could be other factors to consider in addition to those disclosed, some of which may be unique to a prospective purchaser.

**Restrictions on Ownership of ARC Stock**

Subject to certain exceptions specified in ARC s 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 7.3% in value or number of shares, whichever is more restrictive, of the outstanding shares of ARC's common

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2035  
number  
ce  
ty  
2008

|        |        |     |   |      |   |      |       |        |
|--------|--------|-----|---|------|---|------|-------|--------|
| 2035   | 25,780 | 2.5 | % | 6.26 | % | 2035 | 1,614 | 25,780 |
| number | 9,369  | 0.9 | % | 6.18 | % | 2008 | 579   | 9,369  |

**Tax Status of ARC**

ARC has elected to be taxed as a REIT under the Internal Revenue Code, commencing with its taxable year ending December 31, 1998. ARC believes that its organization and method of operation have enabled it to meet, and its method of operation enables it to continue to meet, the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes.

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 vable  
 ty  
 2007  
 rplan  
 of  
 t due

|        |       |       |        |       |        |
|--------|-------|-------|--------|-------|--------|
| 42,100 | 4.0 % | 10.22 | % 2007 | 4,303 | 42,100 |
|--------|-------|-------|--------|-------|--------|

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

35,367

3.4 %

16



## RISK FACTORS

*You should carefully consider the specific risk factors set forth below, as well as the other information contained or incorporated by reference in this prospectus, before deciding to purchase any notes or ARC common stock issued upon exchange of the notes. Some factors in this section are forward-looking statements. For a discussion of those statements and of other factors for investors to consider, see Special Note Regarding Forward-Looking Statements, located in the forepart of this prospectus. There could be other factors to consider in addition to those disclosed below, some of which may be unique to a prospective purchaser.*

### 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 Kansas City/Lawrence/Topeka, Kansas/Missouri 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 and our financing activities do not generate sufficient funds to meet our cash requirements, including operating and other expenses and capital expenditures, our net income, funds from operations, cash flow, financial condition, ability to service our indebtedness, including the notes, and ability to make distributions could be adversely affected, any of which could adversely affect the trading price of the notes and ARC's common stock. The following factors, among others, may adversely affect the occupancy of our communities and/or the revenues generated by our communities:

- 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;

•6.59

%

2007

2,331

35,367

Other loans

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 residents' performance in accordance with the terms of their contractual obligations;
- our ability to provide adequate management, maintenance or insurance; or
- increased operating costs, including insurance premiums, real estate taxes and utilities, or increased costs due to changes in zoning or ordinance requirements or enforcement of the same.

Our communities located in Dallas/Fort Worth, Texas; Atlanta, Georgia; Salt Lake City, Utah; the Front Range of Colorado; and Kansas City/Lawrence/Topeka, Kansas/Missouri contain approximately 11.5%, 7.9%, 6.0%, 5.2% and 3.9%, respectively, of our total homesites as of June 30, 2005. After taking into account the proposed sale of up to 79 communities announced on September 21, 2005, on a pro forma basis as of June 30, 2005, and assuming that all these communities are sold, our five largest markets are Dallas/Fort Worth, Texas, with 13.1% of our total homesites; Atlanta, Georgia, with 10.0% of our total homesites; Salt Lake City, Utah, with 7.6% of our total homesites; the Front Range of Colorado, with 6.6% of our total homesites; and Jacksonville, Florida, with 4.5% of our total homesites. See Affordable

Residential Communities LP Selected Consolidated Historical and Pro Forma Financial Data and Selected Unaudited Pro Forma Financial Data for a further discussion of the anticipated effect on the Partnership and ARC of these sales and the sale of the notes.

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 as well as to other local real estate market conditions or other conditions that could adversely affect our occupancy rates,

1,326

0.1

%

6.97

%

2012

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 and 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 and could increase without a corresponding increase in rental or other income. 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, funds from operations, cash flow, financial condition, ability to service our indebtedness, including the notes, and ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.

***We may not be able to maintain and improve our occupancy through expansion of our home rental program and our home lease with option to purchase 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 home rental program and our home lease with option to purchase 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 these programs.

Pursuant to our home rental 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. We also acquire repossessed homes in our communities through an offer and bid process with third party finance companies. For the year ended December 31, 2004, rental income received from residents of our rental homes totaled \$40.3 million. Our overall occupancy at June 30, 2005 was 84.5% with homeowners occupying 72.6% of our total homesites and tenants in our rental homes occupying approximately 11.9% of our total homesites. See Affordable Residential Communities LP Selected Consolidated Historical and Pro Forma Financial Data and Selected Unaudited Pro Forma Financial Data for a discussion of the anticipated effect on the Partnership and ARC of the proposed sale of up to 79 communities announced on September 21, 2005 and the sale of the notes. If we are unable

to improve and maintain occupancy in our communities through expansion of our lease with option to purchase program and our home rental 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 releasing risks and mold related claims. In addition, our increased sales and leasing activities increase our

17

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exposure to these matters as well as to legal and regulatory compliance costs and risks and to litigation and claims arising out of our sales and leasing activities.

188

523

281,226

26.8

%

6.86

%

an" style="font-size:10.0pt;">Our home lease with option to purchase program is a program that differs significantly from programs offered by some of our competitors, and we are not aware of any home lease with option to purchase program structured similarly to ours. Accordingly, while we believe our program has been structured and is being implemented in compliance with applicable legal and regulatory requirements in all material respects, we have no significant experience operating this program, and neither the structure and terms of the program nor our management and implementation of the program have been subject to review by any court or regulatory agency or authority in any suit or proceeding. We cannot assure you, if any such review were to occur, that the structure and terms of the program and our management and implementation of the program will be found to be in compliance with all such applicable legal and regulatory requirements. Any determination by a court or other agency or authority of competent jurisdiction finding a violation of any applicable legal or regulatory requirements, or the threat of such a determination, could subject us to material costs, fines, penalties, judgments or other payments, or could cause us to have significant issues with respect to the continuation of the

19,391

280,423

\$

1,049,340

100.0

%

6.71

%

\$

78,911

\$

960,688

**FFO**

As defined by NAREIT, FFO represents income (loss) from continuing operations (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 the program, which could have an adverse effect on our financial condition and results of operations, and also could result in significant changes to the structure and terms of the program, which could increase the costs to us of continuing the program or otherwise adversely affect our ability to continue to maintain the program, which could have an adverse effect on our ability to increase occupancy and improve our results of operations.

*We may not be able to maintain and improve our occupancy through expansion of our in-community home sales and financing initiative, which could adversely affect our revenues 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 financing initiative, we intend to significantly expand our capability both to acquire for sale manufactured home inventory and sell these homes to customers in our communities at reasonable prices and to finance sales of these homes to customers in our communities. We have obtained a multiyear debt facility pursuant to which we will be able to fund up to \$125.0 million to support loan originations in connection with the sale of homes in our communities. If we are not able to maintain this debt facility, we do not expect to be able to fully 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. Additionally, if we do not have sufficient capital available to purchase additional homes in the future, we may not be able to implement or fully implement these programs or initiatives, which could significantly impair our ability to maintain or increase our occupancy in our communities and to achieve growth in our revenues and operating margins.

The availability of advances of funds under our consumer finance debt facility is subject to certain conditions that are beyond our control. Conditions that could result in our inability to draw on this facility include a downgrade of the lender's credit rating and the absence of certain markets for financing debt obligations secured by securities or mortgage loans. Funding under this facility may also be denied if the lender 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. The lender 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.

Although some members of our management group have experience in the consumer finance business, we have limited 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 home sales and financing initiative may have higher default rates than we anticipate, and demand for consumer financing may not be as great as we anticipate or may decline.

Our in-community home sales and financing initiative operates in a regulated industry with significant licensing and consumer protection laws, and the regulatory framework may change in a manner that 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 financing initiative and could subject us to private claims and awards. This initiative is dependent on licenses granted by state, federal and local 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 have obtained many, and are in the process of obtaining all of the remaining state and local licenses and permits necessary for us to implement this initiative in all of the markets in which we operate.

***The terms of our acquisition agreement with Hometown may cause us to incur additional costs and liabilities.***

Pursuant to the acquisition agreement with Hometown, we have assumed 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 acquired the Hometown communities, subject to limited exceptions. In addition, Hometown is not 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 are responsible for liabilities and obligations with respect to the Hometown communities and the other acquired assets for which we have no recourse to Hometown or anyone else, and we may incur unanticipated costs in connection with the assumption and satisfaction of these obligations as well as in ownership and operation of the Hometown communities, in excess of our expected costs.

***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 that 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 wholesale sales) have declined from 372,843 homes in 1998 to 130,802 in 2004. We believe this ongoing period of challenging industry conditions was the result of an oversupply of consumer credit from 1994 to 1999, which led to over stimulation in the manufacturing, retail home sales and financing 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 by the oversupply of consumer credit 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 United States 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 had net losses attributable to common partnership unitholders of \$36.0 million for the six months ended June 30, 2005 and \$101.3 million, \$39.9 million and \$47.1 million for the years ended December 31, 2004, 2003 and 2002, respectively. As of June 30, 2005, our retained deficit was \$330.4 million. There can be no assurance that we will not continue to incur net losses in the future, which could adversely affect our ability to service our indebtedness, including the notes, and our ability to pay dividends or make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.

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

Our ability to expand through acquisitions has historically been a significant part of our business expansion 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. If we do not have sufficient capital, we may be limited or precluded from pursuing additional acquisitions. Also, a lack of sufficient depth of management may limit or preclude additional acquisitions. 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 ability to service our indebtedness, including the notes, and ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.

Although we are currently less focused on community acquisition opportunities than in the past, we will 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;



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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.

The following table calculates our FFO for the three and six months ended June 30, 2005 and the years ended December 31, 2004, 2003 and 2002 (in thousands):

|                                     | Three Months Ended |             | Six Months Ended |              | Year Ended December 31, |            | 2003(3)      | 2002(4)      |
|-------------------------------------|--------------------|-------------|------------------|--------------|-------------------------|------------|--------------|--------------|
|                                     | June 30, 2005      | 2004        | June 30, 2005    | 2004(1)      | 2004(1)(2)              | 2004(1)(2) |              |              |
| Net loss from continuing operations | \$ (16,351 )       | \$ (5,326 ) | \$ (30,384 )     | \$ (42,578 ) | \$ (84,913 )            |            | \$ (43,267 ) | \$ (48,109 ) |

- 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;
- we may not have sufficient capital available to make additional acquisitions, or we may be unable to finance acquisitions 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 multi-property acquisitions, portfolios of properties, into our existing operations, and consequently our results of operations and financial condition could be adversely affected;

- market conditions or downturns in local economies 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 cleanup of undisclosed environmental contamination, claims by

tenants, vendors  
or other persons  
dealing with the  
former

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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 sell our homes, lease our homes and/or homesites and to maintain or raise rents. Other forms of multi-family 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, as well as more favorable financing alternatives for the same, could have an adverse effect on our occupancy and rents, which could adversely affect our cash flow and financial condition, ability to service our indebtedness, including the notes, and ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.

***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, hurricanes, floods, riots or 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, which could adversely affect our financial condition and our ability to service our indebtedness, including the notes, and ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock. 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.

***Exposure to mold and contamination related claims that are problematic to insure against could adversely affect our results of operations.***

We own a significant number of rental homes, which we lease or sell 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 certain of our communities and we are subject to 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, ability to service our indebtedness, including the notes, and ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.

***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

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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. 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, which would adversely affect our financial condition, results from operations, ability to service our indebtedness, including the notes, and ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.

***Increases in taxes may reduce our income.***

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, funds from operations, cash flow, financial condition, ability to service our indebtedness, including the notes, and ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.

***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, in certain circumstances,

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 8,364 homesites in two states that have rent control regulations, Florida and California. These communities represent 9.8% of our total communities and 13.3% of our total homesites. Following the sale of up to 79 65pt;">

)

Plus:

|                                      |        |        |        |        |        |        |        |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Depreciation and amortization        | 22,224 | 17,242 | 42,255 | 32,152 | 72,014 | 46,467 | 37,058 |
| Income from discontinued operations. | 72     | 343    | 1,000  | 795    | 22     | 31     | 1,040  |

*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 require  
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, ability to service our indebtedness, including the notes, and ability to make distributions could be adversely affected, any of which could adversely affect the trading price of the notes and ARC's common stock.

***We may incur significant costs complying with other regulations applicable to our business.***

The properties in our portfolio, as well as sale of homes located thereon, are subject to

various federal, state and local regulatory requirements, such as state and local licensing, fire, health and safety, zoning, use and utility compliance requirements, and disclosure or warranty requirements. If we fail to comply with these various requirements, we might incur governmental fines or private damage awards or may have significant limitations placed on our operations. In addition, requirements may change, and future requirements may require us to materially alter our operations or to make significant unanticipated expenditures that could adversely affect our net income, funds from operations, cash flow and financial condition, ability to service our indebtedness, including the notes, and ability to



make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.

***Expansion of our existing communities entails certain risks that may negatively affect our operating results.***

We may expand our existing communities where a community contains or is adjacent to undeveloped land and where the land is zoned to allow 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, ability to service our indebtedness, including the notes, and ability to make distributions could be adversely affected, any of which could adversely affect the trading price of the notes and ARC's common stock.



*The pro forma financial data of the Partnership and ARC included in this prospectus may differ from actual results if any of the 79 communities held for sale are not sold or are sold for prices different than those used to prepare the data.*

The pro forma financial data of the Partnership and ARC included in this prospectus contemplates the sale of all of the 79 communities identified on September 21, 2005 as held for sale. There can be no assurances that the sale of all or any of these communities will occur, and, to the extent that they do occur, that they will be sold at the community sales prices used by the Partnership and ARC to prepare the pro forma financial data.

If any of these communities are not sold or are sold at prices other than those used to prepare the pro forma financial data, actual results for the Partnership and ARC will differ from the results presented in the data.

**Risks  
Related to  
Our Other  
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 our quarterly distributions or any distributions necessary to maintain ARC's REIT status.*

As of June 30, 2005, on a pro forma basis, after giving effect to ARC's proposed sale

of up to 79 communities announced on September 21, 2005 and the sale of the notes, we had approximately \$1,049.3 million of outstanding indebtedness, consisting of \$926.9 million of secured debt, as well as the notes and \$25.8 million in trust preferred securities which were each unsecured, including (1) a two-year, \$150.0 million secured

1,915

|  |      |         |   |       |       |       |       |
|--|------|---------|---|-------|-------|-------|-------|
| Depreciation and amortization from discontinued operations | (18) | ) 1,085 | 5 | 1,825 | 3,134 | 2,589 | 1,957 |
|--|------|---------|---|-------|-------|-------|-------|

Less:

|  |         |         |  |  |  |  |  |
|--|---------|---------|--|--|--|--|--|
| Amortization of loan origination fees. | (1,911) | ) (855) | ) Our level of indebtedness and the limitations imposed on us by our credit agreements could have significant adverse consequences, including the following: |  |  |  |  |
|  |         |         | <ul style="list-style-type: none"> <li>• our cash flow may be insufficient to meet our required</li> </ul>   |  |  |  |  |

principal  
and  
interest  
payments;

- we  
may be  
unable to  
borrow  
additional  
funds,  
either on  
favorable  
terms or  
at all, as  
needed,  
including  
to make  
acquisitions  
or to  
make  
any  
distributions,  
including  
those  
required  
to  
maintain  
ARC s  
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 indebtedness 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;

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- after debt service, the amount available for distributions to the Partnership's limited partners or ARC's stockholders is reduced;
- our level of indebtedness could place us at a competitive disadvantage compared to our competitors with less indebtedness;
- 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;
- 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; and
- we may not be able to acquire additional homes to be held for sale or placed in our rental fleet, or we may not be able to acquire additional communities.

*We could become more highly leveraged because our organizational documents contain no limitation on the amount of debt we may incur.*

While some of our debt facility agreements may contain some limitations on the amount of indebtedness that we or ARC may incur, our organizational documents contain no such limitations. 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, including the notes, and to pay any distributions required to maintain ARC's REIT status. As of June 30, 2005, on a pro forma basis after giving effect to the proposed sale of up to 79 communities announced on September 21, 2005 and the sale of the notes, our debt to partners' capital ratio is 1.7 to 1.

*Increases in interest rates may increase our interest expense, which would adversely affect our cash flow, ability to service our indebtedness, including the notes, and ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.*

As of June 30, 2005, approximately 30% of our debt was subject to variable interest rates. An increase in interest rates could increase our interest expense, which would adversely affect our cash flow, our ability to service our indebtedness, including the notes, and our ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock. As of June 30, 2005, on a pro forma basis, we had a total of \$281.2 million of variable rate debt bearing a weighted average interest rate of approximately 6.9% per annum. On February 26, 2004, we entered into a two-year interest rate swap agreement pursuant to which we effectively fixed the base rate portion of the interest rate with respect to \$100.0 million of our variable rate debt. As a result, as of June 30, 2005, approximately 80% of our total indebtedness was subject to fixed interest rates until February 2006.

*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, ability to service our indebtedness, including the notes, and ability to make distributions, any of which could adversely affect the trading price of the notes and ARC's common stock.

*Our growth depends on external sources of capital that are outside of our control.*

(3,772

)

(1,722

)

(5,952

)

(3,213

)

(4,129

)

Depreciation expense on furniture, equipment and vehicles

(529

)

(81

)

(951

)

(449

)In order to maintain ARC's qualification as a REIT, it is required under the Internal Revenue Code to annually distribute at least 90% of its REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In addition, ARC will be subject to income tax at regular corporate rates to the extent that ARC distributes less than 100% of its net taxable income, including any net capital gains. Due to these distribution requirements, we may not be able to fund future capital needs, including any acquisition financing, from operating cash flow. Consequently, we may be required to 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 indebtedness we incur may increase our leverage. Our access to third-party sources of capital depends, in part, on:

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

If we cannot obtain capital from third-party sources, we may not be able to acquire additional communities or homes to be held for sale or rent when strategic opportunities exist, service our indebtedness, including the notes, and make distributions to ARC's stockholders necessary to maintain its qualification as a REIT.

#### **Risks Related to Organizational and Corporate Structure**

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

(1,264

)

(1,112

)

(1,019

)

FFO

Our success is dependent on the efforts of our executive officers and senior management team. The loss of the services of this key personnel could materially and adversely affect our operations.

*ARC's Vice Chairman has outside business interests that could require time and attention.*

**Scott D. Jackson, ARC's Vice Chairman, 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 own six manufactured home communities through a commonly owned subsidiary, Global E. In addition, Mr. Jackson's employment agreement includes an exception to his noncompetition 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. As a result, these outside business interests could potentially interfere with Mr. Jackson's ability to devote time to our business and affairs.**

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

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We may change our investment and financing strategies and enter into new lines of business at any time without the consent of ARC's stockholders or the holders of the notes, 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

26

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01pt;page-break-after:avoid;text-align:right;">3,487

12,408

8,153

(9,977

)

(15,066

)

1,495

(13,202

)

## Edgar Filing: AFFORDABLE RESIDENTIAL COMMUNITIES INC - Form S-11

entry into new lines of business may increase our exposure to interest rate and other risk or real estate market fluctuations.

***ARC's failure to qualify as a REIT could result in higher tax expenses and reduced cash available to service our indebtedness.***

Although we believe that ARC has operated and intends to continue to operate in a manner that enables it to meet the requirements for qualification as a REIT for U.S. federal income tax purposes, no assurance can be given that ARC 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 involves the determination of various factual matters and circumstances not entirely within our control.

If ARC fails to qualify as a REIT in any taxable year, and specified statutory relief provisions did not apply, ARC would not be allowed a deduction for dividends paid to its stockholders in computing its taxable income and would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on its taxable income at corporate tax rates. Moreover, unless entitled to relief under certain statutory provisions, ARC also would be disqualified from electing to be a REIT for the four taxable years following the year during which such qualification is lost. This treatment could reduce our net earnings available for investment or debt service because of the additional tax liability to ARC for the years involved. 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 ARC would not be compelled to make distributions to stockholders under the Internal Revenue Code.

***Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' 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 invol;">Less preferred unit distributions.

(2,971

)

(2,578

)

(5,942

)

(3,810

)

(9,752

)

FFO available to common partnership unitholders

\$

516

\$

9,830

\$

2,211

\$

(13,787

)

\$

(24,818

)

\$

1,495

\$

(13,202

)

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(1) Our FFO for the six months ended June 30, 2004 includes \$27.9 million of costs related to ARC's IPO, financing transactions and the Hometown acquisition.

## Edgar Filing: AFFORDABLE RESIDENTIAL COMMUNITIES INC - Form S-11

(2) FFO for the year ended December 31, 2004 includes charges for the following: (i) retail losses of \$11.2 million related to sales of older vacant homes sold during the fourth quarter at discounts to their original costs and marketing and promotion costs both incurred to drive occupancy, help establish and drive our Hispanic marketing initiative and reduce future repairs and maintenance costs in our rental home portfolio; (ii) \$3.0 million of impairment charges related to older vacant rental homes we expect to sell in 2005 at prices less than their carrying value in order to continue to drive occupancy in specific markets and reduce repairs and maintenance costs in our rental home portfolio; (iii) \$0.9 million of goodwill impairment related to our insurance business; (iv) \$1.0 million of severance costs related to the fourth quarter resignation of our chief operating officer and the second quarter resignation of other executive officers; (v) approximately \$500,000 of impairment charges related to three communities; and (vi) approximately \$500,000 related to property damage sustained during the hurricanes that occurred in the third quarter in the Southeast United States.

(3) FFO for the year ended December 31, 2003 includes a charge of \$1.4 million for retail home sales asset impairment and other expense and a charge of approximately \$864,000 for the cost of vacating unused office space and \$337,000 in executive severance.

(4) FFO for the year ended December 31, 2002 includes charges incurred in the reorganization in connection with the repayment of debt including \$1.9 million for exit fees and \$1.6 million for the write off of unamortized loan costs, and includes a charge of \$13.6 million to write off goodwill associated with our retail home sales and insurance businesses. For more details see our consolidated financial statements for the years ended December 31, 2004, 2003 and 2002.

### **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.

As of June 30, 2005, our pro forma debt outstanding was \$1,049.3 million, comprised of \$768.1 million of indebtedness subject to fixed interest rates and \$281.2 million, or 26.8%, of our total consolidated debt, subject to variable interest rates. In February 2004 we entered into a two-year interest rate swap agreement pursuant to which we effectively fixed the base rate portion of the interest rate with respect to \$100 million of our variable rate debt. As a result, approximately 80% of our total indebtedness is subject to fixed interest rates for a minimum of two years.

If LIBOR and the prime rate 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 \$3.2 million annually. If, after consideration of the interest rate swap agreement described above, LIBOR and the prime rate 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 \$2.2 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 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.

The fair value of pro forma debt outstanding as of June 30, 2005 was approximately \$1,076.4 million.



## AFFORDABLE RESIDENTIAL COMMUNITIES LP

### BUSINESS AND PROPERTIES

#### Overview

The Partnership is a Delaware limited partnership whose sole general partner is ARC. As of June 30, 2005, ARC owned approximately 94.8% of the Partnership's outstanding partnership interests. ARC is a fully integrated, self-administered and self-managed Maryland corporation that elected to be taxed as a real estate investment trust, or REIT.

We acquire, renovate, reposition and operate primarily all-age manufactured home communities. We also lease with the option to purchase, 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 and prospective residents in our communities.

As of June 30, 2005, we owned and operated 315 manufactured home communities (excluding one community held for sale) in 27 states containing 62,942 homesites. These properties are located in 67 markets across the United States. Our five largest markets are Dallas/Fort Worth, Texas, with 11.5% of our total homesites; Atlanta, Georgia, with 7.9% of our total homesites; Salt Lake City, Utah, with 6.0% of our total homesites; the Front Range of Colorado, with 5.2% of our total homesites; and Kansas City/Lawrence/Topeka, Kansas/Missouri with 3.9% of our total homesites. On September 21, 2005, ARC's board of directors authorized the sale of up to 79 communities in 33 markets, either at auction or through various negotiated sales. Following these sales and assuming that all these communities are sold, ARC will continue to own approximately 237 communities that it believes meet its business plan objectives and operating strategy objectives. After taking into account the proposed sale of these communities, on a pro forma basis as of June 30, 2005, our five largest markets are Dallas/Fort Worth, Texas, with 13.1% of our total homesites; Atlanta, Georgia, with 10.0% of our total homesites; Salt Lake City, Utah, with 7.6% of our total homesites; the Front Range of Colorado, with 6.6% of our total homesites; and Jacksonville, Florida, with 4.5% of our total homesites. See *Affordable Residential Communities LP Selected Consolidated Historical and Pro Forma Financial Data* and *Selected Unaudited Pro Forma Financial Data* for a further discussion of the anticipated effect on the Partnership and ARC of these sales and the sale of the notes.

ARC's predecessor was formed in 1995. In the first quarter of 2004, ARC completed its initial public offering, or IPO, of 25,300,209 shares of ARC common stock (including 2,258,617 shares sold by selling securityholders) and 5,000,000 shares of ARC's 8.25% Series A cumulative redeemable preferred stock. In conjunction with the IPO, we also completed a financing transaction involving Merrill Lynch Mortgage Capital Inc., an affiliate of the initial purchaser of the notes, consisting of \$500 million of new mortgage debt and the repayment of some of our existing indebtedness. We used a portion of the proceeds from ARC's IPO and the financing transaction to acquire 90 manufactured home communities from Hometown America, L.L.C., or Hometown. See Note 3 to the Partnership's annual audited financial statements included in this prospectus for a further discussion of the Hometown acquisition.

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) 383-7500. Our internet address is [www.aboutarc.com](http://www.aboutarc.com). The information contained on our website is not part of this prospectus.

#### Our Business Objectives

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 operating objectives include the following:

*Community Renovation and Repositioning.* We utilize a comprehensive four-stage process that we call B-F-F-R to renovate and reposition the communities we acquire and improve their operating

performance. B-F-F-R stands for: Buy acquisition, Fix physical infrastructure and resident quality, Fill occupancy level, Run ongoing, long-term operations. Our prior acquisitions generally have targeted communities that demonstrate opportunities for improvement in operating results due to one or more of the following characteristics:

- below market rate leases;
- high operating expenses;
- poor infrastructure and quality of residents;
- inadequate capitalization; or
- a lack of professional management.

While community acquisition opportunities have historically been a significant focus of our activities, we are currently less focused on such opportunities and more focused on community operations.

With respect to the other stages of the B-F-F-R process, we have established district and regional management that has a sufficiently limited span of control to allow for strong focus on community development. We have also established a mobile management team positioned to address specific issues related to particular markets and drive new programs. We focus on our communities utilizing B-F-F-R according to their relative occupancy levels as follows:

- For communities above 90% occupancy, we primarily focus on improving operating margins through expense and overhead management, utility recovery and creation of additional revenue sources (as of June 30, 2005, 131 communities with 23,222 homesites averaging 96% occupancy, or, on a pro forma basis, after giving effect to the proposed sale of 79 communities with 20,246 homesites averaging 95.5% occupancy);
- For communities between 80% and 90% occupancy, we focus on sales and leasing activities, resident retention and delivering the necessary homes to the community to allow for occupancy growth (as of June 30, 2005, 96 communities with 20,331 homesites averaging 86% occupancy, or, on a pro forma basis, after giving effect to the proposed sale of 79 communities, 77 communities with 17,262 homesites averaging 85.9% occupancy); and
- For communities below 80% occupancy, we focus on developing community management and sales staff, making capital expenditures, supplying necessary homes to provide for occupancy growth and establishing resident standards with respect to behavior and rent payment (as of June 30, 2005, 47 communities with 10,057 homesites between 70% and 80% occupancy averaging 76% occupancy and another 41 communities with 9,332 homesites below 70% occupancy averaging 63% occupancy, or, on a pro forma basis, after giving effect to the proposed sale of 79 communities, 28 communities with 6,825 homesites between 70% and 80% averaging 76% occupancy and another 21 communities with 5,135 homesites below 70% averaging 64.3% occupancy).

*Significant Presence in Key Markets.* As of June 30, 2005, approximately 69% of our homesites were located in our 20 largest markets. Upon completion of the proposed sale of the 79 communities, approximately 79% of our homesites will be in our 20 largest markets. We believe we have a leading market share in 15 of these markets, based on number of homesites. To the extent that we acquire new communities, we focus our growth in select markets characterized by limited development, expensive alternative housing costs, a strong, diversified economic base and/or opportunity 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 diversity of our portfolio reduces our exposure to risks associated with geographic concentration, including the risk of economic downturns or natural disasters in any one market in which we operate.

*Broad Based Marketing Efforts.* We have developed and implemented a number of marketing initiatives to enhance the visibility of our communities, maintain and improve our occupancy, and identify, reward and lengthen the lease duration of our good customers. We have active marketing and sales teams at both the corporate and local market level. Our home lease with option to purchase program allows residents who might not otherwise qualify for home ownership through traditional purchase or financing avenues the opportunity to work towards home ownership while they lease. Our ability to provide financing to our residents and prospective residents is supported by our consumer finance facility. We have also established a Hispanic marketing initiative targeted at addressing the specific needs and cultural preferences of the fastest growing segment of the U.S. population.

*Proactive Management to Maximize Occupancy.* In response to challenging industry conditions, particularly the shortage of available consumer financing for the purchase of manufactured housing, we have developed and implemented a range of programs aimed primarily at increasing and maintaining our occupancy, improving resident satisfaction and retention, increasing revenue and improving our operating margins. We focus on converting long-term renters into homeowners and improving occupancy through the sale of older homes for cash, the financing of sales of newer homes and the leasing of newer homes with an option to purchase.

*Customer Satisfaction and Quality Control.* Our goal is to meet the needs of our residents or prospective residents for housing alternatives in a clean and attractive environment at affordable prices. We have established a nationwide call center with bilingual staff to manage resident communications and enhance our sales and marketing efforts. We approach our business with a consumer product focus having an emphasis on value and quality for our residents and prospective residents. We have quality assurance programs executed through employee training and adherence to guidelines developed by our senior management, based in part upon surveys of our customers. Our customer focus and quality controls are designed to provide consistency and quality of product and to enable our community managers to effectively market our communities and improve occupancy and resident retention across our portfolio.

*Community Acquisitions/Dispositions.* Over the last ten years, ARC has acquired over 340 communities with over 70,000 homesites. We have invested in dedicated resources, including acquisition, due diligence, construction and marketing teams which allowed us to significantly broaden our acquisition prospects, 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 United States, which enables us to take advantage of acquisition opportunities quickly, often before the community has been marketed publicly. However, while community acquisition opportunities have historically been a significant focus of our activities, we are currently less focused on such opportunities and more focused on community operation. In addition, we also sold more than 30 communities, and have announced plans to sell up to an additional 79 communities, when it became evident that these communities did not fit our market or performance objectives. We continue to evaluate our property portfolio and may sell additional properties in the future.

#### **Key Programs and Initiatives**

*Home Rental Program.* Our real estate segment revenue consists of homeowner rental income, home renter rental income and utility and other income. We receive homeowner rental income from 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 home rental program and our home lease with option to purchase program. For the six months ended June 30,



partners under Delaware law in connection with the management of the Partnership. ARC's duties as general partner may come into conflict with the duties of its directors and officers to ARC. The Partnership's partnership agreement does not require us to resolve such conflicts in favor of either ARC or the Partnership's limited partners.

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Unless otherwise provided for in the relevant partnership agreement, Delaware law generally rER='jmsproofassembler',CD='Oct 26 14:06 2005'  
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2005, and the year ended December 31, 2004, home renter rental income totaled \$22.9 million, or approximately 20% of our total real estate revenue, and \$40.3 million, or approximately 20% of our total real estate revenue, respectively, and homeowner rental income totaled \$78.7 million, or approximately 70% of our total real estate revenue, and \$145 million, or approximately 71% of our total real estate revenue, respectively. At June 30, 2005, we owned a total of 8,718 homes in our communities with acquisition and improvement costs of \$249.2 million, which are rented, available for rent or for sale. These homes had an occupancy rate of approximately 86% at June 30, 2005. We intend to continue to expand our home rental program in the future.

*Home Lease with Option to Purchase.* Our home lease with option to purchase program is a program that we initiated in 2004 to address the demand for home ownership in that segment of the population that might not otherwise qualify to finance the purchase of a home or pay cash. Under this program, a resident enters into a long term lease of a home, typically 24 to 84 months. Over the term of the lease, the resident makes rental payments for the home, and makes additional monthly payments which, if the resident elects to exercise the purchase option, are applied to the purchase price of the home. The resident pays a non-refundable option fee at the time of execution of the home lease. The lease may be terminated at any time by the payment of a termination fee by the resident as provided in the lease, and in the event of such termination, the resident forfeits all additional payments made through the date of termination of the lease. The resident has the right to purchase the home at any time during the term of the lease for a stated purchase price as provided in the lease. The resident also executes a separate homesite lease as part of this program, and agrees that upon the exercise of the purchase option to maintain the home in our community for an additional period of at least 48 months. This program is only offered on homes we own located in our communities.

Additionally, the Partnership's partnership agreement expressly limits the liability of ARC by providing that ARC, and its officers and directors, will not be liable or accountable in damages to the Partnership, its limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if ARC, or such director or officer, acted in good faith. In addition, the Partnership is required to indemnify ARC, its affiliates and each of its 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 ARC or such other persons, provided that the 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 our 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 our partnership agreement that purport to waive or restrict ARC's fiduciary duties that would be in effect under common law were it not for our partnership agreement.

***We may suffer adverse consequences if we expand or enter into new non-real estate business ventures.***

We own or invest in businesses that currently or may in the future engage in more diverse and riskier ventures, such as the sale of manufactured homes, the leasing of manufactured homes with an option to purchase, and financing of manufactured home sales on a broader scale (rather than only to customers in our communities), 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 ARC's management and board of directors determine, using reasonable business judgment, will benefit the Partnership and ARC.

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 the REIT status of ARC. 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 ARC's organizational documents, including the stock ownership limit imposed by its charter, may inhibit market activity in ARC common stock and could prevent or delay a change in control transaction.***

ARC's charter and bylaws, the Partnership's partnership agreement 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 ARC common stock or otherwise be in the best interest of its stockholders, including





supermajority vote and cause requirements for removal of directors and advance notice requirements for director nominations and stockholder proposals.

Pursuant to the provisions of ARC's charter, no individual, other than Mr. Gerald J. Ford and certain affiliated parties, may beneficially own more than 7.3% (in value or number of shares, whichever is more restrictive) of the outstanding shares of ARC common stock or more than 7.3% in value of our outstanding shares of ARC's capital stock. These restrictions on transferability and ownership will not apply if the board of directors determines that it is no longer in ARC's 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 ARC common stock or otherwise be in the best interest of its stockholders.

ARC's board of directors has the power to issue additional shares of stock in a manner that may not be in your best interests. ARC's charter authorizes the board of directors to amend the charter *In-Community Retail Home Sales and Consumer Financing Initiative*. Our retail home sales business consists of the sales of manufactured homes in our communities to residents and prospective residents at reasonable prices. Through our consumer financing initiative, we provide loans to qualified residents and prospective residents to facilitate purchases of manufactured homes located in our communities. It is our practice to acquire additional manufactured home inventory for sale in coordination with the sale of our existing inventory.

### **Our Industry**

The manufactured housing industry represents a meaningful portion of the U.S. housing market. In 2000, there were an estimated 22 million people living in manufactured homes in the United States. 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.

Each homeowner in a manufactured home community leases a homesite from the owner of the community. The manufactured home community owner owns the underlying land, utility connections, streets, lighting, driveways, common area amenities and other capital improvements and is responsible for enforcement of community guidelines that govern resident conduct and maintenance of the community. Generally, each homeowner is responsible for the maintenance of their home and upkeep of their leased site.

We believe that manufactured home communities have several characteristics that make them an attractive investment when compared to some other types of real estate, particularly multi-family real estate, including the following:

- significant barriers to the entry of new manufactured home communities into the market;
- large and growing demographic group of potential customers;

- comparatively stable resident base;
- fragmented ownership of communities;
- comparatively low recurring capital requirements;
- improved economies of scale in operation of multiple sites; and
- affordable homeowner lifestyle.

The manufactured housing industry faces 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 Manufactured Housing Institute, or MHI, industry shipments (a measure of manufacturers' home production and wholesale sales) have declined from 372,843 homes in 1998 to 130,802 in 2004. We believe this dramatic decline in production and sales is largely the result of an oversupply 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 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 United States 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 historical levels, which should reduce the pricing differential between home mortgage interest rates and interest rates for financing the purchase of a manufactured home.

#### **Recent Developments**

On September 21, 2005, ARC announced that Larry D. Willard, a member of ARC's board of directors, had assumed the additional position of Chairman of ARC's board of directors and Chief Executive Officer of ARC and that ARC director James F. Kimsey had become President and Chief Operating Officer of ARC. Mr. Scott D. Jackson, ARC's former Chairman and Chief Executive Officer, had assumed the position of Vice Chairman of ARC's board of directors and would direct ARC's sales of communities.

On that date, ARC also announced that its board of directors had authorized a \$0.515625 dividend on ARC's Series A cumulative redeemable preferred stock and a distribution of \$0.39 per unit on the Partnership's Series C preferred partnership units. The dividend and distribution are each payable on October 30, 2005 to holders of record on October 15, 2005. ARC's board of directors also eliminated the quarterly dividend on ARC's common stock and the quarterly distribution on the Partnership's common partnership units, in each case, for the quarter ended September 30, 2005.

Also on September 21, 2005, ARC's board of directors authorized the sale of approximately 79 communities in 33 markets, either at auction or through various negotiated sales. Following these sales, and assuming all 79 communities are sold, ARC will continue to own 237 communities that it believes meet its business plan objectives and operating strategy objectives.

In September 2005, we amended our revolving credit mortgage facility to extend the maturity of the facility to September 2006. As amended, the facility bears interest at the rate of one-month LIBOR plus 2.75% (6.61% at September 30, 2005). See "Description of Other Indebtedness - Revolving Credit Mortgage Facility Due 2006" for a further discussion of this amendment.

In October 2005, we amended our lease receivables facility to increase the size of the facility from \$75 million to \$150 million. The amendment also (i) increased the limit on borrowings under the lease receivables facility from an amount equal to approximately 55% of the net book value of the eligible

manufactured housing unit without stockholder approval to increase the total number of authorized shares of stock or the number of shares of stock of any class or series and issue additional common stock, preferred stock or special voting stock. In addition, ARC's 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. Although the 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 ARC common stock or otherwise be in the best interest of its stockholders.

***Our rights and the rights of ARC's stockholders to take action against its 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, ARC's charter eliminates its directors' and officers' liability to ARC and its 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. ARC's bylaws require it to indemnify its 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, ARC and its stockholders may have more limited rights against its directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by ARC's directors and officers.

***Dividends payable by REITs do not generally qualify for the reduced tax rates on qualified dividends.***

Until tax years beginning after December 31, 2008, certain qualified dividends payable to individual U.S. stockholders (as such term is defined under "Certain U.S. Federal Income Tax Considerations" below) are taxed at 15%. Generally, dividends payable by REITs will not constitute qualified dividends eligible for the reduced rates. 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 stock of non-REIT corporations that pay dividends, which could adversely affect the market price of the stock of REITs, including ARC common stock.

In addition, the relative attractiveness of investment in 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 ARC's stockholders.*

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service, or the IRS, and the U.S. Treasury Department. Changes to the tax law (which changes may have retroactive application) could adversely affect ARC's stockholders. We cannot predict whether, when, in what forms, or with what effective dates, the tax laws applicable to ARC or its stockholders will be changed.

## Risks Related to Ownership of the Notes

### Our Markets

The table below provides summary information on our portfolio as of June 30, 2005 for our 20 largest markets:

| Market(1) | <i>The notes are effectively subordinated to the Partnership's existing and future secured indebtedness.</i>  | Percentage of Total Homesites | Occupancy | Rental Income Per Occupied Homesite Per Month(2) |
|-----------|---|-------------------------------|-----------|--|
|           | <p>The notes represent the Partnership's general obligations. Accordingly, holders of the Partnership's secured indebtedness will have claims that are superior to the claims of holders of the notes to the extent of the value of the assets securing that other indebtedness. As of June 30, 2005, on a pro forma basis, after giving effect to ARC's proposed sale of up to 79 communities announced on September 21, 2005 and the sale of the notes, the Partnership had approximately \$1,049.3 million of outstanding indebtedness, consisting of \$926.9 million secured indebtedness, as well as the notes</p> |                               |           |  |

and \$25.8 million in trust preferred securities which were each unsecured. See Affordable Residential Communities LP Selected Consolidated Historical and Pro Forma Financial Data and Selected Unaudited Pro Forma Financial Data for a discussion of the anticipated effect on the Partnership and ARC of these sales and the sale of the notes. In the event of a bankruptcy, liquidation or dissolution, the assets which serve as collateral for any secured indebtedness will be available to satisfy the obligations under the secured indebtedness before any payments are made on the notes. The terms of the indenture governing the notes do not prohibit the Partnership from incurring future indebtedness.

***The notes are effectively subordinated to liabilities of the Partnership's subsidiaries.***

The notes are not guaranteed by the Partnership's subsidiaries and therefore the notes will be effectively subordinated to all indebtedness and

other liabilities of its subsidiaries. In the event of a bankruptcy, liquidation or dissolution of a subsidiary, following payment by the subsidiary of its liabilities, the subsidiary may not have sufficient assets to make payments to the Partnership. As of June 30, 2005, on a pro forma basis, the Partnership's subsidiaries had an aggregate of \$1,023.5 million of existing indebtedness. The terms of the indenture governing the notes do not prohibit the Partnership's subsidiaries from incurring future indebtedness.

***There are no restrictive covenants in the indenture relating to the Partnership's ability to incur future indebtedness or complete other financing transactions.***

The indenture governing the notes does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, transactions with affiliates, incurrence of liens or the issuance or

repurchase of securities by the Partnership or any of its subsidiaries. The Partnership therefore may incur additional indebtedness, including secured indebtedness that would be effectively senior to the notes to the extent of the value of the assets securing such indebtedness, or indebtedness at the subsidiary level to which the notes would be structurally subordinated. The Partnership cannot assure you that it will be able to generate sufficient cash flow to pay the interest on its indebtedness, including the notes, or that future working capital, borrowings or equity financing will be available to pay or refinance any such indebtedness.

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***The make whole premium that may be payable upon exchange in connection with specified fundamental changes may not adequately compensate you for the lost option time value of your notes as a result of such fundamental changes.***

If you exchange your notes in connection with a specified fundamental change that occurs prior to August 20, 2015 we may be required to issue you additional shares of ARC common stock as a make whole premium (subject to our ability to elect to pay cash or a combination of cash and shares of ARC common stock in lieu of delivering shares of ARC common stock). The make whole payment is described under Description of Notes Exchange Rights Determination of Make Whole Premium. While the make whole premium is designed to compensate you for the lost option time value of your notes as a result of a specified fundamental change, the make whole amount is only an approximation of



such lost value and may not adequately compensate you for such loss. In addition, if a specified fundamental change occurs after August 20, 2015, there will be no such make whole premium.

***Because your right to require repurchase of the notes is limited, the market price of the notes may decline if we enter into a transaction that is not a fundamental change under the indenture.***

The term fundamental change is limited and may not include every event that might cause the market price of the notes to decline or result in a downgrade of the credit rating of the notes. The Partnership's obligation to repurchase the notes upon a fundamental change may not preserve the value of the notes in the event of a highly leveraged transaction, reorganization, merger or similar transaction. See Description of Notes Repurchase at Option of Holders upon a Fundamental Change.

***If you hold notes, you are not***

*entitled to any rights with respect to the ARC common stock, but you are subject to all changes made with respect to ARC common stock.*

If you hold notes, you are not entitled to any rights with respect to the ARC common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on ARC common stock, if any), but you are subject to all changes affecting the ARC common stock. You will only be entitled to rights on the ARC common stock if and when we deliver shares of ARC common stock to you in exchange for your notes. For example, in the event that an amendment is proposed to ARC's charter requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to delivery of the ARC common stock, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of ARC common

stock.

***The Partnership's ability to repurchase the notes with cash at your option or upon a repurchase event may be limited.***

Holders of the notes may require the Partnership to repurchase all or a portion of their notes for cash at specific times and upon the occurrence of specific circumstances involving the events described under Description of Notes Repurchase at Option of Holders on Certain Dates and Description of Notes Repurchase at Option of Holders upon a Fundamental Change. The Partnership cannot assure you that, if required, it would have sufficient cash or other financial resources at that time or would be able to arrange financing to pay the repurchase price of the notes in cash. The Partnership's ability to repurchase the notes in that event may be limited by law, regulatory authorities, the indenture, the terms of other agreements relating to the Partnership's indebtedness and indebtedness and

agreements that the Partnership may enter into in the future which may replace, supplement or amend our existing or future indebtedness. See Description of Other Indebtedness.

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***The exchange rate of the notes may not be adjusted for all dilutive events.***

The exchange rate of the notes is subject to adjustment for certain events including, but not limited to, the issuance of stock dividends on ARC s common stock, the issuance of rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness or assets, cash dividends and certain tender or exchange offers as described under

Description of Notes Exchange Rights Exchange Rate Adjustments. The exchange rate will not be adjusted for other events, such as an issuance of ARC common stock for cash or in connection with an acquisition, that may adversely affect the trading price of the notes or ARC common stock. There can be no assurance that an event that adversely affects the value of the notes, but does not result in an adjustment to the exchange rate, will not occur.

***You should consider the U.S. federal income tax consequences of***

*owning the notes.*

The U.S. federal income tax treatment of the exchange of the notes into a combination of ARC common stock and cash is uncertain. You are urged to consult your tax advisors with respect to the U.S. federal income tax consequences resulting from the exchange of notes into a combination of cash and common stock. A discussion of the U.S. federal income tax consequences of ownership of the notes is contained in this prospectus under the heading Certain U.S. Federal Income Tax Considerations.

*An active trading market for the notes may not develop.*

The notes constitute a new issue of securities for which there is no established trading market. The notes currently trade on the PORTAL Market. However, the notes sold under this prospectus will no longer be eligible for trading on the PORTAL Market. We do not intend to list the notes on any national or other securities exchange, or on the Nasdaq National

Market. As a result, an active trading market for the notes may not develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the notes may be adversely affected. In that case, you may not be able to sell your notes at a particular time or you may not be able to sell your notes at a favorable price. Future trading prices of the notes will depend on many factors, including:

- our operating and financial condition;
- the interest of securities dealers in making a market; and
- the market for similar securities.

If a trading market does not develop, you may be required to hold the notes to maturity unless you exchange them for shares of ARC common stock or cash.

***We expect that the trading price of the notes will be significantly affected by the trading price of***

***ARC common stock.***

Because the notes are exchangeable into shares of ARC common stock, volatility or depressed prices for ARC common stock could have a similar effect on the trading price of the notes and could limit the amount of cash payable upon exchange of the notes. This may result in greater volatility in the trading price of the notes than would be expected for any non-exchangeable debt securities we may issue. Holders who receive ARC common stock upon exchange of the notes will also be subject to the risk of volatility and depressed prices of ARC common stock. For information on the trading prices of ARC common stock see Price Range of ARC Common Stock.

**Number of Total Homesites**

|                       |       |        |        |        |
|-----------------------|-------|--------|--------|--------|
| Dallas/Fort Worth, TX | 7,223 | 11.5 % | 82.7 % | \$ 349 |
| Atlanta, GA           | 4,969 | 7.9 %  | 89.2 % | 349    |
| Salt Lake City, UT    | 3,792 | 32     |        |        |



***An adverse rating of the notes may cause their trading price to fall.***

If a rating agency rates the notes, it may assign a rating that is lower than investors' expectations. Rating agencies also may lower ratings on the notes in the future. If rating agencies assign a lower-than-expected rating or reduce, or indicate that they may reduce, their ratings in the future, the trading price of the notes could significantly decline.

If we elect to satisfy our exchange obligation to holders by paying the cash value of the ARC common stock into which the notes are exchangeable or by a combination of cash and shares of ARC common stock, upon exchange of all or a portion of their notes, holders may not receive any shares of ARC common stock, or they might receive fewer shares of ARC common stock relative to the exchange value of the notes. In addition, there will be a significant delay in settlement, and because the amount of cash and/or ARC common stock that a holder will receive in these circumstances will be based on the sales price of ARC common stock for an extended period between the exchange date and settlement date, holders will bear the market risk with respect to the market price of ARC common stock for such extended period. Finally, our liquidity may be reduced to the extent that we choose to deliver cash rather than shares of ARC common stock upon exchange of the notes.

***The failure of our results to meet the estimates of market analysis could adversely affect the trading price of the notes and ARC common stock.***

We have not in the past and do not intend to provide estimates of our future financial performance.

6.0

%

92.1

%

***The accounting treatment of the notes may impact the volatility of ARC common stock.***

If certain conversion features of the notes result in those features being considered a derivative embedded in the notes, the associated accounting treatment may cause our non-cash earnings to become more volatile from period to period. Volatility in our earnings may, in turn, affect the trading price of ARC common stock and the notes.

**Risks Related to the Securities Markets and Ownership of ARC Common Stock**

***Additional issuances of equity securities by ARC and exchange of the notes for ARC common stock will dilute the ownership interest of ARC's existing stockholders, including former note holders who had previously exchanged their notes for common stock.***

The exchange of some or all of the notes will dilute the ownership interests of ARC's existing stockholders, including former note holders who had previously exchanged their notes for common stock. Any sales in the public market of the ARC common stock issuable upon such exchange could adversely affect prevailing trading price of ARC common stock. In addition, the existence of the notes may encourage short selling by market participants because the exchange of the notes could depress the price of ARC common stock.

348

Front Range of CO

3,287

5.2

ARC may issue equity in the future in connection with acquisitions or strategic transactions, to adjust its ratio of debt to equity, including through repayment of outstanding debt, to fund expansion of its operations, upon exchange of the notes, or for other purposes. To the extent ARC issues additional equity securities, the percentage ownership into which the notes being offered in this offering would exchange could be reduced.

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*ARC's recent cash distributions to its common and preferred stockholders have exceeded ARC's operating cash flows.*

For the 12 months ended December 31, 2004, and the six months ended June 30, 2005, ARC's annual cash distribution to its common stockholders and quarterly distributions to its preferred stockholders and the Partnership's distributions to its limited partners have exceeded our operating cash flows. We funded these distributions from a combination of operating cash flows, cash generated from senior fixed and variable rate mortgage debt incurred in connection with the completion of the IPO of ARC in February 2004, other borrowings, and sales of assets. On May 23, 2005, ARC announced that its board of directors declared a quarterly cash dividend of \$0.1875 per share of ARC common stock payable to stockholders of record on June 30, 2005.

Unless operating cash flows increase substantially, we will be required to (1) reduce or eliminate the cash distributions or (2) fund future cash distributions to ARC's stockholders or the Partnership's limited partners from other borrowings, sales of some of our properties, and/or other available financing sources or ARC will have to reduce such distributions. If we use working capital or proceeds from such other borrowings, sales of some of ARC's properties, or other available financing sources, we will be required to reduce such distributions.

%

89.1

%

429

Kansas City-Lawrence-Topeka, MO-KS

2,428

3.9

%

89.6

%

285

ilable financing sources to fund these distributions, this will reduce the availability of these funds for other purposes, including repurchase of the notes and the purchase of homes necessary to implement our programs for increasing occupancy. This could adversely affect our financial condition and results from operations and ability to expand our business and further fund our operating and growth initiatives, any of which could adversely affect the market price of the notes and ARC common stock. On September 21, 2005, ARC's board of directors announced that it had eliminated the quarterly dividend on ARC's common stock for the quarter ending September 30, 2005.

*An increase in interest rates may have an adverse effect on the price of ARC common stock.*

One of the factors that may influence the price of ARC common stock in the public market will be the annual distributions to stockholders relative to the prevailing market price of ARC common stock. An increase in market interest rates, which are currently at low levels relative to historical rates, could lead current and prospective holders of ARC common stock to generally expect a higher dividend yield on their investments, including such stock. Under such circumstances, maintaining, decreasing or not appropriately increasing our current level of dividends on ARC common stock would likely adversely affect the market price for ARC common stock and potentially the market price of the notes.

*ARC's common stock price may experience substantial volatility, which may affect your ability, following any exchange, to sell ARC common stock at an advantageous price and could impact the market price, if any, of the notes.*

The market price of ARC common stock has been and may continue to be volatile. For example, the market price of ARC common stock on the New York Stock Exchange has fluctuated for the period from October 21, 2004 to October 21, 2005 between \$15.12 per share and \$9.33 per share and may continue to fluctuate. Therefore, the volatility may affect your ability to sell ARC common stock at an advantageous price. In addition, this may result in greater volatility in the market price, if any, of the notes than would be expected for non-exchangeable debt securities. Market price fluctuations in ARC common stock may be due to acquisitions, dispositions or other material public announcements, including those regarding dividends or changes in management, along with a variety of additional factors including, without limitation, other risks identified in Risk Factors and Special Note Regarding Forward-looking Statements. In addition, the stock markets in general, including the New York Stock Exchange, recently have experienced extreme price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often have been unrelated or disproportionate to changes in operating

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performance. These broad market fluctuations may adversely affect the market price of ARC common stock, and the market price of the notes.

**USE OF PROCEEDS**

We will not receive any proceeds from the resale of the notes or the underlying common stock by selling securityholders.

**RATIO OF EARNINGS TO FIXED CHARGES**

The following financial ratios measure our ability to repay interest from our earnings. Earnings were computed by adding fixed charges (adjusted for capitalized interest) to net loss from continuing operations. Fixed charges consist of interest costs and amortization of debt issuance costs. Pro forma results reflect the effect of the discontinued operations resulting from the proposed sale of the 79 communities, (in thousands).

|                | Pro Forma |          | Pro Forma    |              |             |             |             |            |            |
|----------------|-----------|----------|--------------|--------------|-------------|-------------|-------------|------------|------------|
|                | Ended     | Ratio    | Ended        | Ratio        | Year Ended  | Year Ended  | Year Ended  | Year Ended | Year Ended |
|                | June 30,  |          | December 31, |              | 2004        | 2003        | 2002        | 2001       | 2000       |
|                | 2005      |          | 2004         |              |             |             |             |            |            |
| ille,          | 2,256     | 3.6 %    | 88.2         | %            | 349         |             |             |            |            |
| KS             | 2,178     | 3.5 %    | Six Months   | Six Months   | 66.7        | %           | 273         |            |            |
| FL             | 1,986     | 3.2 %    | 89.8         | %            | 368         |             |             |            |            |
|                | 1,912     | 3.0 %    | 81.0         | %            | 290         |             |             |            |            |
| a City,        | 1,887     | 3.0 %    | 78.5         | %            | 289         |             |             |            |            |
| ro-Winston     |           |          |              |              |             |             |             |            |            |
| C Year         |           |          |              |              |             |             |             |            |            |
|                | Ended     | Ended    | Ended        | Year Ended   |             |             |             |            |            |
|                | June 30,  | June 30, | December 31, | December 31, |             |             |             |            |            |
|                | 2005      | 2005     | 2004         | 2004         | 2003        | 2002        | 2001        | 2000       |            |
|                |           |          |              |              |             |             |             |            | 1,398      |
|                |           |          |              |              |             |             |             |            | 2.2 %      |
| rt-Moline-Rock |           |          |              |              |             |             |             |            | 6          |
| A-IL           | 1,385     |          |              |              |             |             |             |            |            |
| om             |           | 2.2 %    | 86.8 %       | 265          |             |             |             |            |            |
| mpire,         | 1,223     |          | \$ (27,523)  | \$ (30,384)  | \$ (83,527) | \$ (84,913) | \$ (43,267) | \$         | %          |
|                |           |          |              |              |             |             |             |            | 95.1 %     |
|                |           |          |              |              |             |             |             |            | 39         |

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|               |          |                |          |         |          |  |         |        |         |
|---------------|----------|----------------|----------|---------|----------|--|---------|--------|---------|
|               |          |                |          |         |          |  |         |        | 1.9     |
| Goshen,       |          |                |          |         |          |  |         |        |         |
|               | 1,212    |                | 1.9%     | 85.6    | %        |  | 326     |        |         |
| on-North      |          |                |          |         |          |  |         |        |         |
| on, SC        | (48,109) | \$             | (13,949) | \$      | (13,975) |  |         |        |         |
|               |          |                |          |         |          |  |         | 1,179  | 1.9%    |
|               |          |                |          |         |          |  |         |        | 81.8%   |
|               |          |                |          |         |          |  |         |        | 251     |
| t FL          | 1,125    |                | 1.8%     | 96.0    | %        |  | 495     |        |         |
| Durham-Chapel |          |                |          |         |          |  |         |        |         |
|               | 1,094    |                | 1.7%     | 85.7    | %        |  | 340     |        |         |
| , TN          | 1,071    |                | 1.7%     |         |          |  |         |        |         |
| ges           | 36,364   |                | 72.8%    | 291     |          |  |         |        |         |
| y,            |          |                |          |         |          |  |         |        |         |
|               |          | 36,364         |          | 67,159  |          |  | 67,159  | 62,041 | 48,164  |
|               |          |                |          |         |          |  |         | 16,818 | 14,422  |
| alized        | (485     | )              | 994      | 1.6     | %        |  | 79.8%   | 290    |         |
| , NY          | 931      |                | 1.5%     | (485    | )        |  | (3,070  | )      | (3,070) |
| on of         |          |                |          |         |          |  |         |        |         |
|               | 160      |                | 64.7%    | 340     |          |  |         |        |         |
| Top           |          |                |          |         |          |  |         |        |         |
| ts            | 43,530   | <sup>160</sup> | 131      |         | 131      |  |         |        | 69.2%   |
| om            |          |                |          |         |          |  |         |        |         |
| plus          |          |                |          |         |          |  |         |        |         |
| ges           |          |                |          |         |          |  |         |        |         |
| or            |          |                |          |         |          |  |         |        |         |
|               | 8,516    |                | 5,655    | (19,307 | )        |  | (20,693 | )      | 18,774  |
|               | 55       |                | 2,869    | 447     |          |  |         |        | 84.5%   |
|               |          |                |          |         |          |  |         |        | 339     |
| rges:         |          |                |          |         |          |  |         |        |         |
|               |          |                |          |         |          |  |         |        |         |
|               |          |                |          | 19,412  |          |  | 30.8%   | 84.4%  | 297     |
| s/Weighted    |          |                |          |         |          |  |         |        |         |
| cy            |          |                |          |         |          |  |         |        |         |
| ed            |          |                |          |         |          |  |         |        |         |
| )             | 32,074   |                | 32,074   | 62,942  |          |  | 100.0%  | 84.5%  | \$ 326  |

(1) Markets are defined by our management.

(2) Rental income is defined as homeowner lot rental income, home renter lot and home rental income and other rental income reduced by move-in bonuses and rent concessions. Rental income does not include utility and other income.

After taking into account the proposed sale of the 79 communities announced on September 21, 2005, on a pro forma basis as of June 30, 2005, our five largest markets are Dallas/Fort Worth, Texas, with 13.1% of our total homesites; Atlanta, Georgia, with 10.0% of our total homesites; Salt Lake City, Utah, with 7.6% of our total homesites; and Jacksonville, Florida, with 4.5% of our total homesites. See Affordable Residential Communities LP Selected Consolidated Historical and Pro Forma Financial Data and Selected Unaudited Pro Forma Financial Data for a further discussion of the anticipated effect on the Partnership and ARC of these sales and the sale of the notes.

**Our Communities**

As of June 30, 2005, our portfolio consisted of 315 manufactured home communities (net of one community classified as discontinued operations) comprising approximately 62,942 homesites located in 27 states and 67 markets, primarily oriented toward all-age living.

As of June 30, 2005, our communities had an occupancy rate of 84.5% and the average monthly rental income per occupied homesite was \$326. 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. Under our lease with option to purchase program, residents enter into a long term lease, typically 24 to 84 months, pay a security deposit and option fee and commit to monthly payments creditable to their down payment upon purchase of the home. We commit to the price of the home upon purchase at the end of the lease.

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The following table sets forth certain information regarding our communities, including the 79 communities we have identified as held for sale, arranged from our largest to smallest market, as of June 30, 2005. Rental income includes homeowner rental income and home renter rental income reduced by move in bonuses and rent concessions.

| Community Name                      | Held for Sale | State     | Number of Homesites | Occupancy June 30, 2005 | Per Occupied Homesite | Rental Income |
|-------------------------------------|---------------|-----------|---------------------|-------------------------|-----------------------|---------------|
| Capitalized interest                |               |           | 43,887              | 14,714                  | 13,067                |               |
| Amortization of debt issuance costs | 3,772         | Per Month |                     |                         |                       |               |
| Dallas/Ft. Worth, Texas             |               |           |                     | 485                     | 3,070                 |               |

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|   |           |           |           |           |           |           |       |  |                 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-------|--|-----------------|
| Meadow Glen                                   |           | TX        | 5,952     | 5,952     | 3,213     | 4,129     | 1,896 |  | 1,212           |
| Interest factor included in rental expense(1) | 33        | 33        | 126       | 126       | 572       | 148       | 208   |  | 143             |
| Total fixed charges                           | 36,364    | 36,364    | 67,159    | 409       |           | 64.8%     | \$    |  | 289             |
| Brookside Village                             |           | TX        |           |           |           |           |       |  |                 |
|   |           |           | 67,159    | 62,041    | 394       | 79.7%     |       |  | 300             |
| Southfork                                     |           |           |           |           |           |           |       |  |                 |
|   |           |           | 48,168    | 14,422    |           |           |       |  |                 |
| Deficiency in achieving a 1:1 coverage ratio  | \$ 27,848 | \$ 30,709 | \$ 86,466 | \$ 87,852 | \$ 43,267 |           |       |  | TX 323 92.9% 38 |
| Creekside                                     |           |           |           |           | 311       |           |       |  |                 |
|   |           | TX        | 308       | 86.7 %    |           | \$ 48,109 | \$    |  |                 |
| Village North                                 |           | TX        | 289       | 90.7 %    | 393       |           |       |  |                 |
| Summit Oaks                                   |           | TX        | 278       | 13,949    | \$ 13,975 |           |       |  |                 |

(1) Equal to 1/3 of rent expense, which is an approximation of the interest portion of rent expense.

**PRICE RANGE OF ARC COMMON STOCK**

The shares of ARC common stock are listed and traded on the New York Stock Exchange under the symbol ARC. ARC's common stock began trading on February 18, 2004, following its IPO. Set forth below, for the applicable periods indicated, are the high and low closing sale prices per share of ARC common stock as reported by the New York Stock Exchange.

|   | High | Low   |        |             |                   |
|---|------|-------|--------|-------------|-------------------|
| 83.1                                      | %    | 361   |        |             |                   |
| Chalet City                               |      |       | TX     | <b>2004</b> |                   |
| First quarter                             | \$   | 18.98 | \$     | 18.29       |                   |
| Second quarter                            |      |       |        |             |                   |
| Third quarter                             | \$   | 16.94 | \$     | 14.60       |                   |
| Fourth quarter                            | \$   | 14.95 | \$     |             |                   |
| Twin Parks                                |      |       |        |             |                   |
|   |      | 257   | 79.8 % | 331         | \$ 18.67 \$ 14.57 |
| <b>2005</b>                               |      |       | TX     | 247         | 76.1 % 438        |
| Lakewood                                  |      |       |        |             |                   |
|   |      |       |        |             |                   |
| First quarter                             | \$   | 14.03 | \$     | 11.85       |                   |
| Second quarter                            | \$   | 13.62 | \$     | 12.00       |                   |
| Third quarter                             |      | TX    |        | 224         | 82.1 % 424        |
| Quail Run                                 |      |       |        |             |                   |
|   |      |       |        | TX          | \$ 13.65 \$ 9.84  |
| Fourth quarter (through October 21, 2005) | \$   | 10.10 | \$     | 9.48        |                   |

On October 21, 2005, the last reported closing sale price of ARC common stock on the New York Stock Exchange was \$9.81 per share.

**CAPITALIZATION**

The following table sets forth the capitalization of the Partnership as of June 30, 2005 (in thousands):

- on a historical actual basis; and
- on a pro forma basis to reflect the sale of the notes and the use of proceeds therefrom, and the debt reclassification to liabilities related to assets held for sale as a result of the community sales.

|          | Historical | Offering  | Discontinued Operations | Pro Forma |       |           |
|----------|------------|-----------|-------------------------|-----------|-------|-----------|
| 224      |            | 78.6%     | 364                     |           |       |           |
| Trace    |            |           | TX                      | 214       | 65.4% | \$ 19,616 |
| Lakeside | 92,519     | \$        | \$                      | 112,135   |       |           |
|          |            |           |                         |           |       | TX        |
|          | \$ 98,926  | \$        | \$                      | 88.1%     |       | 342       |
| Meadows  | )          | \$ 83,067 |                         |           |       |           |
|          | 302,325    |           | (26,047)                | )         |       | 276,278   |
|          | 211,921    |           |                         | TX        |       | 205       |
| lage     |            |           | TX                      | 204       | 88.3% | 359       |
| Acres    |            | (22,399)  | )                       | 189,522   | 60.3% |           |
| due      | 153,074    |           | (31,433)                | )         |       | 121,641   |
| ue       | 140,468    |           | (31,948)                | )         |       | 108,520   |
|          | 58,764     |           |                         |           |       | 58,764    |
| ue       | 25,780     |           |                         |           |       | 25,780    |
| ble      |            | 96,600    |                         |           |       | 96,600    |
|          | 9,369      |           |                         |           |       | 9,369     |

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|       |           |  |             |   |              |        |         |
|-------|-----------|--|-------------|---|--------------|--------|---------|
|       | 42,100    |  |             |   | 42,100       |        |         |
| ine   |           |  |             |   |              |        |         |
| le    | 43,945    |  | (8,578      | ) | 35,367       |        |         |
| s     | 2,332     |  |             |   | 2,332        |        |         |
|       | 1,089,004 | 96,600   | (136,264    | ) | 1,049,340    |        |         |
|       |           |  | TX          |   | 197          | 88.3 % | 382     |
| e     |           |  | TX          |   | 188          |        |         |
|       |           |  |             |   |              |        |         |
|       | 144,250   |  |             |   | 144,250      |        |         |
|       | 94.7 %    | 368  |             |   |              |        |         |
| ls    |           |  | TX          |   | 186          | 61.3 % | 367     |
| ssing |           |  |             |   |              |        |         |
|       |           | *  | TX          |   |              |        |         |
|       |           |  |             |   |              |        |         |
|       | 186       | 73.7 %   | 424         |   |              |        |         |
| ls    |           |  |             |   |              |        |         |
| ers   |           |  | TX          |   |              |        |         |
|       | 656,660   | &2" face="Times New Roman" style="font-size:1.0pt;"> 183 | 87.4        |   | (34,724      | )      | 621,936 |
| on    | %         | 327  |             |   |              |        |         |
|       |           |  | TX          |   | 156          | 85.9 % | 340     |
|       |           |  |             |   |              |        |         |
|       | 1,745,664 | \$ 96,600  | \$ (170,988 | ) | \$ 1,671,276 |        |         |

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

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**AFFORDABLE RESIDENTIAL COMMUNITIES LP**

**SELECTED CONSOLIDATED HISTORICAL AND PRO FORMA FINANCIAL DATA**

*As used in this section, the terms we, 10.0pt;page-break-after:avoid;text-indent:-10.0pt;">Cottonwood Grove*

The following table shows our selected consolidated historical and pro forma financial data for the periods indicated. You should read our selected consolidated 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, 2004 and 2003 and our consolidated statement of operations data for the years ended December 31, 2004, 2003, and 2002 have been derived from our audited historical financial statements included elsewhere in this prospectus. Our historical consolidated balance sheet information as of June 30, 2005 and our consolidated statement of operations information for the six months ended June 30, 2005 and 2004 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 six months ended June 30, 2005 and 2004, 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 June 30, 2005 are not necessarily indicative of the result to be obtained for the full fiscal year.

Our unaudited pro forma consolidated financial data as of and for the six months ended June 30, 2005 and for the year ended December 31, 2004 have been derived from the unaudited pro forma financial statements included elsewhere in this prospectus. Our pro forma condensed consolidated balance sheet data reflects adjustments to our historical financial data to give effect to the proposed sale of 79 communities announced on September 21, 2005, as well as the sale of our 7½% Senior Exchangeable Notes due 2025, as if the sale of all communities and the sale of the notes had both occurred on June 30, 2005. Our pro forma condensed consolidated statements of operations data reflects adjustments to our historical financial data to give effect to the discontinued operations resulting from the proposed sale of the 79 communities, as if the sales had occurred at the beginning of the periods presented. We have based our unaudited pro forma adjustments upon available information and assumptions that we consider reasonable. Our unaudited pro forma condensed consolidated financial information is not necessarily indicative of what our actual financial position or 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.



TX

107

89.7

%

297

Oak Park Village

TX



94

&nb

Sales of manufactured homes

20,957

26,278

2,789

12,275

15,221

21,681

31,942

Utility and other income

9,231

11,481

9,097

15,746

91.5

%

410



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|                            |                                |         |  |         |         |                      |
|----------------------------|--------------------------------|---------|--|---------|---------|----------------------|
| 599                        | 11,942                         | 2,525   | 1,370                                  |         |         |                      |
| (40)                       | )                              | (102)   | )                                      | 104     |         |                      |
| 98,056                     |                                | 179,350 |  | 222,657 | 163,195 | <b>Rental Income</b> |
| <b>Number of Homesites</b> | <b>Occupancy June 30, 2005</b> |         | <b>Per Occupied Homesite Per Month</b> |         |         |                      |
| 95                         | 75.8%                          |         | \$ 332                                 | 136,494 | 37,549  | 23,975               |
| 92                         | 90.2                           |         |  |         |         | 9                    |
| 6 %                        | 326                            |         |  |         |         |                      |
|                            | El Dorado                      |         |  |         |         |                      |
| 30,234                     | *                              |         | TX                                     | 79      |         | 58,823               |
| 7,390                      | 13,327                         |         | 16,621                                 | 10,247  | 6,633   | 2                    |
| 2,365                      | 14,692                         |         | 18,267                                 | 18,357  | 25,826  |                      |
|                            | 2,079                          |         | 8,198                                  | 8,198   | 7,382   | 8                    |
| 3,054                      | 7,127                          |         | 7,127                                  | 5,527   | 4,105   | 2                    |
| 19,099                     |                                |         |  |         |         |                      |
| TX                         | 67                             |         | 89.6%                                  | 348     |         |                      |
| 29,361                     | 29,361                         |         | 16,855                                 | 60      |         | 8                    |
| 59                         | 84.7%                          |         | 360                                    |         |         |                      |
| 7,223                      | 82.7%                          |         | \$                                     |         |         | 4,417                |
| 850                        |                                |         |  |         | 13,427  |                      |
| 509                        | 84.9%                          |         | 338                                    |         |         |                      |
| 507                        | 92.9%                          |         | 361                                    | 42,255  |         | 3                    |
|                            | 3,358                          |         | 3,591                                  | 1,385   |         |                      |

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|         |                             |         |         |          |         |         |          |        |   |
|---------|-----------------------------|---------|---------|----------|---------|---------|----------|--------|---|
|         |                             | 863     |         | 863      |         |         |          | GA     |   |
| 13,557  |                             | 430     |         | 93.3     | %       |         |          |        |   |
| 27,209  |                             | 49,862  |         | 56,892   |         | 381     |          |        |   |
| 804     |                             | 14,714  | 13,067  |          |         |         |          |        |   |
|         |                             | 83.6    | %       | 171,232  |         | 141,426 |          | 3      |   |
| 300     |                             | 97.7    | %       | 324      |         |         |          |        |   |
| 185,993 |                             | 54,369  | 40,118  |          |         |         |          |        |   |
| (792    | )                           | (1,597  | )       | (1,616   | )       | (1,439  | )        | (1,390 | ) |
|         |                             | GA      | 267     |          | 89.9    | %       | 390      |        |   |
| 264     | )                           | (42,578 | )       | (83,527  | )       | 83.3    | %        |        |   |
| 913)    | (43,267                     | )       | (48,109 | )        | (13,949 | )       | (13,975  | )      |   |
| 4       | %                           | 313     |         |          |         |         |          |        |   |
| 201     |                             | 95.5    | %       | 345      |         |         |          |        |   |
|         | 795                         |         |         | GA       |         | 203     |          | 98.0   |   |
| 130     | )                           |         |         |          |         |         |          |        |   |
|         |                             | 93.1    |         | %        | 309     |         |          |        |   |
| 33      |                             |         |         |          |         |         |          |        |   |
|         | style="margin:0pt Opt       |         |         | (41,783  | )       |         | (91,547  | )      |   |
|         | .0001pt;text-align:right;"> | GA      |         |          |         |         |          |        |   |
| (3,810  | )                           | 126     |         | 73.8     | %       | 329     |          |        |   |
| (9,752  | )                           | (9,752  | )       |          |         | 102     |          | 9      |   |
| 75      |                             | \$      |         | (36,004) |         | \$      | (45,593) |        |   |
|         |                             | \$      | 100.0   | %        | 282     |         |          |        |   |
| 4,969   |                             | 89.2    | %       | \$       | 349     |         |          |        |   |
|         |                             |         |         | \$       | (0.84)  | \$      | (1.24)   | \$     |   |

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|        |    |         |           |         |            |           |                |
|--------|----|---------|-----------|---------|------------|-----------|----------------|
| 4 )    | \$ | (2.20 ) | \$ (2.94) | \$      | (1.54)     | \$        | (2.17)         |
| 99.5 % |    | \$      | 385       |         |            |           |                |
|        |    |         |           |         |            |           | idth:24.0pt;"> |
|        | UT |         | 323       |         | 0.02       |           | 99.1 %         |
| 273    |    | 97.8    |           | (0.17 ) | 0.17       | 0.06      | 0.09           |
|        |    |         |           |         |            |           |                |
| %      |    | 368     |           |         |            |           | \$ (2.51) \$   |
| 237    |    | 75.9 %  |           |         | 323        |           |                |
| 210    |    | 96.2 %  |           |         | 321        |           |                |
| 211    |    | 94.3 %  |           |         | \$ (2.88 ) | \$ (1.45) | \$ (2.19)      |
| 37,531 |    | 40,413  |           |         | 40,413     | 19,699    | 16,353 3       |
| 6,441  |    |         |           |         |            |           |                |
| 98.6 % |    | 353     |           |         |            |           |                |
| 204    |    | 80.4 %  |           |         | 352        |           |                |
| 200    |    | 97.5 %  |           |         | 455        |           |                |
| 194    |    | 93.3 %  |           |         | 339        |           |                |
|        |    |         |           |         |            |           |                |
| 191    |    |         |           |         |            |           | & 94.2%        |
|        |    |         |           |         |            |           |                |
|        |    |         |           |         |            |           | 321            |
| 68.0 % |    | 276     |           |         |            |           |                |
| \$ 989 |    | \$      | 18,971    |         |            | \$ 27,034 | \$ 1           |

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Rental Income

|  |          |            |  |  |            |           |            |            |           |
|--|----------|------------|--|--|------------|-----------|------------|------------|-----------|
|  | (3,177 ) |            |  |  |            |           |            |            |           |
|  | (39,170) | (576,814 ) |  |  | (607,615 ) | (47,693 ) | (137,473 ) | (104,638 ) | (91,185 ) |
|  | 17,995   | 578,954    |  |  | 593,757    | 25,389    | 137,787    | 84,340     | 111,976   |

| Held for Sale | State | Number of Homesites | Per Occupied Occupancy 06/30/05 | Homesite  |     |
|---------------|-------|---------------------|---------------------------------|-----------|-----|
|               |       |                     |                                 | Per Month |     |
|               | UT    | 143                 | 79.7%                           | \$ 322    |     |
|               |       |                     |                                 | UT        | 137 |

|          |         |             |        |          |             |          |            |          |           |
|----------|---------|-------------|--------|----------|-------------|----------|------------|----------|-----------|
| \$ 2,211 | \$2,211 | \$ (13,787) | \$     | (24,818) | \$ (24,818) | \$ 1,495 | \$(13,202) | \$ 2,216 | \$(3,296) |
| 169      |         |             |        |          |             |          |            |          |           |
| IHC      | UT      | 61          | 96.7%  | 340      |             |          |            |          |           |
| ge       | UT      | 40          | 97.5   | 32,938   | 43,028      |          | 29,418%    | 372      |           |
| ighted   |         | 43,405      | 63,516 | 60,532   |             | 3,792    | 92.1%      | \$ 348   | 44,920    |

|  |        |         |       |         |    |      |      |    |
|--|--------|---------|-------|---------|----|------|------|----|
|  | \$1.03 | \$ 0.93 |       | \$ 1.97 | \$ | \$   | \$   | \$ |
|  | 0.78   |         |       | 0.78    |    |      |      |    |
|  | CO     | 486     | 89.1% | \$ 425  |    |      |      |    |
|  | CO     | 426     | 69.0% | 399     |    | 0.50 | 0.46 |    |

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|  | Pro Forma<br>June 30,<br>2005 | June 30,<br>2005 | December 31,<br>2004(3) |           |         |            |   |           |       |           |
|--|-------------------------------|------------------|-------------------------|-----------|---------|------------|---|-----------|-------|-----------|
| Wikiup                                     |                               |                  |                         | CO        | 339     | 96.8       | % | 464       |       |           |
| 2003                                       |                               | 2002(1)          | Villa West              |           | CO      | 331        |   | 89.1%     |       | 365       |
| The Meadows                                |                               |                  |                         | CO        | 303     | 2001       |   | 2000      |       |           |
|  | (unaudited)                   | (unaudited)      |                         |           |         |            |   |           |       |           |
| <b>Balance sheet data (at period end):</b> |                               |                  |                         |           |         |            |   |           |       |           |
| Rental and other property, net             | \$1,294,134                   | \$ 1,587,040     | \$1,532,780             | \$863,515 |         | 89.1%      |   | 484       |       |           |
| Mountainside Estates                       |                               |                  |                         | CO        | 227     | \$ 854,445 |   | \$335,387 | \$    | 260,161   |
| Cash and cash equivalents                  |                               | 89.9%            | 498                     |           |         |            |   |           |       |           |
| Thornton Estates                           |                               | 112,135          | 19,616                  | 39,802    | 26,626  | 38,241     |   | 23,668    |       | 37,340    |
| Loan reserves and restricted cash          | 35,411                        | 35,453           | 31,019                  |           | CO      |            |   | 208       | 98.6% | 453       |
| Countryside                                |                               |                  |                         | CO        | 173     | 92.5       | % | 332       |       |           |
| Inspiration Valley                         |                               |                  |                         | CO        | 139     | 89.2       | % | 488       |       |           |
| Pleasant Grove                             |                               |                  | 46,083                  | 52,710    | 11,981  |            |   | 19,350    |       |           |
| Total assets                               | 1,866,662                     | 1,804,786        | 1,813,232               |           | CO      | 112        |   | 89.3      | %     | 423       |
| Loveland                                   |                               |                  | 1,126,069               | 1,136,737 | 429,979 | 343,175    |   |           |       |           |
| Notes payable and preferred interest       | 1,049,340                     | 1,089,004        | 1,001,622               | 773,394   | 736,819 | 238,034    |   | 186,465   |       |           |
| Total liabilities                          | 1,244,726                     | 1,148,126        | 1,097,293               | 817,852   | 788,617 | 271,143    |   | 204,908   |       |           |
| Partners capital                           | 621,936                       | 656,660          | 715,939                 | 308,217   | 348,120 | 158,836    |   | 138,267   |       |           |
| <b>Other Data (at period end):</b>         |                               |                  |                         |           |         |            |   |           |       |           |
| Total communities                          | 237                           | 315              | 315                     | 199       | 404     |            |   |           | CO    | 113 96.5% |
| Sheridan                                   |                               |                  |                         | 209       | 83      | 63         |   |           |       |           |
| Total homesites                            | 49,648                        | 62,942           | 63,661                  | 37,552    | CO      |            |   | 111       | 91.9% | 475       |
| Grand Meadow                               |                               | 36,805           | 15,941                  | 11,861    |         |            |   |           |       |           |
| Occupancy                                  | 86.3                          | % 84.5           | % 81.5                  | % 85.7    | % 89.9  | % 90.7     | % | 88.7      | %     |           |

(1) &#1size="2" face="Times New Roman" style="font-size:1.0pt;">



CO

104

Financial data for the year ended December 31, 2002 reflects the effects of ARC's reorganization from May 2, 2002, the date of completion of the reorganization, through period end. We accounted for the reorganization under the purchase method of accounting.

(2) Investors in and analysts following the real estate industry use funds from operations, or FFO, and earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, as supplemental performance measures. While we believe that net income (as defined in GAAP) is the most appropriate measure, we also believe that FFO and EBITDA, as adjusted, are widely used by and relevant to investors, analysts and lenders and are appropriate supplemental measures. FFO reflects the assumption that real estate values rise or fall with market conditions and principally adjusts for the effects of GAAP depreciation and amortization of real estate assets. In addition, FFO and EBITDA, as adjusted, are commonly used by the Company in various ratios, pricing multiples/yields and returns and valuation calculations used to measure financial position, performance and value.

FFO is defined by the National Association of Real Estate Investment Trusts, or NAREIT, as net income, computed in accordance with generally accepted accounting principles, or GAAP, excluding gains (or losses) from sales of property, plus rental property depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Industry analysts consider FFO to be an appropriate supplemental measure of the operating performance of an equity REIT primarily because the computation of FFO excludes historical cost depreciation as an expense and thereby facilitates the comparison of REITs which have different cost bases in their assets. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time, whereas real estate values have instead historically risen or fallen based upon market conditions. FFO does not represent cash flow from operations as defined by GAAP and is a supplemental measure of performance that does not replace net income as a measure of performance or net cash provided by operating activities as a measure of liquidity. In addition, FFO is not intended as a measure of a REIT's ability to meet debt principal repayments and other cash requirements, nor as a measure of working capital. Please see the Reconciliation of Net Income to Funds from Operations set forth below.

EBITDA, as adjusted is defined as net loss attributable to common partnership unitholders adjusted to exclude preferred stock distributions, income from discontinued operations, interest income, interest expense, depreciation and amortization, impairment charges, and early termination of debt expenses.

FFO and EBITDA, as adjusted, do not represent cash generated from operating activities in accordance with GAAP and are not necessarily indicative of cash available to fund cash needs, including the repayment of principal on indebtedness and payment of dividends and distributions. FFO and EBITDA, as adjusted, should not be considered as subst

100.0

%

(3) Financial data for the year ended 2004 reflects the effects of (a) the ARC IPO, financing transactions and Hometown Communities Acquisition that we completed on February 18, 2004; and (b) the acquisition of the D.A.M. communities we acquired on June 30, 2004 and other community acquisitions.

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The following table presents the reconciliation of net loss from continuing operations computed in accordance with GAAP to FFO available to common partnership unitholders (in thousands).

| Mobile Gardens                                      | Pro Forma         |                              | Pro Forma             |             | 361                     |
|---|-------------------|------------------------------|-----------------------|-------------|-------------------------|
|   | 100               | 93.0 %                       | 474                   | Six Months  | Year                    |
|   | Ended<br>June 30, | Six Months Ended<br>June 30, | Ended<br>December 31, |             |                         |
| Shady Lane  |                   | CO                           | 64                    | 90.6 %      | 355                     |
| Commerce Heights                                    |                   | CO                           | 51                    | 98.0 %      | 383                     |
| Front Range of Colorado                             |                   |                              | 3,287                 | 89.1 %      | Year Ended December 31, |
| Total/Weighted Average                              | 2005              | 2005                         | 2004(1)               | 2004(1)(2)  | 2004(1)(2)              |
| <b>Reconciliation of FFO:</b>                       |                   |                              |                       |             |                         |
| Net loss from continuing operations                 | \$ %              | \$ 429                       |                       |             |                         |
| <i>Kansas City/Lawrence/Topeka, Missouri/Kansas</i> |                   | (27,523)                     | \$ (30,384)           | \$ (42,578) | \$ (83,527)             |
| )   |                   |                              |                       |             |                         |
| \$  |                   |                              |                       |             |                         |
| (84,913)  |                   |                              |                       |             |                         |
| )   |                   |                              |                       |             |                         |
| \$  |                   |                              |                       |             |                         |
| (43,267)  |                   |                              |                       |             |                         |

Springdale Lake

)

\$

(48,109

)

\$

(13,949

)

\$

(13,975

)

Plus:

t 0pt .0001pt;">

MO

441

88.7

%

\$

292

River Oaks

\*

KS

397

80.9

%

279

Northland

MO

Depreciation and amortization

33,081

281

98.9

%

285

Ridgewood Estates

KS

277

89.9

%

271

Easy Living

KS

261

96.2

%

42,255

32,152

57,761

72,014

46,467

37,058

14,943

9,974

Incman" style="font-size:1.0pt;">

293



Meadowood

KS

250

(1,861

)

1,000

795

529

1,915

91.2

%

255

Harper Woods

31

1,040

819

(149

)

KS

Depreciation and amortization from discontinued operations

9,179

5

1,825

17,387

3,134

2,589

1,957

2,536

2,247

Less:

140

88.6

%

322

Shawnee Hills

\*

KS

109

73.4

%

298

Pine Hills

AmortOpt;">

KS

93

90.3

(3,772

)

(3,772

)

(1,722

)

(5,952

)

(5,952

%

285

Riverside

KS

93

)

(3,213

)

(4,129

)

(1,896

)

(1,212

)

97.8

%

285

Brittany Place

Depreciation expense on furniture, equipment and vehicles

(951

)

(951

)

(449

)

(1,264

)

(1,264

)



(1,112

)

(1,019

)

(237

)

(181

)

FFO

8,153

8,153

(9,977

)

(15,066

)

(15,066

)

1,495

(13,202

)

2,216

(3,296

)

Less preferred unit distributions

(5,942

)

(5,942

)

(3,810

yle="padding:0pt .7pt 0pt 0pt;width:19.1pt;">

KS

86

91.9

%

)

(9,752

)

305

Kansas City/Lawrence/Topeka, Missouri/Kansas  
Total/Weighted Average

(9,752

)

-

FFO available to  
common partnership unitholders

\$

2,211

\$

ing:0pt .7pt 0pt 0pt;width:3.1pt;">

2,428

89.6

%

\$

285

*Jacksonville, Florida*

Portside

2,211

\$

(13,787

)

\$

(24,818

)

\$

(24,818

)

\$

1,495

\$

(13,202

FL

928

96.8

%

\$

335

CV-Jacksonville

FL

643

86.3

%

361

Ortega Village

FL

284

)

\$

2,216

\$

(3,296

)

---

(1) FFO for the six months ended June 30, 2004 and the year ended December 31, 2004 (actual and pro forma) includes \$27.9 million of costs related to ARC's IPO, financing transactions and the Hometown acquisition.

(2) FFO for the year ended December 31, 2004 (actual and pro forma) includes charges for the following: (i) retail losses of \$11.2 million related to sales of older vacant homes sold during the fourth quarter at discounts to their original costs and marketing and promotion costs both incurred to drive occupancy, help establish and drive our Hispanic marketing initiative and reduce future repairs and maintenance costs in our rental home portfolio; (ii) \$3.0 million of impairment charges related to older vacant rental homes we expect to sell in 2005 at prices less than their carrying value in order to continue to drive occupancy in specific markets and reduce repairs and maintenance costs in our rental home portfolio; (iii) \$0.9 million of goodwill impairment related to our insurance business; (iv) \$1.0 million of severance costs primarily related to the fourth quarter resignation of our chief operating officer; (v) approximately \$500,000 of impairment charges related to three communities; and (vi) approximately \$500,000 related to property damage sustained during the hurricanes that occurred in the third quarter in the Southeast United States.



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(3) FFO for the year ended December 31, 2003 includes a charge of \$1.4 million for retail home sales asset impairment and other expense and a charge of approximately \$864,000 for the cost of vacating unused office space and \$337,000 in executive severance.

(4) FFO for the year ended December 31, 2002 includes charges incurred in the reorganization in connection with the repayment of debt including \$1.9 million for exit fees and \$1.6 million for the write off of unamortized loan costs, and includes a charge of \$13.6 million to write off goodwill associated with our retail home sales and insurance businesses.

For more details

73.9

%

333

96

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, see our consolidated financial statements for the years ended December 31, 2004, 2003 and 2002.

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The following table presents the reconciliation of our net loss attributable to common partnership unitholders computed in accordance with GAAP to EBITDA, as adjusted (in thousands).

| Months Ended<br>30,<br>2004 | Pro Forma<br>Year Ended<br>December 31,<br>2004(1)<br>Number of<br>Homesites | Year Ended December 31,       |                   |  |            | Homesite   |            |                              |
|-----------------------------|--|-------------------------------|-------------------|--|------------|------------|------------|------------------------------|
|                             |  | Occupancy<br>2004<br>06/30/05 | 2003<br>Per Month | 2002   |            |            |            |                              |
| 212                         | 82.1 %   | \$ 391                        |                   |  |            |            |            |                              |
|                             |  | Magnolia<br>Circle            |                   | FL   | 127        |            |            |                              |
| (7,004)                     | 81.9 %   | \$(45,593)                    | \$(93,279)        | \$(101,299)  | \$(39,903) | \$(47,069) | \$(13,130) | \$(14,124)                   |
| FL                          | 62   | 79.0 %                        | )<br>287          |  |            |            |            |                              |
|                             | 2,256  |                               |                   |  |            |            |            |                              |
| \$ 349                      |  |                               |                   |  |            |            |            |                              |
| 10                          | 9,752  | 9,752                         |                   |  |            |            |            |                              |
| ) (795 )                    |  |                               | 6,634             | (3,364 )   | KS         | 538        | 58.4 %     | gin:0pt 0pt                  |
| 27,209                      | 49,862   | 56,892                        | \$ 260            | 13,067   |            |            |            | .0001pt;page-break-after:avo |
| KS                          | 373  | 57,386                        | 43,804            | 14,714   |            |            |            |                              |
| 55                          | 32,152   | 57,761                        | 72,014            | 46,467   | 37,058     | 14,943     | 9,974      |                              |
|                             | 13,427   | 16,685                        | 73.5 %            | 258  |            |            |            |                              |
| KS                          | 254  | 61.8 %                        |                   | 16,685   |            |            |            |                              |
|                             | 3,358  | 3,591                         | 1,385             |  |            |            |            |                              |
|                             | 863  | 863                           |                   | 13,557   |            |            |            |                              |
|                             |  |                               |                   | ont<br>size="2"<br>face="Times<br>New<br>Roman"<br>style="font-size:10.0pt;">240 |            |            |            |                              |
| KS                          | 243  | 76.1 %                        | 290               |  |            |            |            |                              |
| KS                          | 160  | 66.3 %                        | 299               |  |            |            |            |                              |
| KS                          | 136  | 68.4 %                        | 270               |  |            |            |            |                              |
| KS                          | 112  |                               |                   |  |            |            |            |                              |

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|       |           |           |           |           |           |           |          |         |
|-------|-----------|-----------|-----------|-----------|-----------|-----------|----------|---------|
| 62.5% | (660 )    | (792 )    | (1,597 )  | (1,616)   | (1,439)   | (1,390)   | (2,871)  | (2,168) |
| 028   | \$ 29,418 | \$ 43,405 | \$ 63,516 | \$ 60,532 | \$ 44,920 | \$ 12,837 | \$ 6,898 |         |

(1) Net loss attributable to common partnership unitholders excludes income or loss from discontinued operations and any gains or losses from the sale of discontinued operations.

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**SELECTED UNAUDITED PRO FORMA FINANCIAL DATA**

*As used in this section, the terms we, us, our, the Partnership refer to the Partnership and not to any of its subsidiaries. The term ARC refers to Affordable Residential Communities Inc. and not any of its subsidiaries.*

The following unaudited pro forma condensed consolidated financial information of the Partnership and ARC as of and for the six months ended June 30, 2005 and for the three years ended December 31, 2004, 2003 and 2002 have been derived from the historical financial statements included elsewhere and incorporated by reference in this prospectus.

The pro forma condensed consolidated balance sheets reflect adjustments to the Partnership's and ARC's historical financial data to give effect to the proposed sale of 79 communities announced on September 21, 2005.

315

Sleepy Hollow

\*

KS

86

48.8

%

1/2% Senior Exchangeable Notes due 2025, as if the sale of all communities and the sale of the notes had both occurred on June 30, 2005.

The pro forma condensed consolidated statements of operations reflect adjustments to the Partnership's and ARC's historical financial data to give effect to the discontinued operations resulting from the proposed sale of the 79 communities as if the sales had occurred at the beginning of the periods presented.

The unaudited pro forma adjustments are based upon available information and assumptions that the Partnership and ARC consider reasonable. The unaudited pro forma condensed consolidated financial information is not necessarily indicative of what the actual financial position or results of operations would have been as of the date and for the period.

303

Park Avenue Estates

KS

85

81.2

%

350

El Caudillo

KS

67

92.5

%

287

Sunset 77

\*

KS

You should read the unaudited pro forma condensed consolidated financial information, together with the notes thereto, in conjunction with the more detailed information contained in the financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations of the Partnership and ARC included and incorporated by reference in this prospectus.

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## Affordable Residential Communities LP

## Unaudited Pro Forma Condensed Consolidated Balance Sheet

At June 30, 2005

(in thousands)

|   | June 30, 2005 |           |   |                     |
|---|---------------|-----------|---|---------------------|
|   | Historical    | Offering  | Discontinued Operations                       | 52 Pro Forma        |
| <b>Assets</b>                                     |               |           |   |                     |
| Rental and other property, net                    | \$ 1,587,040  | \$        | \$ (292,906 )                                 | \$ 1,294,134        |
| Assets held for sale                              | 3,368         |           | 279,254                                       | 67.3 % 201          |
| Audora  |               |           | KS  | 37 86.5 % 314       |
| Sycamore Square                                   |               | *         | KS  | 35 40.0 % 204       |
| 282,622   |               |           |   |                     |
| Cash and cash equivalents                         | 19,616        | 92,519    |   | 112,135             |
| Tenant notes and other receivables, net           | 32,826        |           | Wichita, Kansas Total/Weighted Average (488 ) | 32,338              |
| Inventory   | 307           |           | (5 )  | 302                 |
| Loan origination costs, net                       | 14,510        | 4,081     |   | 2,178 66.7 % \$ 273 |
| Orlando, Florida                                  |               | (1,782)   | 16,809  |                     |
| Loan reserves                                     | 35,453        |           | (42 )   | Shadow Hills 35,411 |
| Goodwill  | 85,264        |           | (15,490 )                                     | 69,774              |
| Lease intangibles and customer relationships, net | 16,087        |           | (2,981 )                                      | 13,106              |
| Prepaid expenses and other assets                 | 10,315        |           | (284 )  | 10,031              |
| Total assets                                      | \$ 1,804,786  | \$ 96,600 | \$ (34,724 )                                  | \$ 1,866,662        |
| <b>Liabilities and Partners</b>                   |               |           |   |                     |
| <b>Capital</b>                                    |               |           |   |                     |
| Notes payable                                     | \$ 1,089,004  | \$ 96,600 | \$ (136,264 )                                 | \$ 1,049,340        |
| Liabilities related to assets held for sale       | FL            | 664       | 77.4 %  | \$ 425              |
| Siesta Lago                                       |               |           | FL  | 489 96.7 % 383      |
| Chalet North                                      |               |           | FL  | 403 92.8 % 377      |
| College Park                                      |               |           | FL  |                     |