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ALBANY INTERNATIONAL CORP /DE/
Form SC 13G/A
February 04, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 1)

NAME OF ISSUER: Albany International Corporation

TITLE OF CLASS OF SECURITIES: Common

CUSIP NUMBER: 012348108

CUSIP NO. 012348108

(1) Names of Reporting Persons MELLON FINANCIAL CORPORATION
SS or IRS Identification Nos. Of Above Person IRS No. 25-1233834

(2) Check the Appropriate Box if a Member of a Group (See Instructions)
(a) () (b) ()

(3) SEC use only

(4) Citizenship or Place of Organization United States

Number of Shares (5) Sole Voting Power 1,079,856

Beneficially Owned by Each (6) Shared Voting Power 94,000

Reporting Person With (7) Sole Dispositive Power 1,091,440

(8) Shared Dispositive Power 94,000

(9) Aggregate Amount Beneficially Owned by Each Reporting Person 1,186,640

(10) Check if the Aggregate Amount in Row (9) Excludes Certain
Shares (see Instructions) ()

(11) Percent of Class Represented by Amount in Row (9) 3.94

(12) Type of Reporting Person (See Instructions) HC

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

(Under the Securities and Exchange Act of 1934)

Item 1(a) Name of Issuer: Albany International, Corp.

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- Item 1(b) Address of Issuer's Principal Executive Offices:
1373 Broadway
Albany, NY 12204
- Item 2(a) Name of Person Filing: Mellon Financial Corporation and any other reporting person(s) identified on the second part of the cover page(s).
- Item 2(b) Address of Principal Business Office, or if None, Residence:
c/o Mellon Financial Corporation
One Mellon Center
Pittsburgh, Pennsylvania 15258
(for all reporting persons)
- Item 2(c) Citizenship: United States
- Item 2(d) Title of Class of Securities: Common Stock
- Item 2(e) CUSIP Number: 012348108
- Item 3 See Item 12 of cover page(s) ("Type of Reporting Person") for each reporting person.

BK = Bank as defined in Section 3(a)(6) of the Act

IV = Investment Company registered under Section 8 of the Investment Company Act of 1940

IA = Investment Advisor registered under Section 203 of the Investment Advisors Act of 1940

EP = Employee Benefit Plan, Pension Fund which is subject to the provisions of the Employee Retirement Income Security Act of 1974 or Endowment Fund; see Section 240.13-d(1)(b)(1)(ii)(F)

HC = Parent Holding Company, in accordance with Section 240.13-d(1)(b)(1)(ii)(G)

- Item 4 Ownership: See Item 5 through 9 and 11 of cover page(s) as to each reporting person.

The amount beneficially owned includes, where appropriate, securities not outstanding which are subject to options, warrants, rights or conversion privileges that are exercisable within 60 days. The filing of this Schedule 13G shall not be construed as an admission that Mellon Financial Corporation, or its direct or indirect subsidiaries, including Mellon Bank, N.A., are for the purposes of Section 13(d) or 13(g) of the Act, the beneficial owners of any securities covered by this Schedule 13G.

The following information applies if checked: () Mellon Bank, N.A. is the trustee of the issuer's employee benefit plan (the "Plan"), which is subject to ERISA. The securities reported include all shares held of record by Mellon Bank, N.A. as trustee of the Plan which have not been allocated to the individual accounts of employee participants in the Plan. The reporting person, however, disclaims beneficial ownership of all shares that have been allocated to the individual accounts of employee participants in the Plan for which directions have been received and followed.

- Item 5 Ownership of Five Percent or Less of a Class: If this

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statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following (X)

Item 6 Ownership of More than Five Percent on Behalf of Another Person: All of the securities are beneficially owned by Mellon Financial Corporation and direct or indirect subsidiaries in their various fiduciary capacities. As a result, another entity in every instance is entitled to dividends or proceeds of sale. The number of individual accounts holding an interest of 5% or more is (0)

Item 7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported by the Parent Holding Company:
See Exhibit I.

Item 8 Identification and Classification of Members of the Group: N/A

Item 9 Notice of Dissolution of Group: N/A

Item 10 Certification: By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired and are not held in connection with or as a participant in any transaction having such purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct. This filing is signed by Mellon Financial Corporation on behalf of all reporting entities pursuant to Rule 13d-1(f) (1) promulgated under the Securities and Exchange Act of 1934, as amended.

Date: January 30, 2004

MELLON FINANCIAL CORPORATION

By: CATHERINE L. NEIPOINT

Catherine L. Neipoint
Vice President
Mellon Bank, N.A.
Attorney-In-Fact for
Mellon Financial Corporation

EXHIBIT I

The shares reported on the attached Schedule 13G are beneficially owned by the following direct or indirect subsidiaries of Mellon Financial Corporation, as marked (X):

- (A) The Item 3 classification of each of the subsidiaries listed below is "Item 3(b) Bank as defined in Section 3(a)(6) of the Act."
- () Mellon Trust of New England, National Association (parent holding company of Franklin Portfolio Associates, LLC, TBCAM Holdings, Inc. and The Boston Company Asset Management, LLC

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- () Mellon Bank DE National Association
- (X) Mellon Bank, N.A. (parent holding company of Founders Asset Management LLC, The Dreyfus Corporation, Mellon Equity Associates, LLP and Laurel Capital Advisors, LLP)
- () Mellon Trust of California
- () Mellon Trust of New York, LLC
- () Mellon Private Trust Company, National Association
- () Mellon Trust of Washington

(B) The Item 3 classification of each of the subsidiaries listed below is "Item 3(e) Investment Advisor registered under Section 203 of the Investment Advisors Act of 1940."

- () Boston Safe Advisors, Inc.
- (X) Dreyfus Investment Advisors, Inc.
- () Founders Asset Management LLC
- () Franklin Portfolio Associates LLC
- () Laurel Capital Advisors, LLP
- (X) Mellon Capital Management Corporation
- () Mellon Equity Associates, LLP
- () Mellon Global Investment Limited
- () Mellon HBV Alternative Strategies LLC
- () Newton Capital Management Limited
- () Newton Fund Managers Limited
- () Newton International Investment Management Limited
- () Newton Investment Management (IOM) Limited
- () Newton Investment Management (Guernsey) Limited
- () Newton Investment Management Limited
- (X) The Dreyfus Corporation (parent holding company of Dreyfus Investment Advisors, Inc. and Dreyfus Service Corporation)
- () The Boston Company Asset Management, LLC
- () Mellon Ventures Fund I, LLC
- () Mellon Ventures II, L.P.
- () Mellon Ventures, L.P.
- () Standish Mellon Asset Management LLC
- () Dreyfus Service Corporation (parent holding company of Boston Safe Advisors, Inc.)

(C) The Item 3 classification of each of the legal entities listed below is "Item 3(g) Parent Holding Company, in accordance with Section 240.13d-I(b)(ii)(G)."

- (X) MBC Investments Corporation (parent holding company of Mellon Capital Management Corporation, Mellon UK Holdings, Mellon Ventures Fund Holding Corp. and Mellon Ventures II, L.P.)
- (X) Mellon Financial Corporation
- () Newton Management Limited (parent holding company of all Newton entities listed in (b) above)
- () The Boston Company, Inc. (parent holding company of Mellon Trust of California, Mellon Private Trust Company, National Association, Mellon Trust of New York, LLC and Mellon Trust of Washington)

NOTE: ALL OF THE LEGAL ENTITIES LISTED UNDER (A) AND (B) ABOVE ARE DIRECT OR INDIRECT SUBSIDIARIES OF MELLON FINANCIAL CORPORATION. BENEFICIAL OWNERSHIP OF MORE THAN FIVE PERCENT OF THE CLASS BY ANY ONE OF THE SUBSIDIARIES OR INTERMEDIATE PARENT HOLDING COMPANIES LISTED ABOVE IS REPORTED ON A JOINT REPORTING PERSON PAGE FOR THAT SUBSIDIARY ON THE ATTACHED SCHEDULE 13G AND IS INCORPORATED IN THE TOTAL PERCENT OF CLASS REPORTED ON MELLON FINANCIAL CORPORATION'S REPORTING PERSON PAGE. (DO NOT ADD THE SHARES OR PERCENT OF CLASS REPORTED ON EACH JOINT REPORTING PERSON PAGE ON THE ATTACHED SCHEDULE 13G TO DETERMINE THE TOTAL PERCENT OF CLASS FOR MELLON FINANCIAL CORPORATION).

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Proceeds related to disposition of other assets

893

863

607

Proceeds from sale of installment notes on manufactured homes to Origen

—

—

4,226

Payments of notes receivable and officer's notes, net

1,166

13,274

102

Net cash used for investing activities

(31,288

)

(23,156

)

(38,727

)

CASH FLOWS FROM FINANCING ACTIVITIES:

Redemption of common stock and OP units, net

(476

)

(298

)

(1,429

)

Proceeds from option exercise

—

38

2,430

Borrowings on lines of credit

147,837

117,712

145,795

Payments on lines of credit

(143,121

)

(118,409

)

(132,695

)

Payments to retire preferred operating partnership units

—

(4,500

)

(8,175

)

Proceeds from issuance of notes payable and other debt

54,500

39,825

102,100

Payments on notes and other debt

(17,367

)

(13,849

)

(68,675

)

Payments for deferred financing costs

(338

)

(799

)

(1,289

)

Distributions to shareholders and OP unit holders

(52,133

)

(46,337

)

(49,075

)

Net cash used for financing activities

(11,098

)

(26,617

)

(11,013

)

Net increase (decrease) in cash and cash equivalents

747

2,232

(2,697

)

Cash and cash equivalents, beginning of period

5,415

3,183

5,880

Cash and cash equivalents, end of period

\$

6,162

\$

5,415

\$

3,183

SUPPLEMENTAL INFORMATION:

Cash paid for interest, including capitalized amounts of \$0, \$5, and \$60 in 2008, 2007 and 2006, respectively

\$

56,567

\$

60,001

\$

59,604

Cash paid for state income taxes

\$

249

\$

—

\$

—

Cash paid for interest on mandatorily redeemable debt

\$

3,433

\$

3,573

\$

3,933

Noncash investing and financing activities:

Debt assumed for rental properties

\$

—

\$

—

\$

4,500

Unrealized gain (loss) on interest rate swaps

\$

(1,995

)

\$

(1,676

)

\$

288

Rental homes transferred from inventory to investment property for use in Rental Program

\$

6,819

\$

6,128

\$

16,361

Financed home sales transferred from inventory and investment property to notes receivable

\$

15,872

\$

9,931

\$

6,557

The accompanying notes are an integral part of the consolidated financial statements

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1. Summary of Significant Accounting Policies

Business

Sun Communities, Inc. (the "Company") is a real estate investment trust ("REIT") which owns and operates 136 manufactured housing communities at December 31, 2008, located in 18 states concentrated principally in the Midwest, South, and Southeast comprising 47,613 developed sites and 6,081 sites suitable for development.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company and all majority-owned and controlled subsidiaries including Sun Communities Operating Limited Partnership (the "Operating Partnership"), SunChamp LLC ("SunChamp"), and Sun Home Services, Inc. ("SHS"). SHS is a wholly owned subsidiary that actively markets, sells and leases new and pre-owned manufactured homes for placement in the Company's properties.

The minority interests include 2.2 million Common Operating Partnership Units ("OP Units") that are convertible into an equivalent number of shares of the Company's common stock. Such conversion would have an effect on earnings (loss) per share. Earnings (losses) are allocated to shares of outstanding common stock, but are not allocated to OP units. The minority interests were adjusted in 2007 and 2006 to their relative ownership interest when OP Units or common stock were issued, converted, or retired by reclassification to/from paid-in capital.

Preferred OP Units ("POP Units") of \$49.4 million, which are mandatorily redeemable, are included in debt at December 31, 2008 and 2007, pursuant to the adoption of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity". These POP Units pay priority returns at rates ranging from 6.5 percent to 7.8 percent and mature between 2009 and 2014. Of these POP Units, \$35.8 million are convertible into shares of the Company's common stock or OP Units at a conversion price \$68 per unit. The maximum amount that the Company is required to pay to redeem its POP Units is \$49.4 million and, if converted, approximately 526,000 shares of the Company's capital stock or OP Units would be issued.

Investment Property

Rental property is recorded at cost, less accumulated depreciation. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company reviews the carrying value of long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate a possible impairment. An impairment loss is recognized when a long-lived asset's carrying value is not recoverable and exceeds estimated fair value. The estimated fair value of long lived assets was calculated based on discounted future cash flows associated with the asset and any potential disposition proceeds for a given asset. Forecasting cash flows requires assumptions about such

variables as the estimated holding period, rental rates, occupancy and operating expenses during the holding period, as well as disposition proceeds. Management determined certain impairment reviews were required as of December 31, 2008, as decisions were made to limit development of certain assets. Due to local economic conditions, estimated costs to develop and low estimated return on investment the Company determined to limit development in three development communities. The properties are located in Michigan, Nevada and North Carolina. Each had considerable up front development costs. A fourth property, located in Indiana, was found to be impaired based on its negative cash flows and management's estimate of continued negative cash flows. The Company also made a decision to stop providing cable television service at various communities as the business line could not provide the return on investment to justify the capital investment required to keep up with the technological advances in the offered product. As a result of the impairment analysis, the Company recognized non-cash impairment charges of \$13.1million.

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The following table describes the significant components of long-lived asset impairments recorded for the year ended December 31, 2008: (amounts in thousands)

	Properties	Cable Company	Total
Land	\$ 825	\$ —	\$825
Land held for development	1,000	—	1,000
Land Improvements	7,262	2,160	9,422
Equipment	—	1,924	1,924
Total asset impairment charge	\$ 9,087	\$ 4,084	\$13,171

The Company periodically receives offers from interested parties to purchase certain of its properties. These offers may be the result of an active program initiated by the Company to sell the property, or from an unsolicited offer to purchase the property. The typical sale process involves a significant negotiation and due diligence period between the Company and the potential purchaser. As the intent of this process is to determine if there are items that would cause the purchaser to be unwilling to purchase or the Company unwilling to sell, it is not unusual for such potential offers of sale/purchase to be withdrawn as such issues arise. The Company classifies assets as “held for sale” when it is probable, in its opinion, that a sale transaction will be completed within one year. This typically occurs when all significant contingencies surrounding the closing have been resolved, which often corresponds with the closing date.

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of SFAS No. 141, “Business Combinations”. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including analysis of recently acquired and existing comparable properties in our portfolio, other market data and independent appraisals if obtained in connection with the acquisition or financing of the respective property. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets (including in-place leases) acquired.

Depreciation and amortization

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash and cash equivalents. The maximum amount of credit risk arising from cash deposits in excess of federally insured amounts was approximately \$2.0 million as of December 31, 2008, of which \$1.7 million was redeemed from an overnight deposit fund for the full amount in early January 2009.

Notes and Accounts Receivable

Notes and accounts receivable are stated at their outstanding balance reduced by allowance for uncollectible accounts. The Company evaluates the recoverability of its receivables whenever events occur or there are changes in circumstances such that management believes it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan and lease agreements. The ability to collect the notes is measured based on current and historical information and events. When making this evaluation, numerous factors are considered including: length of delinquency, estimated costs to lease or sell, and the Company's repossession history. For installment notes and collateralized receivables, the Company reserves for the excess of the cost of repossession (principal balance at time of repossession plus estimated cost of repair) over the estimated selling price of the home being repossessed. A historical average of this excess cost is calculated based on prior repossessions and applied to the Company's estimated annual future repossessions to create the allowance for installment notes and collateralized receivables. For receivables relating to community rents, the Company reserves for receivables when it believes collection is less than probable, which is generally after a resident balance reaches 60 to 90 days past due.

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Share-Based Compensation

The Company adopted SFAS 123(R), "Share-Based Payment" effective January 1, 2006 using the "modified prospective" method permitted by SFAS 123(R) in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.

Investments in Affiliates – Origen Financial, Inc.

In October 2003, the Company purchased 5,000,000 shares of common stock of Origen Financial, Inc. ("Origen"). The Company owns approximately 19% of Origen as of December 31, 2008, and its investment is accounted for using the equity method of accounting. As of December 31, 2008, the Company's investment in Origen had a market value of approximately \$3.0 million based on a quoted market closing price of \$0.59 per share from the "Pink Sheet Electronic OTC Trading System".

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

The Company considered the provisions of Accounting Principles Bulletin No. 18, "The Equity Method of Accounting for Investments in Common Stock", and concluded that recognition of an other than temporary impairment was required as of December 31, 2008, 2007, and 2006 for its investment in Origen. The Company considered numerous factors, including:

- The length of time and extent to which the market value has been less than cost,
- The financial condition and near-term prospects of Origen,
- The intent and ability of the Company to retain its investment in Origen for a period of time sufficient to allow for any anticipated recovery in market value,
- The condition and trend of the economic cycle,
- Origen's financial performance and projections

- Trends in the general market,
- Origen's capital strength and liquidity, and
- Origen's dividend payment record.

The Company also considered various indicators of fair value, including multiples of book value, multiples of EBITDA, book value, tangible book value, estimated cash flows and market price. As a result of its analysis, the Company recorded losses from affiliate of \$16.5 million, \$8.0 million, and \$16.6 million for the years ended December 31, 2008, 2007, and 2006, respectively. These losses are comprised of: 1) other than temporary charges to the carrying value of the Origen investment; and 2) our equity allocation of the anticipated losses from Origen. The components of loss from affiliate related to Origen are summarized as follows (in thousands):

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

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Summarized estimated consolidated financial information of Origen at December 31, 2008, 2007 and 2006 is presented below before elimination of inter-company transactions (amounts in thousands):

	2008	2007	2006
Loans receivable	\$911,947	\$1,193,916	\$950,226
Other assets	53,586	90,285	122,841
Total assets	\$965,533	\$1,284,201	\$1,073,067
Warehouse and securitization financing	\$775,120	\$1,057,722	\$816,533
Repurchase agreements	—	17,653	23,582
Other liabilities	112,218	60,441	28,488
Total liabilities	887,338	1,135,816	868,603
Equity	78,195	148,385	204,464
Total liabilities and equity	\$965,533	\$1,284,201	\$1,073,067
Revenues	\$89,923	\$94,902	\$75,267
Expenses, net	112,521	93,842	75,031
Gain on sale of origination and insurance platform	551	—	—
Loss on sale of loans	(22,377)	—	—
Goodwill impairment	—	32,277	—
Investment impairment	32	9,179	114
Income (loss) from continuing operations before cumulative effect of accounting change	(44,456)	(40,396)	122
Discontinued operations	9,092	8,629	6,803
Cumulative effect of accounting change	—	—	46
Net income (loss)	\$(35,364)	\$(31,767)	\$6,971
Equity income (loss) from Origen affiliate	\$(6,851)	\$(6,099)	\$1,417
Other than temporary impairment charges	(9,619)	(1,870)	(18,000)
Total loss from Origen affiliate	\$(16,470)	\$(7,969)	\$(16,583)

Investments in Affiliates – Origen Financial Services, LLC

In August 2008, the Company entered into an agreement with four unrelated companies (“Members”) to form a new limited liability company, Origen Financial Services, LLC (the “LLC”). The Company contributed cash of \$0.5 million toward the formation of the limited liability company. The LLC purchased the origination platform of Origen. The purpose of the venture is to originate manufactured housing installment contracts for its Members thereby eliminating the need for the Company to become licensed to originate loans in each of the 18 states in which it does business. The Company owns 25.0 percent of the LLC as of December 31, 2008, and the investment is accounted for using the equity method of accounting.

Revenue Recognition

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

transaction. The Company reports certain taxes collected from the resident and remitted to taxing authorities in revenue. These taxes included Florida's property and fire taxes. Interest income on notes receivable is recorded on a level yield basis over the life of the notes.

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Capitalized Costs

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

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, escrows, receivables, accounts payable, accrued expenses and other assets and liabilities are reasonable estimates of their fair values because of the shorter maturities of these instruments. The fair value of the Company's long-term indebtedness, which is based on the estimates of management and on rates currently quoted and rates currently prevailing for comparable loans and instruments of comparable maturities, is greater than the carrying value by approximately \$14.6 million and \$44.4 million at December 31, 2008 and 2007, respectively. Potential expenses that would be incurred in an actual sale or settlement are not taken into consideration.

Derivative Instruments and Hedging Activities

The Company currently has three derivative contracts consisting of two interest rate swap agreements and an interest rate cap agreement. The Company's primary strategy in entering into derivative contracts is to minimize the variability that changes in interest rates could have on its future cash flows. The Company generally employs derivative instruments that effectively convert a portion of its variable rate debt to fixed rate debt and to cap the maximum interest rate on its variable rate borrowings. The Company does not enter into derivative instruments for speculative purposes.

The swap agreements were effective April 2003, and have the effect of fixing interest rates relative to a collateralized term loan due to Fannie Mae. One swap fixes \$25 million of variable rate borrowings at 4.84 percent through July 2009. The second swap matures in July 2012, with an effective fixed rate of 5.28 percent and a notional amount of \$25 million. The interest rate cap agreement has a cap rate of 9.9 percent, a notional amount of \$152.4 million and a termination date of April 28, 2009. Each of the Company's derivative contracts is based upon 90-day LIBOR.

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The Company has designated the two swaps and the interest rate cap as cash flow hedges for accounting purposes. The changes in the value of these hedges are reflected in accumulated other comprehensive loss on the balance sheet. These three hedges were highly effective and had minimal effect on income. An additional swap matured in July 2007 and did not qualify as a hedge for accounting purposes and, accordingly, the entire change in valuation, was reflected as a component of interest expense. The valuation adjustment decreased interest expense by \$0.3 million for each of the years ended December 31, 2007 and December 31, 2006.

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires all derivative instruments to be carried at fair value on the balance sheet, the Company has recorded a liability of \$2.9 million and \$0.9 million as of December 31, 2008 and 2007, respectively.

These valuation adjustments will only be realized if the Company terminates the swaps prior to maturity. This is not the intent of the Company and, therefore, the net of valuation adjustments through the various maturity dates will approximate zero. From time to time, the Company is required to provide cash collateral for its swaps. At December 31, 2008 and 2007, the Company had collateral deposits recorded in other assets of \$4.4 million and \$1.4 million, respectively.

The Company entered into two additional swap agreements in late December 2008 and February 2009 which become effective on January 2, 2009 and February 13, 2009, respectively. One swap agreement fixes \$20.0 million of variable rate borrowings at 2.73 percent through January 2014 and is based upon 90-day LIBOR. The second swap agreement fixes \$25.0 million of variable rate borrowing at 3.62 percent through February 2011 and is based upon 30-day LIBOR.

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred Tax Assets

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

Inventory

Inventory of manufactured homes is stated at lower of specific cost or market.

Advertising Costs

Advertising costs are expensed as incurred.

Reclassifications

Certain 2006 and 2007 amounts have been reclassified to conform to the 2008 financial statement presentation. Such reclassifications had no effect on results of operations as originally presented.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes including the depreciable lives and recoverability of real estate assets and other capitalized costs, and the assumption of interest rates for present value calculations. These estimates involve judgments with respect to, among other things, future economic factors that are difficult to predict and are often beyond management's control. As a result, actual amounts may differ from these estimates.

2. Investment Property

The following table sets forth certain information regarding investment property (in thousands):

	As of December 31,	
	2008	2007
Land	\$ 116,292	\$ 117,310
Land improvements and buildings	1,177,362	1,184,257
Rental homes and improvements	184,933	170,227
Furniture, fixtures, and equipment	34,050	36,433
Land held for future development	26,986	30,199
Investment property	1,539,623	1,538,426
Less: Accumulated depreciation	(450,319)	(404,222)
Investment property, net	\$ 1,089,304	\$ 1,134,204

Land improvements and buildings consist primarily of infrastructure, roads, landscaping, clubhouses, maintenance buildings and amenities.

During 2008, the Company sold approximately 82 acres of undeveloped land that resulted in a \$3.3 million gain.

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Secured Borrowing and Collateralized Receivables

During 2008, the Company completed various transactions involving its installment notes. The Company has received a total of \$27.5 million of cash proceeds in exchange for relinquishing its right, title and interest in the installment notes. The Company is subject to certain recourse provisions requiring the Company to purchase the underlying homes collateralizing such notes, in the event of a note default and subsequent repossession of the home.

FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS 140") sets forth the criteria that must be met for control over transferred assets to be considered to have been surrendered, which includes, amongst other things: (1) the transferred assets have been isolated from the transferor, including put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When a company transfers financial assets and fails any one of the SFAS 140 criteria, the company is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing. The determination about whether the isolation criteria of SFAS 140 have been met to support a conclusion regarding surrender of control is largely a matter of law. As such, the evidence required for testing whether or not the first criteria of SFAS 140 has been satisfied requires a legal "true sale" opinion analyzing the treatment of the transfer under state laws as if the Company was a debtor under the bankruptcy code. A "true sale" legal opinion includes several legally relevant factors, including the nature of retained interests in the loans sold. Legal opinions as to a "true sale" are never absolute and unconditional, but contain qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law.

It was the intent of both parties for these transactions to qualify for sale accounting under SFAS 140 and the terms of the agreements clearly stipulate that the Company has no further obligations or rights with respect to the control, management, administration, servicing, or collection of the installment notes. In addition, the transferee has obtained the right to pledge or exchange the installment notes. For federal tax purposes, the Company treats the transfers of loans which do not qualify as "true sales" under SFAS 140, as sales.

Notwithstanding these facts, the Company was unable to satisfy the first criteria for sale accounting treatment under SFAS 140 and therefore, the Company has recorded these transactions as a transfer of financial assets. The transferred assets have been classified as collateralized receivables and the cash proceeds received from these transactions have been classified as a secured borrowing in the consolidated balance sheet.

The collateralized receivables earn interest income and the secured borrowings accrue borrowing costs at the same interest rates. The amount of interest income and expense recognized was \$1.3 million for the year ended December 31, 2008. The collateralized receivables and secured borrowings are reduced as the related installment notes are collected from the customers. The balance of the collateralized receivables was \$26.1 million, net of a loan loss provision of \$0.1 million as of December 31, 2008. The outstanding balance on the secured borrowing was \$26.2 million as of December 31, 2008.

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In the event of note default, and subsequent repossession of a manufactured home, the terms of the agreement require the Company to repurchase the manufactured home. Default is defined as the failure to repay the installment note according to contractual terms. If default on the installment note results in repossession of the home, the home is repurchased. The repurchase price is calculated as a percentage of the outstanding principal balance of the installment note, plus any outstanding late fees, accrued interest, legal fees and escrow advances associated with the installment note. The percentage used to determine the repurchase price of the outstanding principal balance on the installment note is based on the number of payments made on the note. In general, based on the number of payments made since the loan origination date, the repurchase price is determined as follows:

Number of Payments	Recourse %	
Less than or equal to 15	100	%
Greater than 15 but less than 64	90	%
64 or more	65	%

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Notes and Other Receivables

The following table sets forth certain information regarding notes and other receivables (in thousands):

	As of December 31,	
	2008	2007
Installment notes receivable on manufactured homes, net	\$ 21,232	\$ 30,429
Collateralized receivables, net (see Note 3)	26,159	—
Other receivables, net	10,106	6,417
Total notes and other receivables, net	\$ 57,497	\$ 36,846

The installment notes of \$21.2 million and \$30.4 million as of December 31, 2008 and 2007, respectively, are collateralized by manufactured homes. The installment notes are presented net of allowance for losses of \$0.1 million and \$0.2 million as of December 31, 2008 and 2007, respectively. The installment notes represent financing provided by the Company to purchasers of manufactured homes located in its communities. The installment notes receivable have interest payable monthly at a net weighted average interest rate and a maturity of 7.6 percent and 13.8 years and 7.3 percent and 13.2 years at December 31, 2008 and 2007, respectively.

During 2008, the Company completed various transactions involving its installment notes. The Company has received a total of \$27.5 million of cash proceeds in exchange for relinquishing its right, title and interest in the installment notes. These transactions were recorded as a transfer of financial assets. The transferred assets have been classified as collateralized receivables with a net balance of \$26.1 million as of December 31, 2008. The collateralized receivables have interest payable monthly at a weighted average interest rate and a maturity of 10.1 percent and 14.0 years, respectively, as of December 31, 2008. See Note 3 for additional information.

The reduction in the aggregate principal balance of Collateralized receivables of \$1.4 million during 2008 is due to the following items:

- Principal payments and payoffs from the Company's customers - \$0.8 million.
- Repurchase of the underlying collateral (manufactured homes) - \$0.5 million.
- Establishment of allowance for losses - \$0.1 million.

Other receivables were comprised of amounts due from residents of \$1.6 million (net of allowance of \$0.3 million), home sale proceeds of \$3.7 million, and employee loan of \$0.5 million, insurance proceeds of \$0.3 million, and rebates and other receivables of \$4.0 million as of December 31, 2008. Other receivables were comprised of amounts due from residents of \$1.7 million (net of allowance of \$0.3 million), home sale proceeds of \$1.1 million, insurance proceeds of \$0.3 million, and rebates and other receivables of \$3.3 million as of December 31, 2007.

Officer's notes, presented as a reduction to stockholders' equity in the balance sheet, are 10 year, LIBOR + 1.75% notes, with a minimum and maximum interest rate of 6% and 9%, respectively. The following table sets forth certain information regarding officer's notes as of December 31, 2008 and 2007 (in thousands except for shares and units):

	As of December 31,			As of December 31,		
	2008			2007		
	Secured by			Secured by		
	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding
	Principal	Common	Common	Principal	Common	Common
Promissory Notes	Balance	Stock	OP Units	Balance	Stock	OP Units
Secured - \$1.3 million	\$963	59,263	—	\$1,010	62,151	—
Secured - \$6.6 million	4,894	131,591	94,669	5,132	138,003	99,282
Secured - \$1.0 million	757	70,057	—	794	73,470	—
Unsecured - \$1.0 million	757	—	—	794	—	—
Unsecured - \$1.3 million	963	—	—	1,010	—	—
Total promissory notes	\$8,334	260,911	94,669	\$8,740	273,624	99,282

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The officer's personal liability on the secured promissory notes is limited to all accrued interest on such notes plus fifty percent (50%) of the deficiency, if any, after application of the proceeds from the sale of the secured shares and/or the secured units to the then outstanding principal balance of the promissory notes. Based on the Company's \$14.00 closing share price as of December 31, 2008, the value of secured shares and secured OP units total approximately \$5.0 million. The unsecured notes are fully recourse to the officer.

The reduction in the aggregate principal balance of these notes was \$0.4 million and \$0.3 million for the years 2008 and 2007, respectively. Total interest was \$0.5 million, \$0.6 million, and \$1.0 million for the years ended December 31, 2008, 2007 and 2006, respectively. The notes are due in three installments on December 31, 2008, 2009 and 2010. The officer's notes allow for a 10 day grace period and the payment due on December 31, 2008, in the amount of \$2.8 million, was paid in full on January 9, 2009.

5. Debt and Lines of Credit

The following table sets forth certain information regarding debt (in thousands):

	As of December 31,	
	2008	2007
Collateralized term loans - CMBS, 4.93-5.32%, due July 1, 2011-2016.	\$478,907	\$486,063
Collateralized term loans - FNMA, of which \$102.4M is variable, due April 28, 2014 and January 1, 2015, at the Company's option, interest at 4.72 - 5.20% and 4.51 - 5.20% as of December 31, 2008 and 2007, respectively.	377,651	381,587
Preferred OP units, redeemable at various dates from December 1, 2009 through January 2, 2014, average interest at 6.8% and 7.2% as of December 31, 2008 and 2007, respectively.	49,447	49,447
Secured borrowing, maturing at various dates from May 5, 2009 through December 11, 2028, average interest at 10.1% as of December 31, 2008 (see Note 3).	26,211	—
Mortgage notes, other, maturing at various dates from June 1, 2009 through May 1, 2017, average interest at 5.43% and 6.10% as of December 31, 2008 and 2007, respectively.	206,936	184,875
Total debt	\$1,139,152	\$1,101,972

The collateralized term loans totaling \$856.6 million as of December 31, 2008, are secured by 87 properties comprising of 31,163 sites representing approximately \$558.0 million of net book value. The mortgage notes totaling \$206.9 million as of December 31, 2008, are collateralized by 18 communities comprising of 6,427 sites representing approximately \$178.3 million of net book value.

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has an unsecured revolving line of credit facility with a maximum borrowing capacity of \$115.0 million, subject to certain borrowing base calculations. The outstanding balance on the line of credit as of December 31, 2008 and 2007 was \$85.8 million and \$85.4 million, respectively. In addition, \$3.3 million and \$3.4 million of availability were used to back standby letters of credit as of December 31, 2008 and 2007, respectively. Borrowings under the line of credit bear an interest rate of LIBOR plus 165 basis points, or Prime plus 40 basis points at the Company's option. The weighted average interest rate on the outstanding borrowings was 2.66 percent as of December 31, 2008. The borrowings under the line of credit mature October 1, 2011 assuming the election of a one year extension that is available at the Company's discretion. As of December 31, 2008 and 2007, \$25.9 million and \$26.2 million, respectively, were available to be drawn under the facility based on the calculation of the borrowing base at each date.

The Company also had the potential to utilize a floor plan facility that allowed for draws on new home purchases up to \$40.0 million. The facility matured on March 1, 2009. As of December 31, 2008 and 2007, the outstanding balance on the floor plan was \$4.6 million and \$7.6 million, respectively. The interest rate on the facility was at Prime (3.25 percent at December 31, 2008) for purchases prior to October 2008. For purchases made after October 2008, the interest rate on the facility was at the greater of Prime or 5.0 percent. Prime means for any month, the prevailing "prime rate" as quoted in the Wall Street Journal on last day of such calendar month.

During 2008, the Company completed various transactions involving its installment notes. These transactions were recorded as a transfer of financial assets, and the cash proceeds related to these transactions were recorded as a secured borrowing. See Note 3 for additional information.

The Company completed a financing of \$27.0 million with a bank in June 2008. The loan has a three year term, with a two year extension at the Company's option. The terms of the loan require interest only payments for the first year, with the remainder of the term being amortized based on a 30 year table. The interest rate is 205 basis points over LIBOR, or Prime plus 25 basis points (3.5 percent was the effective rate as of December 31, 2008). The proceeds from the financing were used to repay an existing mortgage note of \$4.3 million with the remainder used to pay down the Company's lines of credit.

The Company had \$13.7 million of Series B-3 Preferred OP Units that were redeemable at various dates from December 1, 2009 through January 1, 2011. In October 2008, the Company completed a three year extension on the redemption dates for \$11.9 million of these units; the remaining \$1.8 million of these units mature in accordance with the original agreement.

Subsequent to year end, the Company redeemed \$0.5 million of the \$1.8 million of the Preferred OP units on January 13, 2009.

In April 2007, the Company extended \$15.8 million of debt with an original maturity date of April 1, 2007. The transaction extended the maturity date of the debt to April 1, 2012, and reduced the spread over LIBOR by 25 basis points, to LIBOR + 150 basis points. As part of the transaction, the Company paid down the principal balance of the debt by \$1.0 million. The transaction was accounted for as a modification of debt.

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In February 2007, the Company redeemed \$4.5 million of Preferred OP units.

In January 2007, the Company completed financings of \$17.5 million and \$20.0 million at interest rates of 5.842 percent and 5.825 percent, respectively. The loans are secured by two properties comprising of 781 sites representing approximately \$18.2 million of net book value and have interest only payments for a term of 10 years. The proceeds from both financings were used to pay down the Company's revolving line of credit.

As of December 31, 2008, the total of maturities and amortization of debt and lines of credit during the next five years, are as follows (in thousands):

	Maturities and Amortization By Year						After
	Total Due	2009	2010	2011	2012	2013	5 years
Debt	\$ 1,112,941	\$ 24,684	\$ 14,408	\$ 117,100	\$ 31,169	\$ 43,715	\$ 881,865
Secured borrowing	26,211	1,115	1,226	1,339	1,462	1,524	19,545
Lines of credit	90,419	4,619	—	85,800	—	—	—
Total	\$ 1,229,571	\$ 30,418	\$ 15,634	\$ 204,239	\$ 32,631	\$ 45,239	\$ 901,410

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The most restrictive of the Company's debt agreements place limitations on secured and unsecured borrowings and contain minimum debt service coverage, leverage, distribution and net worth requirements. As of December 31, 2008 and 2007, the Company was in compliance with all covenants.

6. Share-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (revised December 2004), Share-Based Payment ("SFAS 123(R)"). SFAS 123(R) replaces FASB Statement No. 123 ("Statement 123"), Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees. SFAS 123(R) requires compensation costs related to share-based payment transactions be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity or the liability instruments issued. In addition, liability awards will be remeasured each reporting period.

The Company adopted SFAS 123(R) effective January 1, 2006, using the "modified prospective" method permitted by SFAS 123(R) in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. An estimate of future forfeitures is incorporated into the determination of compensation cost for restricted stock grants and stock options. The effect of this estimate of future forfeitures was the reversal of previously recorded compensation expense of \$0.3 million on restricted stock grants that were not vested as of January 1, 2006. Accordingly, the cumulative effect of adopting SFAS 123(R) in 2006 was a decrease in net loss of \$0.3 million and an increase in basic and diluted earnings per share of \$0.02 in 2006.

Total share-based compensation costs recorded for the years ended December 31, 2008, 2007 and 2006, were \$2.0 million, \$1.1 million, and \$3.2 million (excluding the impact of the \$0.3 million reversal recorded from the adoption SFAS 123(R) in 2006), respectively.

The Company awards restricted stock and options to its employees under its Second Amended and Restated Stock Option Plan (the "Plan"). The Plan provides for the issuance of options, stock appreciation rights, restricted stock and other stock based awards. The Company believes that the awards better align the interests of its employees with those of its shareholders and has provided these incentives to attract and retain executive officers and key employees. The Company has 205,906 securities to be issued upon exercise of outstanding options, and 81,018 remaining securities authorized for future issuance under the Company's equity compensation plans as of December 31, 2008.

Restricted Stock

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The Company's primary share-based compensation is restricted stock. The following table summarizes the Company's restricted stock activity for the year ended December 31, 2008:

	Number of Shares		Weighted Average Grant Date Fair Value
Unvested restricted shares at January 1, 2008	281,711		\$ 35.08
Granted	25,000		\$ 19.92
Vested	(113,313	)	\$ 34.67
Forfeited	(1,463	)	\$ 34.25
Unvested restricted shares at December 31, 2008	191,935		\$ 33.35

The remaining compensation expense to be recognized associated with the 191,935 restricted shares outstanding at December 31, 2008 is approximately \$4.5 million. That expense is expected to be recognized \$2.3 million in 2009, \$1.4 million in 2010, \$0.5 million in 2011 and \$0.3 million thereafter. For the years ended December 31, 2008, 2007 and 2006, the Company recognized \$1.9 million, \$1.8 million, and \$2.1 million of compensation expense, respectively, related to its outstanding restricted stock. Recipients receive dividend payments on the unvested shares of restricted stock. The total fair value of shares vested during the years ended December 31, 2008, 2007 and 2006, was \$3.9 million, \$2.1 million, and \$2.3 million, respectively.

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Performance-Based Restricted Stock

At December 31, 2006, the Company had 93,750 shares performance-based restricted stock which was to be awarded based on the compounded annual growth rate of the Company's per share funds from operations ("FFO") as determined by comparing the per share FFO for the year ended December 31, 2009, with the per share FFO for the year ended December 31, 2005. The Company needed to achieve compounded annual growth of at least 5 percent for the recipients to receive any amount of the award and at least 9 percent to receive the entire share award. In the twelve months ended December 31, 2006, the Company recognized \$0.6 million of compensation expense related to these shares based on an estimated award of 43,753 shares in March 2010. In the nine months ended September 30, 2007, the Company recognized an additional \$0.2 million of compensation expense related to these shares.

During the fourth quarter of 2007, the Company determined that the performance targets were not probable of being achieved. As a result, the Company reversed all the compensation expense associated with the performance-based restricted stock award in the amount of \$0.8 million. On December 30, 2007, the Company modified the performance based restricted stock award altering certain provisions including required performance targets and, potentially, the named recipients of the awards. In early 2008, these performance-based restricted stock awards were cancelled.

Options

At December 31, 2008, the Company had 133,406 options outstanding and exercisable under the Plan. The Company issues new shares at the time of share option exercise (or share unit conversion). Option awards have not been granted in the years ended December 31, 2008, 2007, and 2006. The options that had been granted in prior years fully vested in 2006 and the Company has not recognized any compensation expense for these options in the years ended December 31, 2008 and 2007. The Company recognized compensation expense of approximately \$0.3 million in the year ended December 31, 2006. The following table summarizes the Company's option activity during the year ended December 31, 2008:

	Number of options	Weighted Average Exercise Price (per common share)	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in 000's)
Options outstanding at January 1, 2008	210,137	\$ 31.64	2.2	\$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	(76,731)	\$ 33.59	n/a	—
Options outstanding at December 31, 2008	133,406	\$ 30.51	2.4	\$ —

Options vested and exercisable at December 31, 2008	133,406	\$ 30.51	2.4	\$ —
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Phantom Liability Awards

At December 31, 2008, the Company had 12,113 unvested phantom liability awards with an aggregate fair value of approximately \$0.2 million based on the Company's closing share price of \$14.00 as of December 31, 2008. The phantom awards pay cash bonuses per share equal to the amount of dividend paid per share of common stock. The awards vest (cash bonus is paid) in varying amounts until 2014. The remaining unrecognized expense related to these phantom liability awards is \$0.1 million.

The value of the awards is remeasured at each reporting date. As the Company's stock price rises, the phantom liability awards increase in value, along with the associated compensation expense. Accordingly, as the Company's stock price declines, the phantom liability awards decrease in value, along with the associated compensation expense. The Company's stock price has been subject to market volatility, and the stock price has declined since the awards were initially granted. This has resulted in a reduced compensation expense for the Company for the phantom liability awards.

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007, the Company recognized an immaterial amount of compensation expense related to these phantom awards. For the year ended December 31 2006, the Company recorded compensation expense of approximately \$0.1 million related to these phantom awards. The following table summarizes the phantom liability award activity for the year ended December 31, 2008:

	Number of Shares	Aggregate Fair Value (in 000's)
Unvested phantom liability awards at January 1, 2008	20,417	\$ 430
Granted	—	—
Vested	(6,354)	(115)
Forfeited	(1,950)	n/a
Unvested phantom liability awards at December 31, 2008	12,113	\$ 170

Performance-Based Phantom Liability Awards

At December 31, 2006, the Company had 18,750 unvested performance-based phantom liability awards which were to be awarded based on the compounded annual growth rate of the Company's per share funds from operations ("FFO") as determined by comparing the per share FFO for the year ended December 31, 2009, with the per share FFO for the year ended December 31, 2005. The Company needed to achieve compounded annual growth of at least 5 percent for the recipient to receive any amount of the award and at least 9 percent to receive the entire share award. The performance-based phantom liability awards pay cash bonuses per vested share equal to the average of the highest and lowest selling price on March 1, 2010. For the twelve months ended December 31, 2006, the Company expensed \$0.1 million of compensation related to these performance-based phantom liability awards based on an estimated award of 8,750 shares in March 2010.

During the fourth quarter of 2007, the Company determined that the performance targets were not probable of being achieved. As a result, the Company reversed all the compensation expense associated with the performance-based phantom liability awards in the amount of \$0.1 million. On December 30, 2007, the Company modified the performance-based phantom liability awards altering certain provisions including required performance targets and, potentially, the named recipients of the awards. In early 2008, the performance-based phantom liability awards were cancelled.

Director Option Awards

The Company has a 1993 and a 2004 Non-Employee Director Option Plan ("Director Plans") which each authorize the issuance of 100,000 options to non-employee directors. In July 2008, the Company issued 10,500 director options under its 2004 Non-Employee Director Option Plan. There are 90,000 options remaining to be awarded under these two plans. At December 31, 2008, the Company had 72,500 options outstanding under the Director Plans, of which 20,000 were unvested. The 20,000 unvested options will vest as follows: 9,500 options in 2009, 7,000 options in 2010, and 3,500 options in 2011.

The weighted average fair value of the options issued is estimated on the date of the grant using the Binomial (lattice) option pricing model, with the following weighted average assumptions used for the grants in the periods indicated:

	July 2008 Award	May 2007 Award	May 2006 Award	March 2006 Award
Estimated fair value per share of options granted	\$ 1.17	\$ 2.66	\$ 2.31	\$ 3.59
Number of options granted	10,500	10,500	7,500	7,500
Assumptions:				
Annualized dividend yield	14.70 %	8.43 %	8.20 %	7.19 %
Common stock price volatility	22.14 %	17.24 %	17.05 %	17.04 %
Risk-free rate of return	3.63 %	4.76 %	5.05 %	4.68 %
Expected option term (in years)	7.3	7.3	7.5	7.5

SUN COMMUNITIES, INC.

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The following table summarizes the Directors' option activity for the year ended December 31, 2008:

	Number of options	Weighted Average Exercise Price (per common share)	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in 000's)
Options outstanding at January 1, 2008	76,000	\$ 33.64	4.5	\$ —
Granted	10,500	\$ 17.20	10.0	—
Exercised	—	—	—	—
Expired	(14,000)	\$ 32.96	n/a	—
Options outstanding at December 31, 2008	72,500	\$ 31.39	5.1	\$ —
Options vested and expected to vest	72,500	\$ 31.39	5.1	\$ —
Options exercisable at December 31, 2008	52,500	\$ 34.36	3.7	\$ —

The compensation expense associated with the Directors' option was not significant for the years ended December 31, 2008, 2007, and 2006.

7. Stockholders' Equity (Deficit)

The Board of Directors approved and authorized the Company to enter into a new Shareholder Rights Plan (the "Plan"), effective in June 2008, to replace the shareholder rights plan adopted ten years ago that expired in June 2008. The Plan will expire June 2018.

The Plan enhances the ability of the Board of Directors to ensure that shareholders of the Company realize the long-term value of their investment and receive fair and equal treatment in connection with any take-over bid for the outstanding common shares of the Company. While the issuance of rights under the Plan will not wholly prevent a takeover, it should encourage a potential acquirer of the Company to negotiate with the Board of Directors prior to attempting a takeover.

The rights are not immediately exercisable, and generally only become exercisable if a person or group acquires 15% or more of Sun Communities, Inc.'s outstanding common stock or announces a tender offer which would, if consummated, result in ownership of 15% or more of such stock. If either event occurs, each right would entitle its holder (other than such person or member of such group) to purchase, at the applicable exercise price, a number of shares of Sun Communities, Inc. common stock having a market value that would be twice such exercise price.

The rights are redeemable for \$.001 per right at the option of the Board of Directors, subject to certain exceptions.

In November 2004, the Company was authorized to repurchase up to 1,000,000 shares of its common stock by its Board of Directors. The Company has 400,000 common shares remaining in the repurchase program. No common shares have been repurchased during 2008, 2007, or 2006.

In October 1996, as last amended in March 2002, the Securities and Exchange Commission declared effective the Company's shelf registration statement on Form S-3 for the proposed offering, from time to time, of up to \$300 million of our common stock, preferred stock and debt securities. The registration statement expired December 31, 2008. In addition to such debt securities, preferred stock and other common stock the Company may have sold under the registration statement, the Company registered 1,600,000 shares of its common stock pursuant to a sales agreement that was entered into with Brinson Patrick Securities Corporation. Sales under the agreement commenced on October 21, 2001 and 967,642 shares and 33,549 shares were sold prior to 2007 and in 2007, respectively. The Company sold shares of common stock under the sales agreement with Brinson Patrick Securities Corporation during 2007 at the price of the Company's common stock prevailing at the time of each sale. The Company received net proceeds of approximately \$1.0 million, for the twelve months ended December 31, 2007 as a result of these sales. The Company has not sold shares of common stock, or received any proceeds related to the sale of common stock during 2008.

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Other Income (Loss)

The components of other income are summarized as follows (in thousands):

	Years Ended December 31,		
	2008	2007	2006
Gain (loss) on sale of land	3,336	(45)	162
Brokerage commissions	\$ 588	\$ 701	\$ 1,083
Loss on disposition of assets, net	(1,112)	(1,304)	(907)
Lawsuit settlement	—	—	399
Other	(338)	40	296
Total other income (loss)	\$ 2,474	\$ (608)	\$ 1,033

9. Segment Reporting

The consolidated operations of the Company can be segmented into real property operations segments and home sales and rentals. Transactions between the Company's segments are recorded at cost. A presentation of segment financial information is summarized as follows (amounts in thousands):

	Year Ended December 31, 2008		
	Real		Consolidated
	Property Operations	Home Sales and Home Rentals	
Revenues	\$ 196,206	\$ 52,010	\$ 248,216
Operating expenses/Cost of sales	66,385	39,959	106,344
Net operating income/Gross profit	129,821	12,051	141,872
Adjustments to arrive at net loss:			
Other revenues	5,739	1,092	6,831
General and administrative	(16,418)	(6,734)	(23,152)
Depreciation and amortization	(46,263)	(18,735)	(64,998)
Asset impairment charge	(13,171)	—	(13,171)
Interest expense	(64,088)	(69)	(64,157)
Equity loss from affiliates	(16,470)	(28)	(16,498)

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Provision for state income taxes	(336)	—	(336)
Minority interest	(839)	—	(839)
Net loss	\$(22,025)	\$(12,423)	\$(34,448

Year Ended December 31, 2007

Real

	Property Operations	Home Sales and Home Rentals	Consolidated
Revenues	\$191,427	\$41,745	\$233,172
Operating expenses/Cost of sales	65,259	32,011	97,270
Net operating income/Gross profit	126,168	9,734	135,902
Adjustments to arrive at net loss:			
Other revenues	2,301	483	2,784
General and administrative	(14,610	) (6,093	) (20,703
Depreciation and amortization	(45,714	) (16,764	) (62,478
Interest expense	(65,360	) (180	) (65,540
Equity loss from affiliate	(7,969	) —	(7,969
Provision for state income taxes	(768) —	(768
Minority interest	2,129	—	2,129
Net loss	\$(3,823) \$(12,820) \$(16,643

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Year Ended December 31, 2006		
	Real		
	Property Operations	Home Sales and Home Rentals	Consolidated
Revenues	\$ 187,535	\$ 35,093	\$ 222,628
Operating expenses/Cost of sales	63,985	26,627	90,612
Net operating income/Gross profit	123,550	8,466	132,016
Adjustments to arrive at net loss:			
Other revenues	4,497	653	5,150
General and administrative	(16,406)	) (6,544	) (22,950
Depreciation and amortization	(45,571)	) (14,729	) (60,300
Fees and other costs associated with extinguishment of debt	(720)	) —	) (720
Interest expense	(64,762)	) (356	) (65,118
Equity loss from affiliate	(16,583)	) —	) (16,583
Minority interest	3,248	—	3,248
Loss before cumulative effect of change in accounting principle	(12,747)	) (12,510	) (25,257
Cumulative effect of change in accounting principle	289	—	289
Net loss	\$(12,458	) \$(12,510	) \$(24,968

Selected balance sheet data	As of December 31,					
	2008			2007		
	Real Property Operations	Home Sales and Home Rentals	Consolidated	Real Property Operations	Home Sales and Home Rentals	Consolidated
Identifiable assets:						
Investment property, net	\$ 954,196	\$ 135,108	\$ 1,089,304	\$ 998,412	\$ 135,792	\$ 1,134,204
Cash and cash equivalents	6,138	24	6,162	5,042	373	5,415
Inventory of manufactured homes	—	13,058	13,058	—	12,082	12,082
Investment in affiliates	3,300	472	3,772	20,000	—	20,000
Notes and other receivables	52,713	4,784	57,497	34,976	1,870	36,846
Other assets	34,798	2,408	37,206	35,116	2,160	37,276
Total assets	\$ 1,051,145	\$ 155,854	\$ 1,206,999	\$ 1,093,546	\$ 152,277	\$ 1,245,823

10. Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT") as defined under Section 856(c) of the Internal Revenue Code of 1986, as amended. In order for the Company to qualify as a REIT, at least ninety-five percent (95%) of the Company's gross income in any year must be derived from qualifying sources. In addition, a REIT must distribute at least ninety percent (90%) of its REIT ordinary taxable income to its stockholders.

Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within the Company's control. In addition, frequent changes occur in the area of REIT taxation which requires the Company to continually monitor its tax status. The Company analyzed the various REIT tests and confirmed that it continued to qualify as a REIT for the year ended December 31, 2008.

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As a REIT, the Company generally will not be subject to U.S. federal income taxes at the corporate level on the ordinary taxable income it distributes to its stockholders as dividends. If the Company fails to qualify as a REIT in any taxable year, its taxable income will be subject to U.S. federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if the Company qualifies as a REIT, it may be subject to certain state and local income taxes and to U.S. federal income and excise taxes on its undistributed income.

For income tax purposes, distributions paid to common stockholders consist of ordinary income, capital gains, and return of capital. For the years ended December 31, 2008, 2007, and 2006, distributions paid per share were taxable as follows (unaudited):

	2008		2007		2006		
	Amount	Percentage	Amount	Percentage	Amount	Percentage	
Ordinary income	\$0.32	12.8	% \$0.05	1.8	% \$0.14	5.6	%
Capital gain	0.10	3.8	% —	0.0	% —	0.0	%
Return of capital	2.10	83.4	% 2.47	98.2	% 2.38	94.4	%
Total distributions paid	\$2.52	100.0	% \$2.52	100.0	% \$2.52	100.0	%

SHS is subject to U.S. federal income taxes. Deferred taxes reflect the estimated future tax effect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effect of temporary differences that give rise to a significant portion of the deferred tax assets at December 31 are as follows (in thousands):

	2008	2007
Deferred tax assets:		
Net operating loss carryforwards	\$ 9,964	\$ 8,899
Real estate assets	11,128	8,463
Amortization of intangibles	(120)	(109)
Gross deferred tax assets	20,972	17,253
Less: valuation allowance	(19,972)	(16,253)
Net deferred tax assets	\$ 1,000	\$ 1,000

SHS has net operating loss carry forwards of approximately \$29.3 million at December 31, 2008. The loss carryforwards will begin to expire in 2021 through 2027 if not offset by future taxable income. Management believes its deferred tax asset will be realized but realization is continuously subject to an assessment as to recoverability in the future. No federal tax expense was recognized in the years ended 2008, 2007, and 2006.

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). The Company previously had accounted for tax contingencies in accordance with FASB Statement No. 5, "Accounting for Contingencies". As required by FIN 48, which clarifies FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS 109"),

the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the adoption of FIN 48, the Company did not recognize any increase in the liability for unrecognized tax benefits, which would have been accounted for as a decrease to the January 1, 2007 balance of retained earnings. At January 1, 2007, the Company had no unrecognized tax benefits. There have been no material changes to the unrecognized tax benefits during the year ended December 31, 2008, nor are any expected within the next twelve months.

In July 2007, the State of Michigan signed into law the Michigan Business Tax Act, replacing the Michigan single business tax with a combined business income tax and modified gross receipts tax. These new taxes took effect January 1, 2008 and, for purposes of SFAS 109, are properly reflected as an income tax for financial statement reporting purposes as of the enactment date. This represents a change in the reporting of Michigan taxes as the Michigan single business tax was reflected as an administrative expense and not an income tax. The Company recorded a deferred tax liability of \$0.5 million and \$0.6 million, at December 31, 2008 and 2007, respectively, in relation to this tax.

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Texas Margin Tax was enacted into law in May, 2006 and became effective in 2007 for calendar year taxpayers. For purposes of SFAS 109, this tax is also properly reflected as an income tax for financial reporting purposes. No deferred tax liability is recorded in relation to this tax.

Total state income tax expense reported in the financial statements for 2008 is approximately \$0.3 million. On an ongoing basis, the Company will be reflecting the Michigan Business Tax and Texas Margin Tax as income taxes in its financial statements.

As noted, the Company and its subsidiaries are subject to income taxes in the U.S. and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. Federal, State and Local, examinations by tax authorities before 2003.

The Company's policy is to report penalties and tax-related interest expense as a component of income tax expense. As of the date of adoption of FIN 48, no interest or penalty associated with any unrecognized tax benefit was accrued, nor was any interest or penalty recognized during the year ended December 31, 2008.

11. Loss Per Share

The Company has outstanding stock options, unvested restricted shares and convertible Preferred OP units which if converted or exercised may impact dilution. The following is a reconciliation of the number of shares used in the calculation of basic and diluted earnings per share (amounts in thousands).

	Years Ended December 31,		
	2008	2007	2006
Loss used for basic and diluted loss per share computation:			
Net loss	\$ (34,448)	\$ (16,643)	\$ (24,968)
Weighted average shares used for basic loss per share	18,176	17,938	17,641
Dilutive securities: stock options and other	—	—	—
Diluted weighted average shares	18,176	17,938	17,641

Due to the fact that the Company has reported a net loss for all periods presented, the potential dilutive effects of the securities were excluded from the diluted earnings per share calculation because their inclusion in a net loss period would reduce the net loss per share. The following table presents the number of potentially dilutive securities that were excluded from the computation of diluted earnings per share (amounts in thousands).

	As of December 31,		
	2008	2007	2006
Stock options	206	286	303
Unvested restricted stock	192	282	346
Convertible preferred OP units	526	526	526
Total securities	924	1,094	1,175

The figures above represent the total number of potentially dilutive securities, and do not reflect the incremental impact to the number of diluted weighted average shares outstanding that would be computed if the Company had reported net income.

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Quarterly Financial Information (Unaudited)

The following is a condensed summary of the Company's unaudited quarterly results for years ended December 31, 2008 and 2007.

	Quarters			
	1st	2nd	3rd	4th
	(In thousands, except per share amounts)			
2008				
Total revenues	\$ 64,954	\$ 65,474	\$ 61,433	\$ 63,186
Total expenses	63,848	65,928	64,573	77,473
Income (loss) from operations	1,106	(454)	(3,140)	(14,287)
Loss from affiliates	(4,830)	(7,720)	(1,486)	(2,462)
Net loss	(3,095)	(7,368)	(5,493)	(18,492)
Weighted average common shares outstanding	18,077	18,162	18,213	18,252
Loss per common share-basic and diluted	\$ (0.17)	\$ (0.41)	\$ (0.30)	\$ (1.01)
2007				
Total revenues	\$ 61,357	\$ 57,946	\$ 57,366	\$ 59,287
Total expenses	61,587	60,903	62,352	61,149
Loss from operations	(230)	(2,957)	(4,986)	(1,862)
Income (loss) from affiliate	307	541	583	(9,400)
Net income (loss)	46	(2,163)	(4,368)	(10,158)
Weighted average common shares outstanding	17,841	17,923	17,962	18,027
Income (loss) per common share-basic and diluted	\$ 0.00	\$ (0.12)	\$ (0.24)	\$ (0.57)

13. Fair Value

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The derivative instruments held by the Company are interest rate swaps and cap agreements for which quoted market prices are not readily available. For those derivatives, the Company uses model-derived valuations in which all observable inputs and significant value drivers are observable in active markets provided by brokers or dealers to determine the fair values of derivative instruments on a recurring basis.

SFAS No. 157, "Fair Value Measurements" ("SFAS 157") establishes a fair value hierarchy that requires the use of observable market data, when available, and prioritizes the inputs to valuation techniques used to measure fair value in the following categories:

Level 1—Quoted unadjusted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all observable inputs and significant value drivers are observable in active markets.

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable, including assumptions developed by the Company

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All of the fair values of the Company's derivative instruments were based on level 2 inputs as described above. The table below presents the recorded amount of financial liabilities measured at fair value on a recurring basis as of December 31, 2008. The Company does not have any material financial assets that were required to be measured at fair value on a recurring basis at December 31, 2008.

	Total Fair Value	Level 1	Level 2	Level 3
Liabilities				
Derivative instruments	\$ 2,865	\$ —	\$ 2,865	\$ —

14. Minority Interest in Operating Partnership

The minority interest in the Company consists of approximately 2.3 million Common Operating Partnership Units ("OP Units"). The net equity position of the OP Units declined below zero due to accumulated distributions in excess of accumulated earnings (losses). In accordance with the guidance in EITF No. 95-7, "Implementation Issues Related to the Treatment of Minority Interests in Certain Real Estate Investment Trusts", the Company has recognized the net equity position as a zero balance within the consolidated balance sheet as of December 31, 2008 since there is no legal obligation for the unit holders to restore deficit capital accounts. Since the losses allocated to the minority interests have exceeded their net equity basis, the Company can no longer allocate losses to the minority interest partners. As long as the net equity position of the minority interest partners is less than zero, the distributions made to the minority interest partners are charged to the Company's consolidated statement of operations. Distributions made to the minority partners in excess of accumulated losses were \$0.8 million for the year ended December 31, 2008.

15. Recent Accounting Pronouncements*Accounting Standards Adopted in the Year Ended December 31, 2008*

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS 157 was originally effective for fiscal years beginning after November 15, 2007, however in February, 2008, the FASB agreed to (a) defer the effective date in Statement 157 for one year for certain non financial assets and non financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), and (b) remove certain leasing transactions from the scope of Statement 157.

The Company adopted the provisions of SFAS 157 as of January 1, 2008 for financial instruments. Although the adoption of SFAS 157 did not materially impact the Company's financial position or results of operations, we are now required to provide additional disclosures as part of our consolidated financial statements. See Note 13 for additional information.

In February 2008, the FASB issued Staff Position No. FAS 157-2 which provides for a one-year deferral of the effective date of SFAS 157 for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. We will apply the provisions of FAS 157 to non-financial assets and liabilities beginning on January 1, 2009. The Company does not expect the adoption of SFAS 157 as it pertains to non-financial assets and liabilities to have a material impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115” (“SFAS 159”). This statement permits, but does not require, entities to measure certain financial instruments and other assets and liabilities at fair value on an instrument-by-instrument basis. Unrealized gains and losses on items for which the fair value option has been elected should be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option on January 1, 2008 and SFAS 159 did not impact our results from operations or financial position.

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SUN COMMUNITIES, INC.

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In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"), the objective of which is to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernment entities. Prior to the issuance of SFAS 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants ("AICPA") Statement on Auditing Standards 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles" ("SAS 69"). SAS 69 has been criticized because it is not directed to the entity, but directed to the entity's independent public accountants. SFAS 162 addresses these issues by establishing that the GAAP hierarchy should be directed to entities because it is the entity (not its independent public accountants) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS 162 was effective 60 days following the Securities and Exchange Commission's approval on September 16, 2008, of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles". The adoption of SFAS 162 did not impact our results from operations or financial position.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"). FSP FAS 157-3 clarifies the application of SFAS 157 in an inactive market. The FASB also issued a joint press release with the Office of the Chief Accountant of the SEC on September 30, 2008 that addresses similar guidance to what is contained in FSP FAS 157-3. The guidance in these two releases clarifies that observable transactions in inactive markets may not be indicative of fair value, and in such instances, the use of a reporting entity's own assumptions about future cash flows and appropriately risk-adjusted discount rates may provide a better estimate of an asset's fair value. FSP FAS 157-3 was effective upon its issuance, including prior periods for which financial statements have not been issued. The adoption of FSP FAS 157-3 did not impact our results from operations or financial position.

Accounting Standards to be Adopted After the Year Ended December 31, 2008

In December 2007, the FASB issued Statement No. 141R (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R will significantly change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items and also includes a substantial number of new disclosure requirements. SFAS 141R is effective for business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. The Company will apply SFAS 141R prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

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

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"), an amendment of FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS 161 provides for enhanced disclosures about how and why an entity uses derivatives and how and where those derivatives and related hedged items are reported in the entity's financial statements. The statement is effective for fiscal years and interim periods beginning after November 15, 2008. Because SFAS 161 impacts the disclosure and not the accounting treatment for derivative instruments and related hedged items, the adoption of SFAS 161 will not have an impact on our results of operations or financial condition.

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In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". FSP FAS 142-3 is intended to improve the consistency between the useful life of an intangible asset determined under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, and other U.S. generally accepted accounting principles. The FSP is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008, and is to be applied prospectively to intangible assets acquired after the effective date. The Company will apply FSP FAS 142-3 prospectively to intangible assets for which the acquisition date is on or after January 1, 2009. Disclosure requirements are to be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date.

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

In June 2008, the FASB issued FSP No. Emerging Issues Task Force ("EITF") 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in SFAS No. 128, "Earnings Per Share". FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and requires all presented prior-period earnings per share data to be adjusted retrospectively. The adoption of FSP EITF 03-6-1 is not expected to have a material impact on our results of operations or financial condition.

In November 2008, the Emerging Issues Task Force issued EITF No. 08-6, "Equity Method Investment Accounting Considerations" ("EITF 08-6") that addresses how the initial carrying value of an equity method investment should be determined, how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed, how an equity method investee's issuance of shares should be accounted for, and how to account for a change in an investment from the equity method to the cost method. EITF 08-6 is effective for fiscal years and interim periods beginning after December 15, 2008 and will be applied prospectively. Earlier application is prohibited. The Company does not expect the adoption of EITF 08-6 to have a material impact on our results of operations or financial condition.

In December 2008, the FASB issued FSP FAS No. 140-4 and FIN No. 46R-8, "Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities: An Amendment to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("FSP FAS 140-4 and FIN 46R-8"). FSP FAS 140-4 and FIN 46R-8 require public entities to provide additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", to require public enterprises to provide additional disclosures about their involvement with VIEs. Additionally, this FSP requires certain disclosures to be provided by a public enterprise that is a sponsor that has a variable interest in a VIE and an enterprise that holds a significant variable interest in a QSPE but was not the transferor of financial assets to the QSPE. The disclosures are intended to provide greater transparency to financial statement users about a transferor's continuing involvement with transferred financial assets and enterprise's involvement with VIEs. FSP FAS 140-4 and FIN 46R-8 are effective for the first reporting period ending after December 15, 2008. Because FSP FAS 140-4 and FIN 46R-8 impact the disclosure (and not the accounting treatment) for transferred financial assets and consolidation of VIEs, the adoption of this FSP will

not have an impact on our results of operations or financial condition.

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Commitments and Contingencies

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

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

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

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

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

17. Related Party Transactions

The Company and its affiliates have entered into the following transactions with Origen Financial, Inc. (“Origen”):

Investment in Origen. In 2003, the Company purchased 5,000,000 shares of Origen common stock for \$50 million and Shiffman Origen LLC (which is owned by the Milton M. Shiffman Spouse's Marital Trust, Gary A. Shiffman (the Company's Chief Executive Officer), and members of Mr. Shiffman's family) purchased 1,025,000 shares of Origen common stock for \$10.3 million. Gary A. Shiffman is a member of the board of directors of Origen and Arthur A. Weiss, a director of the Company, is a trustee of the Milton M. Shiffman Spouse's Marital Trust.

Board Membership. Gary A. Shiffman, the Chairman and Chief Executive Officer of the Company, is a board member of Origen.

Loan Servicing Agreement. Origen Servicing, Inc., a wholly-owned subsidiary of Origen, serviced approximately \$30.6 million in manufactured home loans for the Company as of December 31, 2007. The Company paid Origen Servicing, Inc. an annual servicing fee of 100 to 150 basis points of the outstanding principal balance of the loans pursuant to a Loan Servicing Agreement which totaled approximately \$0.4 million and \$0.3 million during 2007 and 2006, respectively. With the sale of Origen's servicing platform assets to Green Tree Servicing LLC during 2008, the Company engaged a different entity to continue the servicing of the manufactured home loans. In order to transfer the manufactured home loan servicing contract to a different service provider the Company paid Origen a fee of \$0.3 million in 2008.

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loan Origination, Sale and Purchase Agreement. Origen had agreed to fund loans that met the Company's underwriting guidelines and then transfer those loans to the Company pursuant to a Loan Origination, Sale and Purchase Agreement. The Company paid Origen a fee of \$550 per loan pursuant to a Loan Origination, Sale and Purchase Agreement which totaled approximately \$0.2 million during 2008, 2007 and 2006. During 2008 and 2007, the Company purchased, at par, \$12.4 million and \$13.3 million of these loans, respectively.

Purchase of Repossessed Manufactured Homes. The Company purchased certain repossessed manufactured houses owned by Origen located in its manufactured housing communities. The Company purchased approximately \$0.6 million and \$1.2 million of repossessed homes from Origen during 2008 and 2007, respectively. This program allowed the Company to retain houses for resale and rent in its communities.

Sale of Installment Loans on Manufactured Homes: As noted above, Origen serviced manufactured home loans for the Company under a Loan Servicing Agreement. Certain loans may, from time to time, have been sold to Origen. For loans that were made below published rates, the Company paid Origen the interest differential between market rates and the rate paid by the borrower for any such loans sold to Origen. During 2004, the Company sold a portfolio of below published rates loans totaling \$1.6 million to Origen. No sales of such loans were made in 2008, 2007, 2006, or 2005. The Company paid interest differential of approximately \$0.1 million 2007 and 2006. The interest differential paid to Origen during 2008 was not significant.

The Company and its affiliates have entered into the following transactions with Origen Financial Services, LLC (the "LLC"):

Investment in LLC. The Company entered into an agreement with four unrelated companies ("Members") to form a new limited liability company. The Company contributed cash of \$0.5 million towards the formation of the limited liability company. The LLC purchased the origination platform of Origen. The purpose of the venture is to originate manufactured housing installment contracts for its Members. The Company will account for its investment in the LLC using the equity method of accounting.

Loan Origination, Sale and Purchase Agreement. The LLC had agreed to fund loans that met the Company's underwriting guidelines and then transfer those loans to the Company pursuant to a Loan Origination, Sale and Purchase Agreement. The Company paid the LLC a fee of \$550 per loan pursuant to a Loan Origination, Sale and Purchase Agreement which totaled approximately \$0.1 million during 2008. During 2008, the Company purchased, at par, \$7.4 million of these loans.

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

Legal Counsel. During 2008, Jaffe, Raitt, Heuer, & Weiss, Professional Corporation ("JRH&W") acted as the Company's general counsel and represented the Company in various matters. Arthur A. Weiss, a director of the Company, is the Chairman of the Board of Directors and a shareholder of such firm. The Company incurred legal fees and expenses of approximately \$1.0 million in 2008 and 2007, and approximately

\$1.3 million in 2006, in connection with services rendered by JRH&W.

Lease of Executive Offices. Gary A. Shiffman, together with certain family members, indirectly owns approximately a 21 percent equity interest in American Center LLC, the entity from which we lease office space for our principal executive offices. Arthur A. Weiss owns a 0.75 percent indirect interest in American Center LLC. This lease was for an initial term of five years, beginning May 1, 2003, with the right to extend the lease for an additional five year term. On July 30, 2007, the Company exercised its option to extend its lease for its executive offices. The extension was for a period of five years commencing on May 1, 2008. On August 8, 2008, the Company modified its lease agreement to extend the term of the lease until August 31, 2015, with an option to renew for an additional five years. The base rent for the extended term through August 31, 2015, will continue to be the same as the rent payable as of the current term. The current annual base rent under the current lease is \$21.25 per square foot (gross). The Company's annual rent expense associated with the lease of the executive offices was approximately \$0.6 million for each the years ended December 31, 2008, 2007, and 2006. The Company's future annual rent expense will remain approximately \$0.6 million through 2015. Mr. Shiffman may have a conflict of interest with respect to his obligations as an officer and/or director of the Company and his ownership interest in American Center LLC.

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tax Consequences Upon Sale of Properties. Gary A. Shiffman holds limited partnership interests in the Operating Partnership which were received in connection with the contribution of 24 properties (four of which have been sold) from partnerships previously affiliated with him (the "Sun Partnerships"). Prior to any redemption of these limited partnership interests for our common stock, Mr. Shiffman will have tax consequences different from those of us and our public stockholders on the sale of any of the Sun Partnerships. Therefore, Mr. Shiffman and the Company may have different objectives regarding the appropriate pricing and timing of any sale of those properties.

18. Subsequent Events

In March 2009, the Company entered into a one year, auto renewing, \$10.0 million floor plan facility that allows for draws on new home purchases and bears interest at the greater of 7.0 percent or Prime plus 100 basis points. Prime means for any month, the prevailing "prime rate" as quoted in the Wall Street Journal on first business day of such calendar month. This facility replaced the Company's \$40.0 million floor plan line of credit which matured on March 1, 2009.

SUN COMMUNITIES, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION, SCHEDULE III

DECEMBER 31, 2008

(amounts in thousands)

Property Name	Location	Encumbrance	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition (Improvements)		Gross Amount Carried at December 31, 2008		Total	Accumulated Depreciation
			Land	Depreciable Assets	Land	Depreciable Assets	Land	Depreciable Assets		
Academy/Westpoint	Canton, MI	A	1,485	14,278	-	3,576	1,485	17,854	19,339	(4,913)
Allendale	Allendale, MI	A	366	3,684	-	6,908	366	10,592	10,958	(3,748)
Alpine	Grand Rapids, MI	C	729	6,692	-	5,682	729	12,374	13,103	(4,480)
Apple Creek	Amelia, OH	B	543	5,480	-	940	543	6,420	6,963	(1,847)
Arbor Terrace	Bradenton, FL	C	456	4,410	-	751	456	5,161	5,617	(2,048)
Ariana Village	Lakeland, FL	C	240	2,195	-	1,041	240	3,236	3,476	(1,338)
Autumn Ridge	Ankeny, IA	A	890	8,054	(33)	2,147	857	10,201	11,059	(3,784)
Bedford Hills	Battle Creek, MI	-	1,265	11,562	-	2,299	1,265	13,861	15,126	(5,492)
Bell Crossing	Clarksville, TN	-	717	1,916	-	6,021	717	7,937	8,654	(2,221)
Boulder Ridge	Pflugerville, TX	A	1,000	500	3,324	21,770	4,324	22,270	26,595	(6,474)
Branch Creek	Austin, TX	A	796	3,716	-	5,523	796	9,239	10,035	(3,524)
Brentwood	Kentwood, MI	C	385	3,592	-	1,607	385	5,199	5,584	(1,902)
Brookside Village	Goshen, IN	A	260	1,080	386	10,163	646	11,243	11,889	(4,446)
Buttonwood Bay	Sebring, FL	C	1,952	18,294	-	3,403	1,952	21,697	23,649	(5,492)
Byrne Hill Village	Toledo, OH	C	383	3,903	(2)	1,300	381	5,203	5,585	(1,527)
Byron Center	Byron Center, MI	C	253	2,402	-	1,010	253	3,412	3,665	(1,234)
Candlelight Village	Chicago Heights, IL	C	600	5,623	-	3,846	600	9,469	10,069	(3,423)
Candlewick Court	Owosso, MI	C	125	1,900	132	2,288	257	4,188	4,445	(1,726)
Carrington Pointe	Ft. Wayne, IN	A	1,076	3,632	(1)	6,503	1,075	10,135	11,210	(3,270)
Casa Del Valle	Alamo, TX	C	246	2,316	-	745	246	3,061	3,307	(1,144)
Catalina	Middletown, OH	C	653	5,858	-	3,784	653	9,642	10,295	(4,359)
Cave Creek	Evans, CO	5,820	2,241	15,343	-	5,839	2,241	21,182	23,422	(3,690)
Chisholm Point	Pflugerville, TX	A	609	5,286	-	6,400	609	11,686	12,295	(3,963)
Clearwater Village	South Bend, IN	A	80	1,270	61	3,754	141	5,024	5,165	(1,957)
Cobus Green	Elkhart, IN	-	762	7,037	-	2,622	762	9,659	10,421	(4,506)
College Park Estates	Canton, MI	-	75	800	174	6,883	249	7,683	7,932	(3,079)
Comal Farms	New Braunfels, TX	-	1,455	1,732	-	7,448	1,455	9,180	10,635	(2,044)

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Continental Estates	Davison, MI	C	1,625	16,581	150	1,957	1,775	18,538	20,313	(7,216)
Continental North (1)	Davison, MI	C	-	-	-	8,958	-	8,958	8,958	(3,277)
Corporate Headquarters	Farmington Hills, MI	-	-	-	-	8,374	-	8,374	8,374	(4,437)
Country Acres	Cadillac, MI	C	380	3,495	-	1,772	380	5,267	5,647	(1,998)
Country Meadows	Flat Rock, MI	A	924	7,583	296	14,572	1,220	22,155	23,375	(8,326)
Countryside Atlanta	Lawrenceville, GA	12,950	1,274	10,957	-	1,861	1,274	12,818	14,093	(2,046)
Countryside Gwinnett	Buford, GA	-	1,124	9,539	-	2,712	1,124	12,251	13,375	(1,974)
Countryside Lake Lanier	Buford, GA	16,850	1,916	16,357	-	3,438	1,916	19,795	21,711	(3,200)
Countryside Village	Perry, MI	-	275	3,920	185	3,814	460	7,734	8,194	(3,235)
Creekside	Reidsville, NC	-	350	1,423	(200)	96	150	1,519	1,668	(13)
Creekwood Meadows	Burton, MI	C	808	2,043	404	10,761	1,212	12,804	14,016	(4,386)
Cutler Estates	Grand Rapids, MI		749	6,941	-	1,771	749	8,712	9,461	(3,330)

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SUN COMMUNITIES, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION, SCHEDULE III

DECEMBER 31, 2008

(amounts in thousands)

Property Name	Location	Encumbrance	Land	Depreciable Assets	Land	Depreciable Assets	Land	Depreciable Assets	Total	Accumulated De
Davison East (1)	Davison, MI	C	-	-	-	1,195	-	1,195	1,195	(399)
Deerfield Run	Anderson, IN	-	990	1,607	-	4,708	990	6,315	7,305	(1,826)
Desert View Village	West Wendover, NV	-	1,119	-	(1,042)	209	77	209	285	(75)
Eagle Crest	Firestone, CO	A	2,015	150	-	30,312	2,015	30,462	32,477	(6,466)
East Fork	Batavia, OH	-	1,280	6,302	-	7,149	1,280	13,451	14,731	(3,257)
Edwardsville	Edwardsville, KS	-	425	8,805	541	4,561	966	13,366	14,332	(5,933)
Falcon Pointe	East Lansing, MI	2,288	450	4,049	(300)	(2,644)	150	1,405	1,555	(19)
Fisherman's Cove	Flint, MI	C	380	3,438	-	2,150	380	5,588	5,968	(2,423)
Forest Meadows	Philomath, OR	C	1,031	2,050	-	842	1,031	2,892	3,923	(859)
Four Seasons	Elkhart, IN	C	500	4,811	-	1,601	500	6,412	6,912	(1,831)
Glen Laurel	Concord, NC	-	1,641	453	-	8,921	1,641	9,374	11,015	(1,921)
Goldcoaster	Homestead, FL	C	446	4,234	172	2,302	618	6,536	7,154	(2,355)
Grand	Grand Rapids, MI	C	374	3,587	-	1,636	374	5,223	5,597	(1,823)
Groves	Ft. Myers, FL	C	249	2,396	-	911	249	3,307	3,556	(1,247)
Hamlin	Webberville, MI	C	125	1,675	536	7,176	661	8,851	9,512	(2,421)
High Point	Frederica, DE	17,500	898	7,031	-	4,638	898	11,669	12,567	(2,852)
Holiday Village	Elkhart, IN	A	100	3,207	143	2,265	243	5,472	5,715	(2,444)
Holly / Hawaiian Gardens	Holly, MI	C	1,514	13,596	-	846	1,514	14,442	15,956	(2,185)
Holly Forest	Holly Hill, FL	A	920	8,376	-	537	920	8,913	9,833	(3,410)
Hunters Glen	Wayland, MI	2,700	1,102	11,926	-	1,454	1,102	13,380	14,482	(2,296)
Indian Creek	Ft. Myers Beach, FL	C	3,832	34,660	-	3,400	3,832	38,060	41,892	(15,466)
Island Lake	Merritt Island, FL	C	700	6,431	-	486	700	6,917	7,617	(3,041)
Kensington Meadows	Island, FL	C	700	6,431	-	486	700	6,917	7,617	(3,041)
Kenwood	Lansing, MI	A	250	2,699	-	6,361	250	9,060	9,310	(3,241)
King's Court	La Feria, TX	-	145	1,842	-	201	145	2,043	2,188	(646)
King's Lake	Traverse City, MI	A	1,473	13,782	-	2,970	1,473	16,752	18,225	(6,622)
Knollwood Estates	Debary, FL	C	280	2,542	-	2,367	280	4,909	5,189	(1,905)
Lafayette Place	Allendale, MI	2,455	400	4,061	-	1,365	400	5,426	5,826	(1,400)
Lake Juliana	Warren, MI	C	669	5,979	-	2,680	669	8,659	9,328	(2,929)
		C	335	3,048	-	1,662	335	4,710	5,045	(1,869)

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	Auburndale, FL								
Lake San Marino	Naples, FL	C	650	5,760	-	1,001	650	6,761	7,411 (2,664)
Lakeview	Ypsilanti, MI	B	1,156	10,903	-	1,818	1,156	12,721	13,877 (1,991)
Liberty Farms	Valparaiso, IN	C	66	1,201	116	2,638	182	3,839	4,021 (1,586)
Lincoln Estates	Holland, MI	C	455	4,201	-	1,731	455	5,932	6,387 (2,150)
Maplewood Mobile	Lawrence, IN	C	275	2,122	-	1,833	275	3,955	4,231 (1,656)
Meadow Lake Estates	White Lake, MI	A	1,188	11,498	127	5,326	1,315	16,824	18,139 (7,441)
Meadowbrook	Charlotte, NC	-	1,310	6,570	-	4,662	1,310	11,232	12,542 (3,031)
Meadowbrook Estates	Monroe, MI	C	431	3,320	379	8,480	810	11,800	12,610 (5,080)
Meadowbrook Village	Tampa, FL	C	519	4,728	-	635	519	5,363	5,882 (2,579)
Meadows	Nappanee, IN	C	287	2,300	(1)	4,089	286	6,389	6,675 (2,644)
North Point Estates	Pueblo, CO	-	1,582	3,027	1	3,756	1,583	6,783	8,365 (1,693)

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SUN COMMUNITIES, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION, SCHEDULE III

DECEMBER 31, 2008

(amounts in thousands)

Property Name	Location	Encumbrance	Land	Depreciable Assets	Land	Depreciable Assets	Land	Depreciable Assets	Total	Accumulated Depreciation
Oak Crest	Austin, TX	-	4,311	12,611	-	5,606	4,311	18,217	22,528	(4,048)
Oakwood Village	Miamisburg, OH	A	1,964	6,401	-	9,899	1,964	16,300	18,264	(4,711)
Orange Tree	Orange City, FL	C	283	2,530	15	971	298	3,501	3,799	(1,522)
Orchard Lake	Milford, OH	B	395	4,025	-	318	395	4,343	4,738	(1,415)
Pebble Creek	Greenwood, IN	-	1,030	5,074	-	4,893	1,030	9,967	10,997	(2,675)
Pecan Branch	Georgetown, TX	-	1,379	-	235	5,131	1,614	5,131	6,746	(1,233)
Pheasant Ridge	Lancaster, PA	C	2,044	19,279	-	338	2,044	19,617	21,661	(4,339)
Pin Oak Parc	O'Fallon, MO	A	1,038	3,250	467	7,445	1,505	10,695	12,199	(3,768)
Pine Hills	Middlebury, IN	-	72	544	60	3,341	132	3,885	4,017	(1,531)
Pine Ridge	Petersburg, VA	C	405	2,397	-	3,181	405	5,578	5,983	(2,148)
Pine Trace	Houston, TX	6,235	2,907	17,169	-	1,861	2,907	19,030	21,937	(3,573)
Presidential	Hudsonville, MI	A	680	6,314	-	3,544	680	9,858	10,538	(3,658)
Richmond	Richmond, MI	C	501	2,040	-	1,220	501	3,260	3,761	(1,003)
River Haven	Grand Haven, MI	8,836	1,800	16,967	-	3,236	1,800	20,203	22,003	(5,284)
River Ranch	Austin, TX	-	4,690	843	(4)	9,159	4,686	10,002	14,688	(1,782)
River Ridge	Austin, TX	-	3,201	15,090	-	4,595	3,201	19,685	22,886	(4,628)
Roxbury	Goshen, IN	A	1,057	9,870	1	1,869	1,058	11,739	12,797	(3,067)
Royal Country	Miami, FL	54,000	2,290	20,758	-	1,495	2,290	22,253	24,543	(10,829)
Saddle Oak Club	Ocala, FL	A	730	6,743	-	1,045	730	7,788	8,518	(3,521)
Saddlebrook	San Marcos, TX	-	1,703	11,843	-	4,742	1,703	16,585	18,288	(3,784)
Scio Farms	Ann Arbor, MI	C	2,300	22,659	(11)	7,076	2,289	29,735	32,024	(12,044)
Sea Air	Rehoboth Beach, DE	20,000	1,207	10,179	-	1,804	1,207	11,983	13,190	(2,874)
Sheffield	Auburn Hills, MI	6,825	778	7,165	-	469	778	7,634	8,412	(749)
Sherman Oaks	Jackson, FL	-	200	2,400	240	5,805	440	8,205	8,645	(3,361)
Siesta Bay	Ft. Myers Beach, FL	C	2,051	18,549	-	1,681	2,051	20,230	22,281	(8,225)

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Silver Star	Orlando, FL	C	1,022	9,306	-	900	1,022	10,206	11,228	(4,104)
	Weslaco,									
Snow to Sun	TX	C	190	2,143	13	1,192	203	3,335	3,538	(1,188)
Southfork	Belton, MO	C	1,000	9,011	-	3,425	1,000	12,436	13,436	(4,077)
St. Clair Place	St. Clair, MI	C	501	2,029	-	906	501	2,935	3,436	(1,112)
	San									
Stonebridge	Antonio, TX	-	2,515	2,096	(615)	8,090	1,900	10,186	12,086	(2,413)
	Richfield									
Stonebridge	Twp., MI	-	2,044	-	2,130	(28)	4,174	(28)	4,147	-
	Converse,									
Summit Ridge	TX	-	2,615	2,092	(883)	7,706	1,732	9,798	11,530	(2,308)
Sun Villa	Reno, NV	18,300	2,385	11,773	(1,100)	699	1,285	12,472	13,757	(4,308)
Sunset Ridge	Kyle, TX	-	2,190	2,775	-	7,342	2,190	10,117	12,307	(2,446)
Sunset Ridge	Portland, MI	-	2,044	-	-	14,766	2,044	14,766	16,810	(3,310)
Tampa East	Tampa, FL	B	734	6,310	-	1,503	734	7,813	8,547	(1,049)
	Ft. Collins,									
Timber Ridge	CO	A	990	9,231	-	4,567	990	13,798	14,788	(4,890)
Timberbrook	Bristol, IN	-	490	3,400	101	8,782	591	12,182	12,773	(5,323)
	Grand									
Timberline Estates	Rapids, MI	A	535	4,867	1	2,307	536	7,174	7,709	(3,039)
	Traverse									
Town and Country	City, MI	C	406	3,736	-	861	406	4,597	5,003	(1,766)

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SUN COMMUNITIES, INC.

REAL ESTATE AND ACCUMULATED DEPRECIATION, SCHEDULE III

DECEMBER 31, 2008

(amounts in thousands)

Property Name	Location	Encumbrance	Land	Depreciable Assets	Land	Depreciable Assets	Land	Depreciable Assets	Total	Accumulated
Valley Brook	Indianapolis, IN	A	150	3,500	1,277	12,218	1,427	15,718	17,145	(6,709)
Village Trails	Howard City, MI	C	988	1,472	(52)	1,697	936	3,169	4,105	(1,053)
Water Oak	Lady Lake, FL	A	2,834	16,706	101	10,319	2,935	27,025	29,960	(11,655)
West Glen Village	Indianapolis, IN	C	1,100	10,028	-	3,114	1,100	13,142	14,242	(5,735)
Westbrook	Toledo, OH	A	1,110	10,462	-	1,949	1,110	12,411	13,521	(3,786)
Westbrook Senior	Toledo, OH	A	355	3,295	-	298	355	3,593	3,948	(897)
White Lake	White Lake, MI	A	672	6,179	1	6,763	673	12,942	13,615	(4,081)
White Oak	Mt. Morris, MI	A	782	7,245	112	5,613	894	12,858	13,752	(4,481)
Willowbrook	Toledo, OH	A	781	7,054	1	2,087	782	9,141	9,923	(3,013)
Windham Hills	Jackson, MI	A	2,673	2,364	-	12,028	2,673	14,392	17,065	(4,426)
Woodhaven Place	Woodhaven, MI	A	501	4,541	-	2,492	501	7,033	7,534	(2,236)
Woodlake Estates	Yoder, IN	C	632	3,674	(283)	(187)	349	3,487	3,836	(430)
Woodlake Trails	San Antonio, TX	-	1,186	287	(282)	4,657	904	4,944	5,848	(1,249)
Woodland Park Estates	Eugene, OR	5,177	1,592	14,398	1	2,442	1,593	16,840	18,433	(5,780)
Woods Edge	West Lafayette, IN	C	100	2,600	2	10,068	102	12,668	12,770	(4,345)
Woodside Terrace	Holland, OH	A	1,064	9,625	(1)	2,960	1,063	12,585	13,648	(4,572)
Worthington Arms	Lewis Center, OH	A	376	2,624	-	2,232	376	4,856	5,232	(2,021)
			136,202	839,284	7,075	557,061	143,277	1,396,345	1,539,623	(450,319)

A These communities collateralize \$377.7 million of secured debt.

B These communities collateralize \$27.0 million of secured debt.

C These communities collateralize \$478.9 million of secured debt.

⁽¹⁾ The initial cost for this property is included in the initial cost reported for Continental Estates.

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SUN COMMUNITIES, INC.**REAL ESTATE AND ACCUMULATED DEPRECIATION, CONTINUED**

The change in investment property for the years ended December 31, 2008, 2007, and 2006 is as follows:

	Years Ended December 31,		
	2008	2007	2006
Balance at beginning of year	\$ 1,538,426	\$ 1,512,762	\$ 1,458,122
Community and land acquisitions, including immediate improvements	—	789	8,012
Community expansion and development	1,292	857	3,052
Improvements, other	45,331	44,199	53,360
Asset impairment	(21,257)		
Dispositions and other	(24,169)	(20,180)	(9,784)
Balance at end of year	\$ 1,539,623	\$ 1,538,426	\$ 1,512,762

The change in accumulated depreciation for the years ended December 31, 2008, 2007, and 2006 is as follows:

	Years Ended December 31,		
	2008	2007	2006
Balance at beginning of year	\$ 404,222	\$ 351,113	\$ 296,302
Depreciation for the period	61,026	58,723	56,784
Asset impairment	(8,086)	—	—
Dispositions and other	(6,843)	(5,614)	(1,973)
Balance at end of year	\$ 450,319	\$ 404,222	\$ 351,113

