SUN COMMUNITIES INC
Form 10-K
February 20, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013
Commission file number 1-12616

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

Maryland	38-2730780
(State of Incorporation)	(I.R.S. Employer Identification No.)
27777 Franklin Rd.	
Suite 200	
Southfield, Michigan	48034
(Address of Principal Executive Offices)	(Zip Code)
(248) 208-2500	
(Registrant's telephone number, including area code)	
Common Stock, Par Value $0.01 per Share	New York Stock Exchange
Securities Registered Pursuant to Section 12(b) of the Act	Name of each exchange on which registered
7.125% Series A Cumulative Redeemable Preferred Stock, Par Value $0.01 per Share	New York Stock Exchange
Securities Registered Pursuant to Section 12(b) of the Act	Name of each exchange on which registered

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes [ ] No [X]

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check one):
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes[ ] No [X]

As of June 30, 2013, the aggregate market value of the Registrant's stock held by non-affiliates was approximately $1,699,804,983.68 (computed by reference to the closing sales price of the Registrant's common stock as of June 30, 2013). For this computation, the Registrant has excluded the market value of all shares of common stock reported as beneficially owned by executive officers and directors of the Registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the Registrant.

Number of shares of common stock, $0.01 par value per share, outstanding as of February 14, 2014: 36,168,663

SUN COMMUNITIES, INC.

Table of Contents

SUN COMMUNITIES, INC.

PART I

ITEM 1. BUSINESS

GENERAL

Sun Communities, Inc., a Maryland corporation, together with the Sun Communities Operating Limited Partnership, a Michigan limited partnership (the “Operating Partnership”) and other consolidated subsidiaries are referred to herein as the “Company”, “us”, “we”, and “our”. We are a self-administered and self-managed real estate investment trust (“REIT”).

We are a fully integrated real estate company which, together with our affiliates and predecessors, has been in the business of acquiring, operating, developing and expanding manufactured housing ("MH") and recreational vehicle ("RV") communities since 1975. We lease individual parcels of land (“sites”) with utility access for placement of manufactured homes and RVs to our customers. We are also engaged through a taxable subsidiary, Sun Home Services, Inc., a Michigan corporation (“SHS”), in the marketing, selling, and leasing of new and pre-owned homes to current and future residents in our communities. The operations of SHS support and enhance our occupancy levels, property performance, and cash flows.

We own, operate, and develop MH and RV communities concentrated in the midwestern, southern, and southeastern United States. As of December 31, 2013, we owned and operated a portfolio of 188 properties located in 26 states (the “Properties”, or “Property”), including 150 MH communities, 27 RV communities, and 11 Properties containing both MH and RV sites. As of December 31, 2013, the Properties contained an aggregate of 69,789 developed sites comprised of 54,168 developed manufactured home sites, 7,633 annual RV sites (inclusive of both annual and seasonal usage rights), 7,988 transient RV sites, and approximately 6,300 additional manufactured home sites suitable for development.

Our executive and principal property management office is located at 27777 Franklin Road, Suite 200, Southfield, Michigan 48034 and our telephone number is (248) 208-2500. We have regional property management offices located in Austin, Texas; San Antonio, Texas; Dayton, Ohio; Grand Rapids, Michigan; Elkhart, Indiana; Indianapolis, Indiana; Traverse City, Michigan; Charlotte, North Carolina; Denver, Colorado; Ft. Myers, Florida and Orlando, Florida; and we employed an aggregate of 1,236 full and part time employees as of December 31, 2013.

Our website address is www.suncommunities.com and we make available, free of charge, on or through our website all of our periodic reports, including our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as soon as reasonably practicable after we file such reports with the Securities and Exchange Commission (the "SEC").

STRUCTURE OF THE COMPANY

The Operating Partnership is structured as an umbrella partnership REIT, or UPREIT. In 1993, we contributed our net assets to the Operating Partnership in exchange for the sole general partner interest in the Operating Partnership and the majority of all the Operating Partnership’s initial capital. We substantially conduct our operations through the Operating Partnership. The Operating Partnership owns, either directly or indirectly through subsidiaries, all of our assets. This UPREIT structure enables us to comply with certain complex requirements under the federal tax rules and regulations applicable to REITs, and to acquire MH and RV communities in transactions that defer some or all of the sellers’ tax consequences. The financial results of the Operating Partnership and our other subsidiaries are consolidated in our consolidated financial statements. The financial results include certain activities that do not necessarily qualify as REIT activities under the Internal Revenue Code of 1986, as amended (the “Code”). We have formed taxable REIT subsidiaries, as defined in the Code, to engage in such activities. We use taxable REIT subsidiaries to offer certain services to our residents and engage in activities that would not otherwise be permitted under the REIT rules if provided directly by us or by the Operating Partnership. The taxable REIT subsidiaries include our home sales business, SHS, which provides manufactured home sales, leasing and other services to current and prospective tenants of the Properties.

We do not own all of the Operating Partnership units ("OP units"). As of December 31, 2013, the Operating Partnership had issued and outstanding 38,209,616 common OP units, 3,400,000 7.125% Series A Cumulative Redeemable Preferred OP Units (the "7.125% Series A OP Units"), 1,325,275 preferred OP units ("Aspen preferred OP units"), 455,476 Series A-1 preferred OP units, 112,400 Series B-3 preferred OP units and 40,267.50 Series A-3 preferred OP units. As of December 31, 2013, we held 36,140,294 common OP units, or approximately 94.6% of the issued and outstanding common OP units, all of the 7.125% Series A OP Units and no Aspen preferred OP units, Series A-1 preferred OP units, Series B-3 preferred OP units or Series A-3 preferred OP units.

Subject to certain limitations, the holder of each common OP unit at its option may convert such common OP unit at any time into one share of our common stock. The holders of common OP units receive distributions on the same dates and in amounts equal to the distributions paid to holders of our common stock.

Subject to certain limitations, at any time prior to January 1, 2024, the holder of each Aspen preferred OP unit at its option may convert such Aspen preferred OP unit into: (a) if the market price of our common stock is $68.00 per share or less, 0.397 common OP units, or (b) if the market price of our common stock is greater than $68.00 per share, that number of common OP units determined by dividing (i) the sum of (A) $27.00 plus (B) 25% of the amount by which the market price of our common stock exceeds $68.00 per share, by (ii) the per-share market price of our common stock. The holders of Aspen preferred OP units generally receive distributions on the same dates as distributions are paid to holders of common OP units. Each Aspen preferred OP unit is entitled to receive distributions in an amount equal to the product of (x) $27.00, multiplied by (y) an annual rate equal to the 10-year United States Treasury bond yield plus 239 basis points; provided, however, that the aggregate distribution rate shall not be less than 6.5% nor more than 9%. On January 2, 2024, we are required to redeem all Aspen preferred OP units that have not been converted to common OP Units. In addition, we are required to redeem the Aspen preferred OP units of any holder thereof within five days after receipt of a written demand during the existence of certain uncured Aspen preferred OP unit defaults, including our failure to pay distributions on the Aspen preferred OP units when due and our failure to provide certain security for the payment of distributions on the Aspen preferred OP units. We may also redeem Aspen preferred OP units from time to time if we and the holder thereof agree to do so.

Subject to certain limitations, the holder of each Series A-1 preferred OP unit at its option may exchange such Series A-1 preferred OP unit at any time on or after December 31, 2013, into 2.439 shares of our common stock (which exchange rate is subject to adjustment upon stock splits, recapitalizations and similar events). The holders of Series A-1 preferred OP units generally receive distributions on the same dates as distributions are paid to holders of common OP units. Each Series A-1 preferred OP unit is entitled to receive distributions in an amount equal to the product of $100.00 multiplied by an annual rate equal to 5.1% until June 23, 2013, and an annual rate equal to 6.0% thereafter.

Series B-3 preferred OP units are not convertible. The holders of Series B-3 preferred OP units generally receive distributions on the same dates as distributions are paid to holders of common OP units. Each Series B-3 preferred OP unit is entitled to receive distributions in an amount equal to the product of $100.00 multiplied by an annual rate equal to 8.0%. As of December 31, 2013, there were 36,700 outstanding Series B-3 preferred OP units which were issued on December 1, 2002, 33,450 outstanding Series B-3 preferred OP units which were issued on January 1, 2003, and 42,250 outstanding Series B-3 preferred OP units which were issued on January 5, 2004. Subject to certain limitations, (x) during the 90-day period beginning on each of the tenth through fifteenth anniversaries of the issue date of the applicable Series B-3 preferred OP Units, (y) at any time after the fifteenth anniversary of the issue date of the applicable Series B-3 preferred OP Units, or (z) after our receipt of notice of the death of the electing holder of a Series B-3 preferred OP unit, each holder of Series B-3 preferred OP Units may require us to redeem such holder's Series B-3 preferred OP units at the redemption price of $100.00 per unit. In addition, at any time after the fifteenth anniversary of the issue date of the applicable Series B-3 preferred OP units we may redeem, at our option, all of the Series B-3 preferred OP units of any holder thereof at the redemption price of $100.00 per unit.

In connection with the issuance of the 7.125% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), the Operating Partnership created the 7.125% Series A OP Units as a new class of OP units. All of the outstanding 7.125% Series A OP Units are held by us and they have rights, preferences and other terms substantially similar to the Series A Preferred Stock, including rights to receive distributions at the same time and in the same amounts as distributions paid on Series A Preferred Stock. The Operating Partnership issued the 7.125% Series A OP Units to us in consideration of our contributing to the Operating Partnership the net proceeds of our November 2012 offering of shares of Series A Preferred Stock. The 7.125% Series A OP Units rank senior in all respects to the Aspen preferred OP units, the Series A-1 preferred OP units, the Series A-3 preferred OP units, the Series B-3 preferred OP units and the common OP units. So long as any Aspen preferred OP units remain issued and outstanding, the Operating Partnership may not issue any OP units that are not junior to the Aspen preferred OP units without the written consent of holders of a majority of the Aspen preferred OP units. Holders of a majority of the Aspen preferred OP units have consented to the issuance of up to $150.0 million in OP units senior to the Aspen preferred OP units, including the 7.125% Series A OP Units issued to us. Holders of a majority of the Aspen preferred OP units have previously consented to the issuance of up to approximately an additional $54.5 million of OP Units that are pari passu with the Aspen preferred OP units.

Subject to certain limitations, including certain contractual restrictions contained in the related acquisition agreements, the holder of each Series A-3 preferred OP unit at its option may exchange such Series A-3 preferred OP unit at any time into 1.8605 shares of our common stock (which exchange rate is subject to adjustment upon stock splits, recapitalizations and similar events). The holders of Series A-3 preferred OP units generally receive distributions on the same dates as distributions are paid to holders of common OP Units. Each Series A-3 preferred OP unit is entitled to receive distributions in an amount equal to the product of $100.00 multiplied by an annual rate equal to 4.5%.

SUN COMMUNITIES, INC.

REAL PROPERTY OPERATIONS

Properties are designed and improved for several home options of various sizes and designs and consist of MH communities and RV communities.

An MH community is a residential subdivision designed and improved with sites for the placement of manufactured homes and related improvements and amenities. Manufactured homes are detached, single family homes which are produced off site by manufacturers and installed on sites within the community. Manufactured homes are available in a wide array of designs, providing owners with a level of customization generally unavailable in other forms of multi-family housing developments.

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

An RV community is a resort or park designed and improved with sites for the placement of RVs for varied lengths of time. Properties may also provide vacation rental homes. RV communities, such as the Properties, include a number of amenities, such as restaurants, golf courses, swimming pools, tennis courts, fitness centers, planned activities and spacious social facilities.

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

PROPERTY MANAGEMENT

Our property management strategy emphasizes intensive, hands on management by dedicated, on site district and community managers. We believe that this on site focus enables us to continually monitor and address resident concerns, the performance of competitive properties and local market conditions. As of December 31, 2013, we employed 1,236 full and part time employees, of which 765 were located on site as property managers, support staff, or maintenance personnel.

Our community managers are overseen by John B. McLaren, our President and Chief Operating Officer, who has been in the manufactured housing industry since 1995, three Senior Vice Presidents of Operations and Sales, two Division Vice Presidents and 18 Regional Vice Presidents. The Regional Vice Presidents are responsible for semi-annual market surveys of competitive communities, interaction with local manufactured home dealers, regular property inspections and oversight of property operations and sales functions for eight to twelve properties.

Each district or community manager performs regular inspections in order to continually monitor the Property's physical condition and to effectively address tenant concerns. In addition to a district or community manager, each district or property has on-site maintenance personnel and management support staff. We hold mandatory training sessions for all new property management personnel to ensure that management policies and procedures are executed effectively and professionally. All of our property management personnel participate in on-going training to ensure that changes to management policies and procedures are implemented consistently. We offer approximately 300 courses for our team members through our Sun University, which has led to increased knowledge and accountability for daily operations and policies and procedures.

HOME SALES AND RENTALS

SHS is engaged in the marketing, selling and leasing of new and pre-owned homes to current and future residents in our communities. Since tenants often purchase a home already on-site within a community, such services enhance occupancy and property performance. Additionally, because many of the homes on the Properties are sold through SHS, better control of home quality in our communities can be maintained than if sales services were conducted solely through third-party brokers. SHS also leases homes to prospective tenants. At December 31, 2013, SHS had 9,726 occupied leased homes in its portfolio. Homes for this rental program (the "Rental Program") are purchased at discounted rates from finance companies that hold repossessed homes within our communities. New homes are also purchased for the Rental Program. Leases associated with the Rental Program generally have a term of one year. The Rental Program requires intensive management of costs associated with repair and refurbishment of these homes as the tenants vacate and the homes are re-leased, similar to apartment rentals. We received approximately 31,000 applications during 2013 to live in our Properties, providing a significant "resident boarding" system allowing us to market purchasing a home to the best applicants and to rent to the remainder of approved applicants. Through the Rental Program we are able to demonstrate our product and lifestyle to the renters, while monitoring their payment history and converting qualified renters to owners.

REGULATIONS AND INSURANCE

General

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

Insurance

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

SITE LEASES OR USAGE RIGHTS

The typical lease we enter into with a tenant for the rental of a manufactured home site is month to month or year to year, renewable upon the consent of both parties, or, in some instances, as provided by statute. A small number of our leases, mainly Florida properties, are tied to consumer price index or other indices as it relates to rent increase. Generally, market rate adjustments are made on an annual basis. These leases are cancelable for non payment of rent, violation of community rules and regulations or other specified defaults. During the five calendar years ended December 31, 2013, on average 2.5% of the homes in our communities have been removed by their owners and 4.8% of the homes have been sold by their owners to a new owner who then assumes rental obligations as a community resident. The cost to move a home is approximately $4,000 to $10,000. The average resident remains in our communities for approximately 20 years, while the average home, which gives rise to the rental stream, remains in our communities for approximately 40 years.

At Properties zoned for RV use, our customers have short-term (“transient”) usage rights or long-term (“annual”) usage rights. The transient RV customers typically prepay for their stay or leave deposits for the following season, whereas the annual RV customers prepay for their stay or leave a deposit to reserve a site. Many of these RV customers do not live full time on the Property.

Please see the risk factors at Item 1A, and financial statements and related notes beginning on page F-1 of this Form 10-K for more detailed information.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains various “forward-looking statements” within the meaning of the United States Securities Act of 1933, as amended (the "Securities Act"), and the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we intend that such forward-looking statements will be subject to the safe harbors created thereby. For this purpose, any statements contained in this filing that relate to expectations, beliefs, projections, future plans and strategies, trends or prospective events or developments and similar expressions concerning matters that are not historical facts are deemed to be forward-looking statements. Words such as “forecasts,” “intends,” “intend,” “intended,” “goal,” “estimate,” “estimates,” “expects,” “expect,” “expected,” “project,” “projected,” “proje “predicts,” “potential,” “seeks,” “anticipates,” “anticipated,” “should,” “could,” “may,” “will,” “designed to,” “foreseeable futu “believes,” “scheduled” and similar expressions are intended to identify forward-looking statements, although not all forward looking statements contain these words. These forward-looking statements reflect our current views with respect to future events and financial performance, but involve known and unknown risks and uncertainties, both general and specific to the matters discussed in this filing. These risks and uncertainties may cause our actual results to be materially different from any future results expressed or implied by such forward-looking statements. In addition to the risks disclosed under “Risk Factors” contained in this Annual Report on Form 10-K and our other filings with the SEC, such risks and uncertainties include:

- changes in general economic conditions, the real estate industry and the markets in which we operate;

- difficulties in our ability to evaluate, finance, complete and integrate acquisitions, developments and expansions successfully;
- our liquidity and refinancing demands;
- our ability to obtain or refinance maturing debt;
- our ability to maintain compliance with covenants contained in our debt facilities;
- availability of capital;
- difficulties in completing acquisitions;
- our ability to maintain rental rates and occupancy levels;
- our failure to maintain effective internal control over financial reporting and disclosure controls and procedures;
- increases in interest rates and operating costs, including insurance premiums and real property taxes;
- risks related to natural disasters;
- general volatility of the capital markets and the market price of shares of our capital stock;
- our failure to maintain our status as a REIT;
- changes in real estate and zoning laws and regulations;
- legislative or regulatory changes, including changes to laws governing the taxation of REITs;
- litigation, judgments or settlements;
- competitive market forces; and
- the ability of manufactured home buyers to obtain financing and the level of repossessions by manufactured home lenders.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements included or incorporated by reference into this filing, whether as a result of new information, future events, changes in our expectations or otherwise.
Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements.

SUN COMMUNITIES, INC.

ITEM 1A. RISK FACTORS

Our prospects are subject to certain uncertainties and risks. Our future results could differ materially from current results, and our actual results could differ materially from those projected in forward looking statements as a result of certain risk factors. These risk factors include, but are not limited to, those set forth below, other one time events, and important factors disclosed previously and from time to time in our other filings with the SEC.

REAL ESTATE RISKS

General economic conditions and the concentration of our properties in Michigan, Florida, Indiana, and Texas may affect our ability to generate sufficient revenue.

The market and economic conditions in our current markets generally, and specifically in metropolitan areas of our current markets, may significantly affect manufactured home occupancy or rental rates. Occupancy and rental rates, in turn, may significantly affect our revenues, and if our communities do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay or refinance our debt obligations could be adversely affected. We derive significant amounts of our rental income from properties located in Michigan, Florida, Indiana, and Texas. As of December 31, 2013, 74 of our 188 Properties, representing approximately 36% of developed sites, are located in Michigan; 27 Properties, representing approximately 19% of developed sites, are located in Florida; 18 Properties, representing approximately 9% of developed sites, are located in Indiana; and 18 Properties, representing approximately 9% of developed sites, are located in Texas. As a result of the geographic concentration of our Properties in Michigan, Florida, Indiana, and Texas, we are exposed to the risks of downturns in the local economy or other local real estate market conditions which could adversely affect occupancy rates, rental rates, and property values of properties in these markets.

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

The following factors, among others, may adversely affect the revenues generated by our communities:

- the national and local economic climate which may be adversely impacted by, among other factors, plant closings, and industry slowdowns;
- local real estate market conditions such as the oversupply of MH and RV sites or a reduction in demand for MH and RV sites in an area;
- the number of repossessed homes in a particular market;
- the lack of an established dealer network;
- the rental market which may limit the extent to which rents may be increased to meet increased expenses without decreasing occupancy rates;
- the perceptions by prospective tenants of the safety, convenience and attractiveness of our Properties and the neighborhoods where they are located;

- zoning or other regulatory restrictions;
- competition from other available MH and RV communities and alternative forms of housing (such as apartment buildings and site built single family homes);
- our ability to provide adequate management, maintenance and insurance;

9

SUN COMMUNITIES, INC.

REAL ESTATE RISKS, CONTINUED

- increased operating costs, including insurance premiums, real estate taxes, and utilities; and
- the enactment of rent control laws or laws taxing the owners of manufactured homes.

Competition affects occupancy levels and rents which could adversely affect our revenues.

All of our Properties are located in developed areas that include other MH and RV community properties. The number of competitive MH and RV community properties in a particular area could have a material adverse effect on our ability to lease sites and increase rents charged at our Properties or at any newly acquired properties. We may be competing with others with greater resources and whose officers and directors have more experience than our officers and directors. In addition, other forms of multi family residential properties, such as private and federally funded or assisted multi family housing projects and single family housing, provide housing alternatives to potential tenants of MH and RV communities.

Our ability to sell or lease manufactured homes may be affected by various factors, which may in turn adversely affect our profitability.

SHS operates in the manufactured home market offering manufactured home sales and leasing services to tenants and prospective tenants of our communities. The market for the sale and lease of manufactured homes may be adversely affected by the following factors:

- downturns in economic conditions which adversely impact the housing market;
- an oversupply of, or a reduced demand for, manufactured homes;
- the difficulty facing potential purchasers in obtaining affordable financing as a result of heightened lending criteria; and
- an increase or decrease in the rate of manufactured home repossessions which provide aggressively priced competition to new manufactured home sales.

Any of the above listed factors could adversely impact our rate of manufactured home sales and leases, which would result in a decrease in profitability.

We may not be able to integrate or finance our acquisitions and our acquisitions may not perform as expected.

We have acquired and intend to continue to acquire MH and RV communities on a select basis. Our acquisition activities and their success are subject to the following risks:

- we may be unable to acquire a desired property because of competition from other well capitalized real estate investors, including both publicly traded real estate investment trusts and institutional investment funds;
- even if we enter into an acquisition agreement for a property, it is usually subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction, which may not be satisfied;
- even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price;

- we may be unable to finance acquisitions on favorable terms;
- acquired properties may fail to perform as expected;
- acquired properties may be located in new markets where we face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations.

SUN COMMUNITIES, INC.

REAL ESTATE RISKS, CONTINUED

If any of the above occurred, our business and results of operations could be adversely affected.

In addition, we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were to be asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle it, which could adversely affect our cash flow.

Increases in taxes and regulatory compliance costs may reduce our revenue.

Costs resulting from changes in real estate laws, income taxes, service or other taxes, generally are not passed through to tenants under leases and may adversely affect our funds from operations and our ability to pay or refinance our debt. Similarly, changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures, which would adversely affect our business and results of operations.

We may not be able to integrate or finance our expansion and development activities.

From time to time, we engage in the construction and development of new communities or expansion of existing communities, and may continue to engage in the development and construction business in the future. Our development and construction business may be exposed to the following risks which are in addition to those risks associated with the ownership and operation of established MH and RV communities:

- we may not be able to obtain financing with favorable terms for community development which may make us unable to proceed with the development;

- we may be unable to obtain, or face delays in obtaining, necessary zoning, building and other governmental permits and authorizations, which could result in increased costs and delays, and even require us to abandon development of the community entirely if we are unable to obtain such permits or authorizations;

- we may abandon development opportunities that we have already begun to explore and as a result we may not recover expenses already incurred in connection with exploring such development opportunities;

- we may be unable to complete construction and lease up of a community on schedule resulting in increased debt service expense and construction costs;

- we may incur construction and development costs for a community which exceed our original estimates due to increased materials, labor or other costs, which could make completion of the community uneconomical and we may not be able to increase rents to compensate for the increase in development costs which may impact our profitability;

- we may be unable to secure long term financing on completion of development resulting in increased debt service and lower profitability; and

- occupancy rates and rents at a newly developed community may fluctuate depending on several factors, including market and economic conditions, which may result in the community not being profitable.

If any of the above occurred, our business and results of operations could be adversely affected.

Rent control legislation may harm our ability to increase rents.

State and local rent control laws in certain jurisdictions may limit our ability to increase rents and to recover increases in operating expenses and the costs of capital improvements. Enactment of such laws has been considered from time to time in other jurisdictions. Certain Properties are located, and we may purchase additional properties, in markets that are either subject to rent control or in which rent limiting legislation exists or may be enacted.

SUN COMMUNITIES, INC.

REAL ESTATE RISKS, CONTINUED

We may be subject to environmental liability.

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real estate is liable for the costs of removal or remediation of certain hazardous substances at, on, under or in such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous substances. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner’s ability to sell or rent such property, to borrow using such property as collateral or to develop such property. Persons who arrange for the disposal or treatment of hazardous substances also may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility owned or operated by another person. In addition, certain environmental laws impose liability for the management and disposal of asbestos containing materials and for the release of such materials into the air. These laws may provide for third parties to seek recovery from owners or operators of real properties for personal injury associated with asbestos containing materials. In connection with the ownership, operation, management, and development of real properties, we may be considered an owner or operator of such properties and, therefore, are potentially liable for removal or remediation costs, and also may be liable for governmental fines and injuries to persons and property. When we arrange for the treatment or disposal of hazardous substances at landfills or other facilities owned by other persons, we may be liable for the removal or remediation costs at such facilities.

All of the Properties have been subject to a Phase I or similar environmental audit (which involves general inspections without soil sampling or ground water analysis) completed by independent environmental consultants. These environmental audits have not revealed any significant environmental liability that would have a material adverse effect on our business. These audits cannot reflect conditions arising after the studies were completed, and no assurances can be given that existing environmental studies reveal all environmental liabilities, that any prior owner or operator of a property or neighboring owner or operator did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any one or more Properties.

Losses in excess of our insurance coverage or uninsured losses could adversely affect our cash flow.

We maintain comprehensive liability, fire, flood (where appropriate), extended coverage, and rental loss insurance on the Properties with policy specifications, limits, and deductibles which are customarily carried for similar properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, riots, or acts of war. In the event an uninsured loss occurs, we could lose both our investment in and anticipated profits and cash flow from the affected property. Any loss could adversely affect our ability to repay our debt.

FINANCING AND INVESTMENT RISKS

Our significant amount of debt could limit our operational flexibility or otherwise adversely affect our financial condition.

We have a significant amount of debt. As of December 31, 2013, we had approximately $1.5 billion of total debt outstanding, consisting of approximately $1.2 billion in debt that is collateralized by mortgage liens on 113 of the Properties, $110.5 million that is secured by collateralized receivables, $181.4 million that is collateralized by liens on manufactured homes and $47.0 million that is unsecured debt. If we fail to meet our obligations under our secured debt, the lenders would be entitled to foreclose on all or some of the collateral securing such debt which could have a material adverse effect on us and our ability to make expected distributions, and could threaten our continued viability.

We are subject to the risks normally associated with debt financing, including the following risks:

- our cash flow may be insufficient to meet required payments of principal and interest, or require us to dedicate a substantial portion of our cash flow to pay our debt and the interest associated with our debt rather than to other areas of our business;
- our existing indebtedness may limit our operating flexibility due to financial and other restrictive covenants, including restrictions on incurring additional debt;
- it may be more difficult for us to obtain additional financing in the future for our operations, working capital requirements, capital expenditures, debt service or other general requirements;
- we may be more vulnerable in the event of adverse economic and industry conditions or a downturn in our business;

SUN COMMUNITIES, INC.

FINANCING AND INVESTMENT RISKS, CONTINUED

- we may be placed at a competitive disadvantage compared to our competitors that have less debt; and

- we may not be able to refinance at all or on favorable terms, as our debt matures.

If any of the above risks occurred, our financial condition and results of operations could be materially adversely affected.

We may incur substantially more debt, which would increase the risks associated with our substantial leverage.

Despite our current indebtedness levels, we may incur substantially more debt in the future. If new debt is added to our current debt levels, an even greater portion of our cash flow will be needed to satisfy our debt service obligations. As a result, the related risks that we now face could intensify and increase the risk of a default on our indebtedness.

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

As of December 31, 2013, we had approximately $135.3 million of installment notes, net of reserves, to owners of manufactured homes. These installment loans are collateralized by the manufactured homes. We may invest in additional mortgages and installment loans in the future. By virtue of our investment in the mortgages and the loans, we are subject to the following risks of such investment:

- the borrowers may not be able to make debt service payments or pay principal when due;

- the value of property securing the installment notes receivable may be less than the amounts owed; and

- interest rates payable on the installment notes receivable may be lower than our cost of funds.

If any of the above occurred, our business and results of operations could be adversely affected.

TAX RISKS

We may suffer adverse tax consequences and be unable to attract capital if we fail to qualify as a REIT.

We believe that since our taxable year ended December 31, 1994, we have been organized and operated, and intend to continue to operate, so as to qualify for taxation as a REIT under the Code. Although we believe that we have been and will continue to be organized and have operated and will continue to operate so as to qualify for taxation as a REIT, we cannot be assured that we have been or will continue to be organized or operated in a manner to so qualify or remain so qualified. Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. In addition, frequent changes occur in the area of REIT taxation, which require us to continually monitor our tax status.

If we fail to qualify as a REIT in any taxable year, we could be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Moreover, unless entitled to relief under certain statutory provisions,
we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. This treatment would reduce our net earnings available for investment or distribution to

stockholders because of the additional tax liability to us for the years involved. In addition, distributions to stockholders would no longer be required to be made. Even if we qualify for and maintain our REIT status, we will be subject to certain federal, state and local taxes on our property and certain of our operations.

We intend for the Operating Partnership to be taxed as a partnership, but we cannot guarantee that it will qualify.

We believe that the Operating Partnership has been organized as a partnership and will qualify for treatment as such under the Code. However, if the Operating Partnership is deemed to be a “publicly traded partnership,” it will be treated as a corporation instead of a partnership for federal income tax purposes unless at least 90% of its income is qualifying income as defined in the Code. The income requirements applicable to REITs and the definition of “qualifying income” for purposes of this 90% test are similar in most respects. Qualifying income for the 90% test generally includes passive income, such as specified types of real

SUN COMMUNITIES, INC.

TAX RISKS, CONTINUED

property rents, dividends and interest. We believe that the Operating Partnership has and will continue to meet this 90% test, but we cannot guarantee that it has or will. If the Operating Partnership were to be taxed as a regular corporation, it would incur substantial tax liabilities, we would fail to qualify as a REIT for federal income tax purposes, and our ability to raise additional capital could be significantly impaired.

Our ability to accumulate cash may be restricted due to certain REIT distribution requirements.

In order to qualify as a REIT, we must distribute to our stockholders at least 90% of our REIT taxable income (calculated without any deduction for dividends paid and excluding net capital gain) and to avoid federal income taxation, our distributions must not be less than 100% of our REIT taxable income, including capital gains. As a result of the distribution requirements, we do not expect to accumulate significant amounts of cash. Accordingly, these distributions could significantly reduce the cash available to us in subsequent periods to fund our operations and future growth.

Our taxable REIT subsidiaries, or TRSs, are subject to special rules that may result in increased taxes.

As a REIT, we must pay a 100% penalty tax on certain payments that we receive if the economic arrangements between us and any of our TRSs are not comparable to similar arrangements between unrelated parties. The Internal Revenue Service may successfully assert that the economic arrangements of any of our inter-company transactions are not comparable to similar arrangements between unrelated parties.

Dividends payable by REITs do not qualify for the reduced tax rates applicable to certain dividends.

The maximum federal tax rate for certain qualified dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for this reduced rate. Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular qualified corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less competitive than investments in stock of non-REIT corporations that pay dividends, which could adversely affect the comparative value of the stock of REITs, including our common stock and Series A Preferred Stock.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To remain qualified as a REIT for federal income tax purposes, we must continually satisfy requirements and tests under the tax law concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego or limit attractive business or investment opportunities and distribute all of our net earnings rather than invest in attractive opportunities or hold larger liquid reserves. Therefore, compliance with the REIT requirements may hinder our ability to operate solely to maximize profits.

Our ability to use net operating loss carryforwards to reduce future tax payments may be limited if we experience a change in ownership, or if taxable income does not reach sufficient levels.

Under Section 382 of the Code, if a corporation undergoes an "ownership change" (generally defined as a greater than 50% change (by value) in its equity ownership over a rolling three-year period), the corporation's ability to use its pre-ownership-change net operating loss carryforwards to offset its post-ownership-change income may be limited. We may experience ownership changes in the future. If an ownership change were to occur, we would be limited in the portion of net operating loss carryforwards that we could use in the future to offset taxable income for U.S. federal income tax purposes.

BUSINESS RISKS

Some of our directors and officers may have conflicts of interest with respect to certain related party transactions and other business interests.

Ownership of Origen. We own 5,000,000 shares of Origen Financial, Inc. (“Origen”) common stock and Shiffman Origen LLC (which is owned by the Milton M. Shiffman Spouse’s Marital Trust, Gary A. Shiffman (our Chief Executive Officer), and members

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

of Mr. Shiffman's family) owns 1,025,000 shares of Origen common stock. Gary A. Shiffman is a member of the Board of Directors of Origen, and one of our directors, Arthur A. Weiss, is a trustee of the Milton M. Shiffman Spouse's Marital Trust. Accordingly, in all transactions involving Origen, Mr. Shiffman and/or Mr. Weiss may have a conflict of interest with respect to their respective obligations as our officer and/or director.

Lease of Executive Offices. Gary A. Shiffman, together with certain of his family members, indirectly owns a 21% equity interest in American Center LLC, the entity from which we lease office space for our principal executive offices. Arthur A. Weiss owns a less than one percent indirect interest in American Center LLC. Under this lease agreement, we lease approximately 48,200 rentable square feet. The term of the lease is until October 31, 2016, with an option to renew for an additional five years. The base rent through October 31, 2014 is $18.12 per square foot (gross). From November 1, 2014 to August 31, 2015, the base rent will be $18.24 per square foot (gross) and from September 1, 2015 to October 31, 2016, the base rent will be $17.92 per square foot (gross). As of May 2013, we also have a temporary lease through April 30, 2014 for approximately 10,500 rentable square feet with base rent equal to $14.33 per square foot (gross). Mr. Shiffman and Mr. Weiss may have a conflict of interest with respect to their obligations as our officer and/or director and their respective ownership interests in American Center LLC.

Legal Counsel. During 2013, Jaffe, Raitt, Heuer, & Weiss, Professional Corporation acted as our general counsel and represented us in various matters. Arthur A. Weiss, one of our directors, is the Chairman of the Board of Directors and a shareholder of such firm. We incurred legal fees and expenses owed to Jaffe, Raitt, Heuer, & Weiss of approximately $3.2 million, $3.4 million and $2.5 million in the years ended December 31, 2013, 2012 and 2011, respectively.

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 on us and our public stockholders upon the sale of any of the Sun Partnerships. Therefore, we and Mr. Shiffman may have different objectives regarding the appropriate pricing and timing of any sale of those properties.

We rely on key management.

We are dependent on the efforts of our executive officers, Gary A. Shiffman, John B. McLaren, Karen J. Dearing and Jonathan M. Colman (together, the "Executive Officers"). The loss of services of one or more of our Executive Officers could have a temporary adverse effect on our operations. We do not currently maintain or contemplate obtaining any "key-man" life insurance on the Executive Officers.

Certain provisions in our governing documents may make it difficult for a third-party to acquire us.
9.8% Ownership Limit. In order to qualify and maintain our qualification as a REIT, not more than 50% of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals. Thus, ownership of more than 9.8%, in number of shares or value, of the issued and outstanding shares of our capital stock by any single stockholder has been restricted, with certain exceptions, for the purpose of maintaining our qualification as a REIT under the Code. Such restrictions in our charter do not apply to Milton M. Shiffman, Gary A. Shiffman, and Robert B. Bayer; trustees, personal representatives and agents to the extent acting for them or their respective estates; or certain of their respective relatives.
The 9.8% ownership limit, as well as our ability to issue additional shares of common stock or shares of other stock (which may have rights and preferences over the common stock), may discourage a change of control of the Company

and may also: (1) deter tender offers for the common stock, which offers may be advantageous to stockholders; and (2) limit the opportunity for stockholders to receive a premium for their common stock that might otherwise exist if an investor were attempting to assemble a block of common stock in excess of 9.8% of our outstanding shares or otherwise effect a change of control of the Company.

Preferred Stock. Our charter authorizes the Board of Directors to issue up to 10,000,000 shares of preferred stock and to establish the preferences and rights (including the right to vote and the right to convert into shares of common stock) of any shares issued. In November 2012, we amended our charter to designate 3,450,000 shares of preferred stock as 7.125% Series A Cumulative Redeemable Preferred Stock, $0.01 par value per share, and issued 3,400,000 of such shares of stock. The power to issue preferred stock could have the effect of delaying or preventing a change in control of the Company even if a change in control were in the stockholders' interest.

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

Upon the occurrence of certain change of control events, the result of which is that shares of our common stock and the common securities of the acquiring or surviving entity (or ADRs representing such securities) are not listed on the New York Stock Exchange ("NYSE"), the NYSE MKT or NASDAQ or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE MKT or NASDAQ, holders of shares of Series A Preferred Stock will have the right, subject to certain limitations, to convert some or all of their shares of Series A Preferred Stock into shares of our common stock (or equivalent value of alternative consideration) and under these circumstances we will also have a special optional redemption right to redeem the shares of Series A Preferred Stock. Upon such a conversion, the holders of shares of Series A Preferred Stock will be limited to a maximum number of shares of our common stock. If our common stock price, as determined in accordance with our charter for these purposes, is less than $20.97, subject to adjustment, the holders will receive a maximum of 1.1925 shares of our common stock per shares of Series A Preferred Stock, which may result in a holder receiving value that is less than the liquidation preference of the Series A Preferred Stock. These features of the Series A Preferred Stock may have the effect of inhibiting a third party from making an acquisition proposal for Sun or of delaying, deferring or preventing a change of control of Sun under circumstances that otherwise could provide the holders of our common stock and Series A Preferred Stock with the opportunity to realize a premium over the then-current market price or that stockholders may otherwise believe is in their best interests.

Rights Plan. We adopted a stockholders' rights plan in 2008 that provides our stockholders (other than a stockholder attempting to acquire a 15% or greater interest in us) with the right to purchase our stock at a discount in the event any person attempts to acquire a 15% or greater interest in us. Because this plan could make it more expensive for a person to acquire a controlling interest in us, it could have the effect of delaying or preventing a change in control even if a change in control were in the stockholders' interest.

Certain provisions of Maryland law could inhibit changes in control, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest.

Certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting stock at any time within the two-year period immediately prior to the date in question) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose fair price and/or supermajority and stockholder voting requirements on these combinations; and

- "control share" provisions that provide that "control shares" of our company (defined as shares that, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

The provisions of the MGCL relating to business combinations do not apply, however, to business combinations that are approved or exempted by our board of directors prior to the time that the interested stockholder becomes an interested stockholder. As permitted by the statute, our board of directors has by resolution exempted Milton M.

Shiffman, Robert B. Bayer, and Gary A. Shiffman, their affiliates and all persons acting in concert or as a group with the foregoing, from the business combination provisions of the MGCL and, consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations between us and these persons. As a result, these persons may be able to enter into business combinations with us that may not be in the best interests of our stockholders without compliance by our company with the supermajority vote requirements and the other provisions of the statute.

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

Also, pursuant to a provision in our bylaws, we have exempted any acquisition of our stock from the control share provisions of the MGCL. However, our board of directors may by amendment to our bylaws opt in to the control share provisions of the MGCL at any time in the future.

Additionally, Subtitle 8 of Title 3 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to elect to be subject to certain provisions relating to corporate governance that may have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium to the market price of our common stock or otherwise be in our stockholders' best interests. These provisions include a classified board; two-thirds vote to remove a director; that the number of directors may only be fixed by the board of directors; that vacancies on the board as a result of an increase in the size of the board or due to death, resignation or removal can only be filled by the board, and the director appointed to fill the vacancy serves for the remainder of the full term of the class of director in which the vacancy occurred; and a majority requirement for the calling by stockholders of special meetings. Other than a classified board, the filling of vacancies as a result of the removal of a director and a majority requirement for the calling by stockholders of special meetings, we are already subject to these provisions, either by provisions of our charter and bylaws unrelated to Subtitle 8 or by reason of an election to be subject to certain provisions of Subtitle 8. In the future, our board of directors may elect, without stockholder approval, to make us subject to the provisions of Subtitle 8 to which we are not currently subject.

Changes in our investment and financing policies may be made without stockholder approval.

Our investment and financing policies, and our policies with respect to certain other activities, including our growth, debt, capitalization, distributions, REIT status, and operating policies, are determined by our Board of Directors. Although the Board of Directors has no present intention to do so, these policies may be amended or revised from time to time at the discretion of the Board of Directors without notice to or a vote of our stockholders. Accordingly, stockholders may not have control over changes in our policies and changes in our policies may not fully serve the interests of all stockholders.

Substantial sales of our common stock could cause our stock price to fall.

The sale of substantial amounts of our common stock, whether directly by us or in the secondary market, the perception that such sales could occur or the availability of future issuances of shares of our common stock, OP Units or other securities convertible into or exchangeable or exercisable for our common stock, could materially and adversely affect the market price of our common stock and our ability to raise capital through future offerings of equity or equity-related securities. In addition, we may issue capital stock that is senior to our common stock in the future for a number of reasons, including to finance our operations and business strategy, to adjust our ratio of debt to equity or for other reasons.

Based on the applicable conversion ratios then in effect, as of February 14, 2014, in the future we may issue to the limited partners of the Operating Partnership, up to approximately 2.1 million shares of our common stock in exchange for their common OP Units, up to approximately 0.5 million shares of our common stock in exchange for their Aspen preferred OP Units, up to approximately 0.1 million shares of our common stock in exchange for their Series A-3 preferred OP Units and up to approximately 1.1 million shares of our common stock in exchange for their Series A-1 preferred OP Units. The limited partners may sell such shares pursuant to registration rights or an available exemption from registration. As of February 14, 2014, options to purchase 46,250 shares of our common stock were outstanding under our equity incentive plans. We currently have the authority to issue restricted stock awards or options to purchase up to an additional 362,100 shares of our common stock pursuant to our equity incentive plans. In addition, we entered into an “at-the-market” Sales Agreement in May 2012 to issue and sell shares of common stock. As of February 14, 2014, our board of directors had authorized us to sell approximately an additional $75.5 million of common stock under this agreement. No prediction can be made regarding the effect that future sales of shares of our common stock or our other securities will have on the market price of shares.

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

One of the factors that may influence the price of our common stock in the public market will be the annual distributions to stockholders relative to the prevailing market price of the common stock. An increase in market interest rates may tend to make the common stock less attractive relative to other investments, which could adversely affect the market price of our common stock.

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

The volatility in economic conditions and the financial markets may adversely affect our industry, business and financial performance.

Although demand in the U.S. improved recently, the U.S. macroeconomic environment remains uncertain and was the primary factor in a slowdown starting in 2008. The global economy remains unstable, and we expect the economic environment may continue to be challenging as continued economic uncertainty has generally given the marketplace less confidence. In particular, the financial crisis that affected the banking system and financial markets and the related uncertainty in global economic conditions resulted in a tightening in the credit markets, a low level of liquidity in many financial markets and volatility in credit, equity and fixed income markets. If such conditions are experienced in future periods, our industry, business and results of operations may be severely impacted. The slow recovery and possible impact of automatic sequesters or a failure to raise the “debt ceiling” in the U.S. may adversely impact us. The other risk factors presented in this Form 10-K discuss some of the principal risks inherent in our business, including liquidity risks, operational risks, and credit risks, among others. Turbulence in financial markets accentuates each of these risks and magnifies their potential effect on us. If these economic developments continue to rebound slowly or worsen, there could be an adverse impact on our access to capital, stock price and our operating results.

Our business operations may not generate the cash needed to make distributions on our capital stock or to service our indebtedness, and we may adjust our common stock distribution policy.

Our ability to make distributions on our common stock and Series A Preferred Stock and payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our common stock or Series A Preferred Stock, to pay our indebtedness or to fund our other liquidity needs.

The decision to declare and pay distributions on shares of our common stock in the future, as well as the timing, amount and composition of any such future distributions, will be at the sole discretion of our Board of Directors in light of conditions then existing, including our earnings, financial condition, capital requirements, debt maturities, the availability of debt and equity capital, applicable REIT and legal restrictions and the general overall economic conditions and other factors. Any change in our distribution policy could have a material adverse effect on the market price of our common stock.

Our ability to pay distributions is limited by the requirements of Maryland law.

Our ability to pay distributions on our common stock and Series A Preferred Stock is limited by the laws of Maryland. Under Maryland law, a Maryland corporation generally may not make a distribution if, after giving effect to the distribution, the corporation would not be able to pay its debts as they become due in the usual course of business, or the corporation's total assets would be less than the sum of its total liabilities plus, unless the corporation's charter provides otherwise, the amount that would be needed, if the corporation were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution, provided, however, that a Maryland corporation may make a distribution from: (i) its net earnings for the fiscal year in which the distribution is made; (ii) its net earnings for the preceding fiscal year; or (iii) the sum of its net earnings for its preceding eight fiscal quarters even if, after such distribution, the corporation's total assets would be less than its total liabilities. Accordingly, we generally may not make a distribution on our common stock or Series A Preferred Stock if, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business or, unless paid from one of the permitted sources of net earnings as described above, our total assets would be less than the sum of our total liabilities plus, unless the terms of such class or series of stock provide otherwise, the amount that would be needed to satisfy the preferential rights upon dissolution of the holders of shares of any class or series of stock then outstanding, if any, with preferential rights upon dissolution senior to those of our common stock or Series A Preferred Stock.

We may not be able to pay distributions upon events of default under our financing documents.

Some of our financing documents contain restrictions on distributions upon the occurrence of events of default thereunder. If such an event of default occurs, such as our failure to pay principal at maturity or interest when due for a specified period of time, we would be prohibited from making payments on our common stock and Series A Preferred Stock.

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

Our share price could be volatile and could decline, resulting in a substantial or complete loss on our stockholders' investment.

The stock markets, including the NYSE on which we list our common stock and Series A Preferred Stock, have experienced significant price and volume fluctuations. As a result, the market price of our common stock and Series A Preferred Stock could be similarly volatile, and investors in our common stock and Series A Preferred Stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. The price of our common stock and Series A Preferred Stock could be subject to wide fluctuations in response to a number of factors, including:

- any increases in prevailing interest rates, which may negatively affect the market for shares of our common stock or Series A Preferred Stock;
- the market for similar securities;
- issuances of other series or classes of preferred stock or other equity securities;
- our operating performance and the performance of other similar companies;
- our ability to maintain compliance with covenants contained in our debt facilities;
- actual or anticipated variations in our operating results, funds from operations, cash flows or liquidity;
- changes in our earnings estimates or those of analysts;
- changes in our distribution policy;
- publication of research reports about us or the real estate industry generally;
- increases in market interest rates that lead purchasers of our common stock to demand a higher dividend yield;
- changes in market valuations of similar companies;
- adverse market reaction to the amount of our debt outstanding at any time, the amount of our debt maturing in the near- and medium-term and our ability to refinance our debt, or our plans to incur additional debt in the future;
- additions or departures of key management personnel;
- speculation in the press or investment community;
- actions by institutional stockholders; and
- general market and economic conditions.

Many of the factors listed above are beyond our control. Those factors may cause the market price of our common stock to decline significantly, regardless of our financial condition, results of operations and prospects. It is impossible to provide any assurance that the market price of our common stock will not fall in the future, and it may be difficult for holders to resell shares of our common stock at prices they find attractive, or at all. In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources.

Our Series A Preferred Stock has not been rated.

We have not sought to obtain a rating for our Series A Preferred Stock. No assurance can be given, however, that one or more rating agencies might not independently determine to issue such a rating or that such a rating, if issued, would not adversely affect the market price of the Series A Preferred Stock. In addition, we may elect in the future to obtain a rating of the Series A Preferred Stock, which could adversely affect the market price of the Series A Preferred Stock. Ratings only reflect the views of the rating agency or agencies issuing the ratings and such ratings could be revised downward, placed on a watch list or withdrawn entirely at the discretion of the issuing rating agency if in its judgment circumstances so warrant. Any such downward revision, placing on a watch list or withdrawal of a rating could have an adverse effect on the market price of the Series A Preferred Stock.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and that of our tenants and clients and personally identifiable information of our employees, in our facility and on our network. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our network and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence, which could adversely affect our business.

SUN COMMUNITIES, INC.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

SUN COMMUNITIES, INC.

ITEM 2. PROPERTIES

As of December 31, 2013, the Properties consisted of 150 MH communities, 27 RV communities, and 11 properties containing both MH and RV sites located in 26 states. As of December 31, 2013, the Properties contained an aggregate of 69,789 developed sites comprised of 54,168 developed manufactured home sites, 7,633 annual RV sites (inclusive of both annual and seasonal usage rights), 7,988 transient RV sites, and approximately 6,300 additional manufactured home sites suitable for development. Most of the Properties include amenities oriented toward family and retirement living. Of the 188 Properties, 83 have more than 300 developed manufactured home sites; with the largest having 1,064 developed manufactured home sites. See "Real Estate and Accumulated Depreciation, Schedule III" for detail on Properties that are encumbered.

As of December 31, 2013, the Properties had an occupancy rate of 89.7% excluding transient RV sites. Since January 1, 2013, the Properties have averaged an aggregate annual turnover of homes (where the home is moved out of the community) of approximately 2.6% and an average annual turnover of residents (where the resident-owned home is sold and remains within the community, typically without interruption of rental income) of approximately 4.6%. The average renewal rate for residents in our Rental Program was 59.5% for the year ended December 31, 2013.

We believe that our Properties' high amenity levels contribute to low turnover and generally high occupancy rates. All of the Properties provide residents with attractive amenities with most offering a clubhouse, a swimming pool, and laundry facilities. Many of the Properties offer additional amenities such as sauna/whirlpool spas, tennis, shuffleboard and basketball courts and/or exercise rooms.

We have concentrated our communities within certain geographic areas in order to achieve economies of scale in management and operation. The Properties are principally concentrated in the midwestern, southern, and southeastern United States. We believe that geographic diversification helps to insulate the portfolio from regional economic influences.

The following tables set forth certain information relating to the properties owned as of December 31, 2013. The occupancy percentage includes MH sites and annual RV sites, and excludes transient RV sites.

Property	MH/RV	City	State	MH and Annual RV Sites as of 12/31/13	Transient RV Sites as of 12/31/13	Occupancy as of 12/31/13		Occupancy as of 12/31/12		Occupancy as of 12/31/11	
MIDWEST											
Michigan											
Academy/West Pointe (1)	MH	Canton	MI	441	—	92	%	93	%	88	%
Allendale Meadows Mobile Village	MH	Allendale	MI	352	—	89	%	80	%	78	%
Alpine Meadows Mobile Village	MH	Grand Rapids	MI	403	—	98	%	91	%	87	%
Apple Carr Village	MH	Muskegon	MI	529	—	83	%	76	%	72	%
Bedford Hills Mobile Village	MH	Battle Creek	MI	339	—	73	%	72	%	71	%
Brentwood Mobile Village	MH	Kentwood	MI	195	—	97	%	97	%	99	%
Brookside Village	MH	Kentwood	MI	196	—	100	%	97	%	95	%
Byron Center Mobile Village	MH	Byron Center	MI	143	—	94	%	89	%	93	%
Camelot Villa	MH	Macomb	MI	712	—	79	%	N/A		N/A	
Candlewick Court	MH	Owosso	MI	211	—	66	%	70	%	73	%

Cider Mill Crossings	MH	Fenton	MI	262	—	72	%	51	%	19	%
Cider Mill Village	MH	Middleville	MI	258	—	83	%	77	%	67	%
College Park Estates	MH	Canton	MI	230	—	84	%	77	%	73	%
Continental Estates	MH	Davison	MI	385	—	40	%	39	%	40	%
Continental North	MH	Davison	MI	474	—	54	%	51	%	53	%
Country Acres Mobile Village	MH	Cadillac	MI	182	—	95	%	90	%	86	%
Country Hills Village	MH	Hudsonville	MI	239	—	98	%	93	%	74	%
Country Meadows Mobile Village	MH	Flat Rock	MI	577	—	97	%	95	%	94	%

SUN COMMUNITIES, INC.

Property	MH/RV	City	State	MH and Annual RV Sites as of 12/31/13	Transient RV Sites as of 12/31/13	Occupancy as of 12/31/13		Occupancy as of 12/31/12		Occupancy as of 12/31/11	
Country Meadows Village	MH	Caledonia	MI	307	—	95	%	88	%	77	%
Countryside Village	MH	Perry	MI	359	—	60	%	61	%	58	%
Creekwood Meadows	MH	Burton	MI	336	—	76	%	73	%	65	%
Cutler Estates Mobile Village	MH	Grand Rapids	MI	259	—	95	%	96	%	98	%
Davison East	MH	Davison	MI	190	—	40	%	43	%	44	%
Dutton Mill Village	MH	Caledonia	MI	307	—	98	%	98	%	91	%
East Village Estates	MH	Washington Twp.	MI	708	—	99	%	93	%	N/A	
Falcon Pointe	MH	East Lansing	MI	142	—	13	% (2)	13	% (2)	13	% (2)
Fisherman's Cove	MH	Flint	MI	162	—	94	%	91	%	87	%
Grand Mobile Estates	MH	Grand Rapids	MI	230	—	76	%	72	%	75	%
Hamlin	MH	Webberville	MI	209	—	87	% (3)	83	% (3)	75	% (3)
Hickory Hills Village	MH	Battle Creek	MI	283	—	98	%	94	%	84	%
Hidden Ridge RV Resort	RV	Hopkins	MI	106	170	100	% (5)	N/A		N/A	
Holiday West Village	MH	Holland	MI	341	—	99	%	99	%	93	%
Holly Village/Hawaiian Gardens (1)	MH	Holly	MI	425	—	96	%	96	%	98	%
Hunters Crossing	MH	Capac	MI	114	—	90	%	89	%	N/A	
Hunters Glen	MH	Wayland	MI	280	—	79	% (2)	69	% (2)	63	% (2)
Kensington Meadows	MH	Lansing	MI	290	—	98	%	96	%	90	%
Kings Court Mobile Village	MH	Traverse City	MI	639	—	99	%	100	%	100	%
Knollwood Estates	MH	Allendale	MI	161	—	94	%	89	%	82	%
Lafayette Place	MH	Warren	MI	254	—	71	%	68	%	66	%
Lakeview	MH	Ypsilanti	MI	392	—	97	%	98	%	97	%
Leisure Village	MH	Belmont	MI	238	—	100	%	100	%	97	%
Lincoln Estates	MH	Holland	MI	191	—	98	%	93	%	92	%
Meadow Lake Estates	MH	White Lake	MI	425	—	95	%	92	%	88	%
Meadowbrook Estates	MH	Monroe	MI	453	—	94	%	92	%	92	%
Northville Crossings	MH	Northville	MI	756	—	91	%	82	%	N/A	
Oak Island Village	MH	East Lansing	MI	250	—	97	%	95	%	84	%
Pinebrook Village	MH	Grand Rapids	MI	185	—	92	%	93	%	91	%
Presidential Estates Mobile Village	MH	Hudsonville	MI	364	—	97	%	95	%	90	%
Richmond Place	MH	Richmond	MI	117	—	86	%	83	%	84	%
River Haven Village	MH	Grand Haven	MI	721	—	64	%	60	%	60	%
Rudgate Clinton	MH	Clinton Township	MI	667	—	96	%	90	%	N/A	
Rudgate Manor	MH	Sterling Heights	MI	931	—	96	%	89	%	N/A	
Scio Farms Estates	MH	Ann Arbor	MI	913	—	98	%	95	%	94	%
Sheffield Estates	MH	Auburn Hills	MI	228	—	92	%	96	%	98	%
Sherman Oaks	MH	Jackson	MI	366	—	73	%	72	%	74	%
Silver Springs	MH	Clinton Township	MI	546	—	96	%	89	%	N/A	
Southwood Village	MH	Grand Rapids	MI	394	—	99	%	97	%	94	%

St. Clair Place	MH	St. Clair	MI	100	—	74	%	75	%	75	%
Sunset Ridge	MH	Portland Township	MI	190	—	95	%	95	%	96	%
Sycamore Village	MH	Mason	MI	396	—	99	%	91	%	85	%

SUN COMMUNITIES, INC.

Property	MH/RV	City	State	MH and Annual RV Sites as of 12/31/13	Transient RV Sites as of 12/31/13	Occupancy as of 12/31/13		Occupancy as of 12/31/12		Occupancy as of 12/31/11	
Tamarac Village	MH	Ludington	MI	293	—	99	%	98	%	95	%
Tamarac Village	RV	Ludington	MI	105	12	100	% (5)	100	% (5)	100	% (5)
Timberline Estates	MH	Grand Rapids	MI	296	—	94	%	87	%	83	%
Town & Country Mobile Village	MH	Traverse City	MI	192	—	100	%	99	%	98	%
Village Trails	MH	Howard City	MI	100	—	94	%	97	%	97	%
Warren Dunes Village	MH	Bridgman	MI	188	—	95	%	91	%	77	%
Waverly Shores Village	MH	Holland	MI	326	—	100	%	100	%	97	%
West Village Estates	MH	Romulus	MI	628	—	100	%	93	%	N/A	
White Lake Mobile Home Village	MH	White Lake	MI	315	—	96	%	98	%	96	%
White Oak Estates	MH	Mt. Morris	MI	480	—	68	%	65	%	66	%
Windham Hills Estates	MH	Jackson	MI	402	—	85	% (3)	78	% (3)	77	% (3)
Windsor Woods Village	MH	Wayland	MI	314	—	90	%	83	%	78	%
Woodhaven Place	MH	Woodhaven	MI	220	—	96	%	97	%	98	%
Michigan Total				24,912	182	88	%	85	%	81	%
Indiana											
Brookside Mobile Home Village	MH	Goshen	IN	570	—	71	%	65	%	66	%
Carrington Pointe	MH	Ft. Wayne	IN	320	—	82	% (3)	80	% (3)	80	% (3)
Clear Water Mobile Village	MH	South Bend	IN	227	—	92	%	82	%	77	%
Cobus Green Mobile Home Park	MH	Elkhart	IN	386	—	78	%	66	%	66	%
Deerfield Run	MH	Anderson	IN	175	—	73	% (3)	62	% (3)	61	% (3)
Four Seasons	MH	Elkhart	IN	218	—	92	%	86	%	82	%
Holiday Mobile Home Village	MH	Elkhart	IN	326	—	74	%	71	%	75	%
Liberty Farms	MH	Valparaiso	IN	220	—	98	%	99	%	98	%
Maplewood	MH	Lawrence	IN	207	—	66	%	67	%	69	%
Meadows	MH	Nappanee	IN	330	—	47	%	51	%	50	%
Pebble Creek (4)	MH	Greenwood	IN	257	—	93	%	98	%	93	%
Pine Hills	MH	Middlebury	IN	129	—	90	%	87	%	91	%
Roxbury Park	MH	Goshen	IN	398	—	99	%	88	%	84	%
Timberbrook	MH	Bristol	IN	567	—	52	%	52	%	55	%
Valley Brook	MH	Indianapolis	IN	798	—	52	%	53	%	54	%
West Glen Village	MH	Indianapolis	IN	552	—	80	%	76	%	72	%
Woodlake Estates	MH	Ft. Wayne	IN	338	—	59	%	57	%	53	%
Woods Edge Mobile Village	MH	West Lafayette	IN	598	—	53	% (3)	52	% (3)	52	% (3)
Indiana Total				6,616	—	71	%	68	%	67	%
Ohio											
Apple Creek Manufactured Home Community and Self	MH	Amelia	OH	176	—	93	%	95	%	95	%

Storage											
Byrne Hill Village	MH	Toledo	OH	236	—	92	%	88	%	91	%
Catalina	MH	Middletown	OH	462	—	59	%	59	%	59	%
East Fork (4)	MH	Batavia	OH	240	—	90	%	99	%	97	%
Indian Creek RV & Camping Resort	RV	Geneva on the Lake	OH	319	313	100	% (5)	N/A		N/A	

24

SUN COMMUNITIES, INC.

Property	MH/RV	City	State	MH and Annual RV Sites as of 12/31/13	Transient RV Sites as of 12/31/13	Occupancy as of 12/31/13		Occupancy as of 12/31/12		Occupancy as of 12/31/11	
Oakwood Village	MH	Miamisburg	OH	511	—	98	%	96	%	92	%
Orchard Lake	MH	Milford	OH	147	—	99	%	98	%	97	%
Westbrook Senior Village	MH	Toledo	OH	112	—	96	%	99	%	96	%
Westbrook Village	MH	Toledo	OH	344	—	94	%	96	%	96	%
Willowbrook Place	MH	Toledo	OH	266	—	94	%	87	%	91	%
Woodside Terrace	MH	Holland	OH	439	—	87	%	83	%	79	%
Worthington Arms	MH	Lewis Center	OH	224	—	95	%	96	%	98	%
Ohio Total				3,476	313	89	%	88	%	87	%
SOUTH											
Texas											
Blazing Star	RV	San Antonio	TX	66	196	100	% (5)	N/A		N/A	
Boulder Ridge	MH	Pflugerville	TX	526	—	99	%	98	%	95	%
Branch Creek Estates	MH	Austin	TX	392	—	100	%	100	%	99	%
Casa del Valle	MH	Alamo	TX	126	—	98	%	100	%	100	%
Casa del Valle	RV	Alamo	TX	124	137	100	% (5)	100	% (5)	100	% (5)
Chisholm Point Estates	MH	Pflugerville	TX	417	—	99	%	99	%	99	%
Comal Farms (4)	MH	New Braunfels	TX	350	—	99	%	97	%	99	%
Kenwood RV and Mobile Home Plaza	MH	LaFeria	TX	41	—	95	%	100	%	100	%
Kenwood RV and Mobile Home Plaza	RV	LaFeria	TX	44	195	100	% (5)	100	% (5)	100	% (5)
Oak Crest	MH	Austin	TX	335	—	100	%	99	%	98	%
Pecan Branch	MH	Georgetown	TX	69	—	94	%	93	%	91	%
Pine Trace	MH	Houston	TX	501	—	99	%	99	%	98	%
River Ranch (4)	MH	Austin	TX	540	—	73	% (2)	79	% (2)	98	%
River Ridge	MH	Austin	TX	515	—	100	%	97	%	74	% (3)
Saddlebrook	MH	Austin	TX	260	—	99	%	97	%	98	%
Snow to Sun	MH	Weslaco	TX	184	—	98	%	99	%	100	%
Snow to Sun	RV	Weslaco	TX	138	153	100	% (5)	100	% (5)	100	% (5)
Stonebridge (4)	MH	San Antonio	TX	335	—	98	%	99	%	99	%
Summit Ridge (4)	MH	Converse	TX	370	—	91	%	67	%	98	%
Sunset Ridge (4)	MH	Kyle	TX	170	—	100	%	99	%	98	%
Woodlake Trails (4)	MH	San Antonio	TX	227	—	98	%	70	% (3)	98	%
Texas Total				5,730	681	96	%	94	%	96	%
SOUTHEAST											
Florida											
Arbor Terrace RV Park	RV	Bradenton	FL	140	226	100	% (5)	100	% (5)	98	% (5)
Ariana Village Mobile Home Park	MH	Lakeland	FL	208	—	94	%	92	%	92	%
Blueberry Hill	RV	Bushnell	FL	80	325	100	% (5)	100	% (5)	N/A	
Buttonwood Bay	MH	Sebring	FL	407	—	100	%	100	%	100	%
Buttonwood Bay	RV	Sebring	FL	368	165	100	% (5)	100	% (5)	98	% (5)

25

SUN COMMUNITIES, INC.

Property	MH/RV	City	State	MH and Annual RV Sites as of 12/31/13	Transient RV Sites as of 12/31/13	Occupancy as of 12/31/13		Occupancy as of 12/31/12		Occupancy as of 12/31/11	
Club Naples	RV	Naples	FL	133	172	100	% (5)	100	% (5)	99	% (5)
Gold Coaster	MH	Homestead	FL	470	—	98	% (5)	99	% (5)	100	% (5)
Gold Coaster	RV	Homestead	FL	—	75	N/A		N/A		N/A	
Grand Lakes	RV	Citra	FL	122	280	100	% (5)	100	% (5)	N/A	
Groves RV Resort	RV	Ft. Myers	FL	157	118	100	% (5)	100	% (5)	99	% (5)
Holly Forest Estates	MH	Holly Hill	FL	402	—	99	%	99	%	99	%
Indian Creek Park	MH	Ft. Myers Beach	FL	353	—	100	%	100	%	99	%
Indian Creek Park	RV	Ft. Myers Beach	FL	951	133	100	% (5)	100	% (5)	99	% (5)
Island Lakes	MH	Merritt Island	FL	301	—	100	%	100	%	99	%
Kings Lake	MH	Debary	FL	245	—	100	%	99	%	96	%
Lake Juliana Landings	MH	Auburndale	FL	274	—	97	%	98	%	97	%
Lake San Marino RV Park	RV	Naples	FL	187	220	100	% (5)	100	% (5)	96	% (5)
Meadowbrook Village	MH	Tampa	FL	257	—	100	%	100	%	100	%
Naples RV Resort	RV	Naples	FL	63	101	100	% (5)	100	% (5)	94	% (5)
North Lake	RV	Moore Haven	FL	190	82	100	% (5)	100	% (5)	100	% (5)
Orange City RV Resort	MH	Orange City	FL	4	—	100	%	100	%	100	%
Orange City RV Resort	RV	Orange City	FL	230	291	100	% (5)	100	% (5)	100	% (5)
Orange Tree Village	MH	Orange City	FL	246	—	100	%	99	%	100	%
Rainbow RV Resort	MH	Frostproof	FL	37	—	100	%	100	%	N/A	
Rainbow RV Resort	RV	Frostproof	FL	213	249	100	% (5)	100	% (5)	N/A	
Royal Country	MH	Miami	FL	864	—	100	%	100	%	100	%
Saddle Oak Club	MH	Ocala	FL	376	—	99	%	99	%	99	%
Siesta Bay RV Park	RV	Ft. Myers Beach	FL	713	84	100	% (5)	100	% (5)	98	% (5)
Silver Star Mobile Village	MH	Orlando	FL	406	—	99	%	98	%	98	%
Tampa East	MH	Dover	FL	31	—	100	%	100	%	100	%
Tampa East	RV	Dover	FL	216	453	100	% (5)	100	% (5)	96	% (5)
Three Lakes	RV	Hudson	FL	175	133	100	% (5)	100	% (5)	N/A	
Water Oak Country Club Estates	MH	Lady Lake	FL	1,064	—	99	%	99	%	100	%
Florida Total				9,883	3,107	99	%	99	%	99	%
OTHER											
Autumn Ridge	MH	Ankeny	IA	413	—	99	%	99	%	100	%
Bell Crossing	MH	Clarksville	TN	239	—	90	% (3)	79	% (3)	72	% (3)
Big Timber Lake RV Resort	RV	Cape May	NJ	256	272	100	% (5)	N/A		N/A	
Candlelight Village	MH	Chicago Heights	IL	309	—	97	%	97	%	99	%
Cave Creek	MH	Evans	CO	289	—	98	%	99	%	91	%
Countryside Atlanta	MH	Lawrenceville	GA	271	—	100	% (6)	100	% (6)	100	% (6)
Countryside Gwinnett	MH	Buford	GA	331	—	99	%	98	%	96	%
Countryside Lake Lanier	MH	Buford	GA	548	—	92	%	86	%	84	%
Creekside (4)	MH	Reidsville	NC	45	—	64	% (2)	62	% (2)	64	% (2)
Desert View Village	MH	West Wendover	NV	93	—	43	% (2)	44	% (2)	47	% (2)
Eagle Crest	MH	Firestone	CO	441	—	99	%	99	%	94	%
Edwardsville	MH	Edwardsville	KS	634	—	74	%	70	%	69	%

SUN COMMUNITIES, INC.

Property	MH/RV	City	State	MH and Annual RV Sites as of 12/31/13	Transient RV Sites as of 12/31/13	Occupancy as of 12/31/13	Occupancy as of 12/31/12	Occupancy as of 12/31/11
Forest Meadows	MH	Philomath	OR	75	—	100 %	100 %	99 %
Glen Laurel (4)	MH	Concord	NC	260	—	88 % (2)	77 % (2)	67 % (2)
Gwynn's Island RV Resort & Campground	RV	Gwynn	VA	88	29	100 % (5)	N/A	N/A
High Pointe	MH	Frederica	DE	411	—	96 %	96 %	93 %
Jellystone Park(TM) of Western New York	RV	North Java	NY	—	299	N/A	N/A	N/A
Jellystone Park(TM) at Birchwood Acres	RV	Woodridge	NY	44	225	100 % (5)	N/A	N/A
Lake In Wood	RV	Narvon	PA	277	144	100 % (5)	N/A	N/A
Lake Laurie RV & Camping Resort	RV	Cape May	NJ	292	427	100 % (5)	N/A	N/A
Meadowbrook (4)	MH	Charlotte	NC	321	—	59 % (3)	99 %	99 %
New Point RV Resort	RV	New Point	VA	161	162	100 % (5)	N/A	N/A
North Point Estates	MH	Pueblo	CO	108	—	95 %	84 % (2)	76 % (2)
Palm Creek Golf & RV Resort	MH	Casa Grande	AZ	150	—	94 %	97 %	N/A
Palm Creek Golf & RV Resort	RV	Casa Grande	AZ	716	1,047	100 % (5)	100 % (5)	N/A
Peter's Pond RV Resort	RV	Sandwich	MA	231	177	100 % (5)	N/A	N/A
Pheasant Ridge	MH	Lancaster	PA	553	—	100 %	100 %	100 %
Pin Oak Parc	MH	O’Fallon	MO	502	—	86 %	83 %	82 %
Pine Ridge	MH	Petersburg	VA	245	—	98 %	97 %	98 %
Sea Air Village	MH	Rehoboth Beach	DE	372	—	99 %	100 %	100 %
Sea Air Village	RV	Rehoboth Beach	DE	130	9	100 % (5)	100 % (5)	100 % (5)
Seaport RV Resort	RV	Mystic	CT	25	116	100 % (5)	N/A	N/A
Southfork	MH	Belton	MO	474	—	62 %	61 %	62 %
Sun Villa Estates	MH	Reno	NV	324	—	97 %	98 %	100 %
Timber Ridge	MH	Ft. Collins	CO	585	—	100 %	100 %	98 %
Vines RV Resort	RV	Paso Robles	CA	—	130	N/A	N/A	N/A
Wagon Wheel RV Resort & Campground	RV	Old Orchard Beach	ME	167	116	100 % (5)	N/A	N/A
Westward Ho RV Resort & Campground	RV	Glenbeulah	WI	195	133	100 % (5)	N/A	N/A
Wild Acres RV Resort & Campground	RV	Orchard Beach	ME	211	419	100 % (5)	N/A	N/A
Woodland Park Estates	MH	Eugene	OR	398	—	100 %	100 %	100 %
Other Total				11,184	3,705	93 %	91 %	89 %
TOTAL / AVERAGE				61,801	7,988	90 %	87 %	85 %

(1) Properties have two licenses but operate as one community.

(2) Occupancy in these Properties reflects the fact that these communities are ground-up developments and have not reached full occupancy.

(3) Occupancy in these Properties reflects the fact that these communities are in a lease-up phase following an expansion.

(4) This Property is owned by an affiliate of SunChamp LLC, a joint venture that owns 11 of our consolidated manufactured home communities, in which we own approximately an 81.9% equity interest as of December 31, 2013.

(5) Occupancy percentage excludes transient RV sites. Percentage calculated by dividing revenue producing sites by developed sites. A revenue producing site is defined as a site that is occupied by a paying resident or reserved by a customer with annual or seasonal usage rights. A developed site is defined as an adequate sized parcel of land that has road and utility access which is zoned and licensed (if required) for use as a home site.

SUN COMMUNITIES, INC.

(6) The number of developed sites and occupancy percentage at this Property includes sites that have been covered under our comprehensive insurance coverage (subject to deductibles and certain limitations) for both property damage and business interruption from a flood that caused substantial damage to this Property.

SUN COMMUNITIES, INC.

ITEM 3. LEGAL PROCEEDINGS

On June 4, 2010, we settled all of the claims arising out of the litigation filed in 2004 by TJ Holdings, LLC ("TJ Holdings") in the Superior Court of Guilford County, North Carolina and the associated arbitration proceeding commenced by TJ Holdings in Southfield, Michigan. Under the terms of the settlement agreement, in which neither party admitted any liability whatsoever, we paid TJ Holdings $360,000. In addition, pursuant to this settlement, TJ Holdings' percentage ownership interest in Sun/Forest, LLC will be increased on a one time basis, in the event of a sale or refinance of all of the SunChamp Properties, to between 9.03% and 28.99% depending on our average closing stock price as reported by the NYSE during the 30 days preceding the sale or refinance of all the SunChamp Properties. Once this percentage ownership interest has been adjusted, there will be no further adjustments from subsequent sales or refinances of the SunChamp Properties. The likelihood of a sale or refinancing of all of the SunChamp properties is not probable as these properties continue to see growth potential nor do we have a need to refinance all of the properties, so we do not expect it to have a material adverse impact on our results of operations or financial condition.

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Market Information

Our common stock has been listed on the NYSE since December 8, 1993, and traded under the symbol "SUI". The following table sets forth the high and low sales prices per share for the common stock for the periods indicated as reported by the NYSE and the distributions per share paid by us with respect to each period:

Year Ended December 31, 2013	High	Low	Distributions	
1st Quarter	$49.38	$40.28	$0.63	
2nd Quarter	$57.78	$46.40	$0.63	
3rd Quarter	$53.35	$41.93	$0.63	
4th Quarter	$45.96	$39.53	$0.63	(1)

Year Ended December 31, 2012	High	Low	Distributions	
1st Quarter	$43.90	$35.06	$0.63	
2nd Quarter	$44.68	$39.15	$0.63	
3rd Quarter	$47.84	$43.37	$0.63	
4th Quarter	$44.64	$36.15	$0.63	(2)

(1) Paid on January 17, 2014, to stockholders of record on December 31, 2013

(2) Paid on January 18, 2013, to stockholders of record on December 31, 2012

On February 14, 2014, the closing share price of our common stock was $47.28 per share on the NYSE, and there were 233 holders of record for the 36,168,663 million outstanding shares of common stock. On February 14, 2014, the Operating Partnership had (i) 2,069,322 common OP units issued and outstanding which were convertible into an equal number of shares of our common stock, (ii) 1,325,275 Aspen preferred OP units issued and outstanding which were exchangeable for 526,212 shares of our common stock, (iii) 455,476 Series A-1 preferred OP units issued and outstanding which were exchangeable for 1,111,361 shares of our common stock and (iv) 40,267.50 Series A-3 preferred OP Units issued and outstanding which were exchangeable for 74,918 shares of our common stock.

We have historically paid regular quarterly distributions to holders of our common stock and common OP Units. In addition, we are obligated to make distributions to holders of shares of Series A Preferred Stock, Aspen preferred OP units, Series A-1 preferred

SUN COMMUNITIES, INC.

OP units, Series A-3 preferred OP units and Series B-3 preferred OP units. See “Structure of the Company” under Part I, Item 1 of this Form 10-K. Our ability to make distributions on our common and preferred stock and payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. The decision to declare and pay distributions on shares of our common stock in the future, as well as the timing, amount and composition of any such future distributions, will be at the sole discretion of our Board of Directors in light of conditions then existing, including our earnings, financial condition, capital requirements, debt maturities, the availability of debt and equity capital, applicable REIT and legal restrictions and the general overall economic conditions and other factors.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table reflects information about the securities authorized for issuance under our equity compensation plans as of December 31, 2013.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by shareholders	46,250	$30.77	392,100
Equity compensation plans not approved by shareholders	—	—	—
Total	46,250	$30.77	392,100

Issuer Purchases of Equity Securities

In November 2004, our Board of Directors authorized us to repurchase up to 1,000,000 shares of our common stock. We have 400,000 common shares remaining in the repurchase program. No common shares were repurchased under this program during 2013. There is no expiration date specified for the buyback program.

Recent Sales of Unregistered Securities

From time to time, we may issue shares of common stock in exchange for OP units that may be tendered to the Operating Partnership for redemption in accordance with the terms and provisions of the limited partnership agreement of the Operating Partnership. Such shares are issued based on the exchange ratios and formulas described in “Structure of the Company” under Item 1 above.

Holders of common OP Units have converted zero units, 2,400 units and 10,249 units to common stock for the years ended December 31, 2013, 2012 and 2011, respectively.

In February 2013, our Operating Partnership issued 40,267.50 Series A-3 preferred OP units in connection with our acquisition of ten RV communities. See Note 2 to our financial statements for other consideration paid in the transaction. The Series A-3 preferred OP units are convertible, but not redeemable. The holders of the Series A-3 preferred OP units can convert each Series A-3 preferred OP unit at any time, subject to certain contractual restrictions contained in the acquisition agreements, into 1.8605 shares of our common stock (which exchange rate is subject to adjustment upon stock splits, recapitalizations and similar events). The Series A-3 preferred OP unit holders receive an annual preferred return of 4.5%.

In June 2011, our Operating Partnership issued 455,476 Series A-1 preferred OP units in connection with our acquisition of the Kentland Communities ("Kentland"). The Series A-1 preferred OP units are convertible, but not redeemable. The holders of the Series A-1 preferred OP units can convert each Series A-1 preferred OP units at any time after December 31, 2013 into 2.439 shares of common stock (which exchange rate is subject to adjustment upon stock splits, recapitalizations and similar events). The Series A-1 preferred OP unit holders received an annual preferred return of 5.1% through June 23, 2013 and 6.0% thereafter.

All of the securities described above were issued in private placements in reliance on Section 4(a)(2) of the Securities Act, including Regulation D promulgated there under. No underwriters were used in connection with any of such issuances.

SUN COMMUNITIES, INC.

Performance Graph

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on our common stock against the cumulative total return of a broad market index composed of all issuers listed on the NYSE and an industry index comprised of fifteen publicly traded residential real estate investment trusts, for the five year period ending on December 31, 2013. This line graph assumes a $100 investment on December 31, 2008, a reinvestment of distributions and actual increase of the market value of our common stock relative to an initial investment of $100. The comparisons in this table are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common stock.

	As of December 31,					
Index	2008	2009	2010	2011	2012	2013
Sun Communities, Inc.	$100.00	$167.55	$311.61	$372.87	$432.03	$487.97
SNL US REIT Residential	$100.00	$134.17	$197.07	$225.74	$240.18	$233.42
NYSE Market Index	$100.00	$128.58	$146.07	$140.71	$163.43	$206.56
SUI Peer Group 2012 Index(1)	$100.00	$131.23	$186.64	$215.47	$232.91	$217.27
SUI Peer Group 2013 Index(2)	$100.00	$130.90	$185.69	$214.20	$231.66	$215.69

(1) Includes American Campus Communities, Inc., American Capital Agency Corp., Apartment and Management Company, Associated Estates Realty Corporation, AvalonBay Communities, Inc., BRE Properties, Inc., Camden Property Trust, Colonial Properties Trust, Education Realty Trust, Inc., Equity Lifestyles Properties, Inc., Equity Residential, Essex Property Trust, Inc., Home Properties, Inc., Mid-America Apartment Communities, Inc., Senior Housing Properties Trust and UDR, Inc.

(2) Includes the same companies as SUI Peer Group 2012 Index, with the exception of Colonial Properties Trust, which merged with Mid-America Apartment Communities, Inc. in 2013.

SUN COMMUNITIES, INC.

The information included under the heading “Performance Graph” is not to be treated as “soliciting material” or as “filed” with the SEC, and is not incorporated by reference into any filing by the Company under the Securities Act or the Exchange Act that is made on, before or after the date of filing of this Form 10-K.

SUN COMMUNITIES, INC.

ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2013	2012 (1)	2011 (1)	2010 (2)	2009 (2)
	(In thousands, except for share related data)				
OPERATING DATA:					
Revenues	$415,222	$338,952	$288,600	$265,407	$258,453
Net income (loss) attributable to Sun Communities, Inc. common stockholders:					
Income (loss) from continuing operations	$10,610	$4,958	$(1,086)	$(2,883)	$(6,099)
Net income (loss)	$10,610	$4,958	$(1,086)	$(2,883)	$(6,302)
Income (loss) from continuing operations per share - basic and diluted	$0.31	$0.18	$(0.05)	$(0.15)	$(0.33)
Cash distributions declared per common share (3)	$2.52	$2.52	$3.15	$2.52	$2.52
BALANCE SHEET DATA:					
Investment property before accumulated depreciation	$2,489,119	$2,177,305	$1,794,605	$1,580,544	$1,565,700
Total assets	$1,999,236	$1,754,628	$1,367,974	$1,165,342	$1,184,234
Total debt and lines of credit	$1,492,820	$1,453,501	$1,397,225	$1,258,139	$1,253,907
Total stockholders' equity (deficit)	$397,074	$212,990	$(100,655)	$(132,384)	$(111,308)
OTHER FINANCIAL DATA:					
Net operating income (NOI) (4) from:					
Real property operations	$203,176	$167,715	$146,876	$135,222	$131,131
Home sales and home rentals	$26,620	$18,677	$12,954	$12,981	$13,410
Funds from operations (FFO) (4)	$117,583	$92,409	$73,691	$62,765	$56,073
Adjustment to FFO	3,928	4,296	1,564	874	3,419
FFO excluding certain items	$121,511	$96,705	$75,255	$63,639	$59,492
FFO per share excluding certain items - fully diluted	$3.22	$3.19	$3.13	$2.97	$2.86

(1) Financial information has been restated to reflect certain reclassifications in prior periods to conform to current period presentation.

(2) Financial information has been restated to reflect the reclassification of our cable television service business as a discontinued operation. Additionally, financial information has been restated to reflect certain reclassifications in prior periods to conform to current period presentation.

(3) In 2011, we paid $2.52 in cash distributions per common share and declared $3.15 in distributions per common share.

(4) Refer to Item 7, Supplemental Measures, for information regarding the presentation of the NOI financial measure and FFO financial measure.

SUN COMMUNITIES, INC.

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

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto included in this Form 10-K.

EXECUTIVE SUMMARY

2013 Accomplishments

- Same Site occupancy increased to 88.9% at year end from 87.1% at December 31, 2012.
- Home sales increased 10.7% to a historical high of 1,929.
- Completed acquisitions of one MH community and 14 RV communities for an aggregate purchase price of approximately $175.1 million.
- Closed one underwritten registered public offering totaling 5.8 million shares of common stock with net proceeds of approximately $249.5 million after deducting offering related expenses.
- Entered into a $350.0 million senior secured revolving credit facility, which replaced our previous $150.0 million facility, decreased the per annum interest rate and extended the maturity date to May 15, 2017.
- Entered into a loan agreement for $141.5 million, which is classified into two pools and matures on January 1, 2024. The proceeds of the loans, along with $34.4 million in cash, was used to repay in full 11 loans previously made to subsidiaries of the Company.

Property Operations:

Occupancy in our Properties as well as our ability to increase rental rates directly affects revenues. Our revenue streams are predominantly derived from customers renting our sites on a long-term basis. Our Same Site properties continue to achieve revenue and occupancy increases which drive continued Net Operating Income ("NOI") growth. Home sales are at their historical high, and we expect to continue to increase the number of homes sold in our portfolio.

Portfolio Information:	Year Ended December 31,		
	2013	2012	2011
Occupancy % - Total Portfolio - MH and annual RV	89.7 %	87.3 %	85.3 %
Occupancy % - Same Site - MH and annual RV	88.9 %	87.1 %	85.8 %
Funds from operations excluding certain items(1)	$3.22	$3.19	$3.13
NOI(1) - Total Portfolio	$203,176	$167,715	$146,876
NOI(1) - Same Site	$173,674	$164,041	$140,058
Homes Sold	1,929	1,742	1,439
Number of Occupied Rental Homes	9,726	8,110	7,047

(1) Refer to Item 7, Supplemental Measures, for information regarding the presentation of the NOI financial measure and funds from operations excluding certain items financial measure.

Acquisition Activity:

Since 2011, we have completed acquisitions of 50 properties with over 21,000 sites located in high growth areas and retirement and vacation destinations such as Florida, California and Eastern coastal areas such as Old Orchard Beach, Maine; Cape May, New Jersey; Chesapeake Bay, Virginia and Cape Cod, Massachusetts.

During 2013, we acquired one MH community comprised of 712 developed sites and 14 RV communities comprised of 1,989 annual developed sites and 2,818 transient developed sites for an aggregate purchase price of approximately $175.1 million.

We continue to experience an active pipeline of acquisition opportunities and will seek to enhance the growth of the Company through continued selective acquisitions.

SUN COMMUNITIES, INC.

Development Activity:

We expanded 784 sites at eight properties in 2013. The total capital invested was approximately $18.0 million.

We continue to expand our properties utilizing our inventory of owned and entitled land (approximately 6,300 developed sites) and expect to construct approximately 800 additional sites in 2014, located primarily in Texas and Colorado, which have current occupancies in excess of 90%.

Capital Activity:

In March 2013, we closed one underwritten registered public offering of 5.8 million shares of common stock with net proceeds of approximately $249.5 million after deducting offering related expenses.

Proceeds from this capital raise allowed us to maintain our targeted leverage levels while continuing to expand our portfolio.

Markets

The following table identifies the Company's largest markets by number of sites:

Major Market	Number of Properties	Total Sites	Percentage of Total Sites	
Michigan	74	25,094	36.0	%
Florida	27	12,990	18.6	%
Indiana	18	6,616	9.5	%
Texas	18	6,411	9.2	%
Northeast	16	5,858	8.4	%
Ohio	12	3,789	5.4	%
West	10	4,356	6.2	%
Other	13	4,675	6.7	%

SUN COMMUNITIES, INC.

SUPPLEMENTAL MEASURES

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

We believe that NOI is helpful to investors and analysts as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time. We use NOI as a key management tool when evaluating performance and growth of particular properties and/or groups of properties. The principal limitation of NOI is that it excludes depreciation, amortization, interest expense, and non-property specific expenses such as general and administrative expenses, all of which are significant costs, and therefore, NOI is a measure of the operating performance of our properties rather than of the Company overall. We believe that these costs included in net income (loss) often have no effect on the market value of our property and therefore limit its use as a performance measure. In addition, such expenses are often incurred at a parent company level and therefore are not necessarily linked to the performance of a real estate asset.

NOI should not be considered a substitute for the reported results prepared in accordance with GAAP. NOI should not be considered as an alternative to net income (loss) as an indicator of our financial performance, or to cash flows as a measure of liquidity; nor is it indicative of funds available for our cash needs, including our ability to make cash distributions. NOI, as determined and presented by us, may not be comparable to related or similarly titled measures reported by other companies.

We also provide information regarding Funds From Operations ("FFO"). We consider FFO an appropriate supplemental measure of the financial performance of an equity REIT. Under the National Association of Real Estate Investment Trusts ("NAREIT") definition, FFO represents net income, excluding extraordinary items (as defined under GAAP), and gain (loss) on sales of depreciable property, plus real estate related depreciation and amortization (excluding amortization of financing costs), and after adjustments for unconsolidated partnerships and joint ventures. Management also uses FFO excluding certain items, a non-GAAP financial measure, which excludes certain gain and loss items that management considers unrelated to the operational and financial performance of our core business. We believe that this provides investors with another financial measure of our operating performance that is more comparable when evaluating period over period results. A discussion of FFO, FFO excluding certain items, a reconciliation of FFO to net income (loss), and FFO to FFO excluding certain items are included in the presentation of FFO following our "Results of Operations."

SUN COMMUNITIES, INC.

The following table is a summary of our consolidated financial results which are discussed in more detail in the following paragraphs (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Real Property NOI	$203,176	$167,715	$146,876
Rental Program NOI	58,481	47,084	37,991
Home Sales NOI/Gross Profit	14,555	10,229	6,860
Site rent from Rental Program (included in Real Property NOI)	(46,416)	(38,636)	(31,897)
NOI/Gross profit	229,796	186,392	159,830
Adjustments to arrive at net income (loss):			
Other revenues	14,773	11,455	10,445
General and administrative	(35,854)	(28,353)	(27,275)
Acquisition related costs	(3,928)	(4,296)	(1,971)
Depreciation and amortization	(110,078)	(89,674)	(74,193)
Asset impairment charge	—	—	(1,382)
Interest expense	(76,577)	(71,180)	(67,939)
Provision for state income taxes	(234)	(249)	(150)
Distributions from affiliate	2,250	3,900	2,100
Net income (loss)	20,148	7,995	(535)
Less: Preferred return to A-1 preferred OP units	2,598	2,329	1,222
Less: Preferred return to A-3 preferred OP units	166	—	—
Less: Amounts attributable to noncontrolling interests	718	(318)	(671)
Net income (loss) attributable to Sun Communities, Inc.	16,666	5,984	(1,086)
Less: Series A Preferred Stock Distributions	6,056	1,026	—
Net income (loss) attributable to Sun Communities, Inc. common stockholders	$10,610	$4,958	$(1,086)

SUN COMMUNITIES, INC.

RESULTS OF OPERATIONS

We report operating results under two segments: Real Property Operations and Home Sales and Rentals. The Real Property Operations segment owns, operates, and develops MH communities and RV communities concentrated in the midwestern, southern, and southeastern United States and is in the business of acquiring, operating, and expanding MH and RV communities. The Home Sales and Rentals segment offers manufactured home sales and leasing services to tenants and prospective tenants of our communities. We evaluate segment operating performance based on NOI and Gross Profit.

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2013 AND 2012

REAL PROPERTY OPERATIONS – TOTAL PORTFOLIO

The following tables reflect certain financial and other information for our Total Portfolio for the year ended December 31, 2013 and 2012:

	Year Ended December 31,			
Financial Information (in thousands)	2013	2012	Change	% Change
Income from Real Property	$313,097	$255,761	$57,336	22.4 %
Property operating expenses:				
Payroll and benefits	28,090	20,340	7,750	38.1 %
Legal, taxes, & insurance	4,769	3,216	1,553	48.3 %
Utilities	36,071	29,445	6,626	22.5 %
Supplies and repair	11,213	10,085	1,128	11.2 %
Other	7,494	5,753	1,741	30.3 %
Real estate taxes	22,284	19,207	3,077	16.0 %
Property operating expenses	109,921	88,046	21,875	24.8 %
Real Property NOI	$203,176	$167,715	$35,461	21.1 %

	As of December 31,		
Other Information	2013	2012	Change
Number of properties	188	173	15
Developed sites	69,789	63,697	6,092
Occupied sites [(1)] [(2)]	55,459	50,412	5,047
Occupancy % [(1)]	89.7 %	87.3 %	2.4 %
Weighted average monthly site rent - MH	$443	$434	$9
Weighted average monthly site rent - RV [(3)]	$380	$406	$(26)
Sites available for development	6,339	6,969	(630)

(1) Occupied sites and occupancy % include MH and annual RV sites, and excludes transient RV sites.

(2) Occupied sites include 2,480 sites acquired during 2013 and 4,989 sites acquired in 2012.

(3) Weighted average rent pertains to annual RV sites and excludes transient RV sites.

The 21.1% growth in Real Property NOI consists of $25.9 million from newly acquired properties and $9.6 million from our Same Site properties as detailed below.

SUN COMMUNITIES, INC.

REAL PROPERTY OPERATIONS – SAME SITE

A key management tool used when evaluating performance and growth of our properties is a comparison of all Properties owned and operated for the same period in both years ("Same Site"). The Same Site data may change from time-to-time depending on acquisitions, dispositions, management discretion, significant transactions, or unique situations.

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

The Same Site information in this comparison of the years ended December 31, 2013 and 2012 includes all Properties acquired on or prior to December 31, 2011 and which were owned and operated by the Company during the years ended December 31, 2013 and 2012.

	Year Ended December 31,			
Financial Information (in thousands)	2013	2012	Change	% Change
Income from Real Property	$245,703	$233,858	$11,845	5.1 %
Property operating expenses:				
Payroll and benefits	20,689	19,452	1,237	6.4 %
Legal, taxes, & insurance	4,101	3,125	976	31.2 %
Utilities	13,624	13,279	345	2.6 %
Supplies and repair	9,279	9,687	(408)	(4.2)%
Other	5,366	5,491	(125)	(2.3)%
Real estate taxes	18,970	18,783	187	1.0 %
Property operating expenses	72,029	69,817	2,212	3.2 %
Real Property NOI	$173,674	$164,041	$9,633	5.9 %

	As of December 31,		
Other Information	2013	2012	Change
Number of properties	159	159	—
Developed sites	55,590	55,006	584
Occupied sites [1]	46,908	45,224	1,684
Occupancy % [1] [2]	88.9 %	87.1 %	1.8 %
Weighted average monthly rent per site - MH	$445	$433	$12
Weighted average monthly rent per site - RV [3]	$416	$409	$7
Sites available for development	5,631	6,104	(473)

(1) Occupied sites and occupancy % include MH and annual RV sites, and excludes transient RV sites.

(2) Occupancy % excludes recently completed but vacant expansion sites.

(3) Weighted average rent pertains to annual RV sites and excludes transient RV sites.

The 5.9% growth in NOI is primarily due to increased revenues of $11.8 million partially offset by a $2.2 million increase in expenses.

Income from real property revenue consists of MH and RV site rent, and miscellaneous other property revenues. The 5.1% growth in income from real property was due to a combination of factors. Revenue from our MH and RV portfolio increased $10.7 million due to weighted average rental rate increases of 2.3% and due to the increased number of occupied home sites. This growth in revenue was partially offset by rent concessions offered to new residents and current residents converting from home renters to home owners. Additionally, other revenues increased $1.1 million primarily due to increases in late fees and insufficient fund charges, cable television royalties, property tax revenues and utility income.

Property operating expenses increased approximately $2.2 million, or 3.2%, compared to 2012. Of that increase, payroll and benefits increased by $1.2 million primarily as a result of increased health insurance, workers compensation costs and salary increases. Legal, taxes and insurance increased $1.0 million primarily due to $0.6 million of increased property and casualty insurance and $0.4 million of increased legal fees. Utility expense increased $0.3 million primarily as a result of the increased gas and electric costs. These increases were partially offset by a decrease in supplies and repairs of $0.4 million, which was primarily due to decreased lawn services and tree trimming/removal expense, decreased maintenance and repair expenses for water, irrigation and electric systems and decreased maintenance expenses for our clubhouses, garages, sheds and carports.

HOME SALES AND RENTALS

We acquire pre-owned and repossessed manufactured homes generally located within our communities from lenders and dealers at substantial discounts. We lease or sell these value priced homes to current and prospective residents. We also purchase new homes to lease and sell to current and prospective residents.

The following table reflects certain financial and other information for our Rental Program for the year ended December 31, 2013 and 2012 (in thousands, except for statistical information):

	Year Ended December 31,			
Financial Information	2013	2012	Change	% Change
Rental home revenue	$32,500	$26,589	$5,911	22.2 %
Site rent from Rental Program [1]	46,416	38,636	7,780	20.1 %
Rental Program revenue	78,916	65,225	13,691	21.0 %
Expenses				
Commissions	2,507	2,207	300	13.6 %
Repairs and refurbishment	9,411	9,002	409	4.5 %
Taxes and insurance	4,446	3,467	979	28.2 %
Marketing and other	4,071	3,465	606	17.5 %
Rental Program operating and maintenance	20,435	18,141	2,294	12.6 %
Rental Program NOI	$58,481	$47,084	$11,397	24.2 %
Other Information				
Number of occupied rentals, end of period	9,726	8,110	1,616	19.9 %
Investment in occupied rental homes	$355,789	$287,261	$68,528	23.9 %
Number of sold rental homes	924	953	(29)	(3.0)%
Weighted average monthly rental rate	$796	$782	$14	1.8 %

[1] The renter's monthly payment includes the site rent and an amount attributable to the leasing of the home. The site rent is reflected in the Real Property Operations segment. For purposes of management analysis, the site rent is included in the Rental Program revenue to evaluate the incremental revenue gains associated with implementation of the Rental Program, and assess the overall growth and performance of Rental Program and financial impact to our operations.

The 24.2% growth in NOI is primarily as a result of the increased number of residents participating in the Rental Program and from increased monthly rental rates as indicated in the table above.

The increase in operating and maintenance expense of $2.3 million was a result of several factors. Personal property and use taxes increased $0.6 million and property and casualty insurance increased $0.4 million, both due to the additional homes in the Rental Program, and bad debt expense increased $0.5 million. Commissions increased $0.3 million, primarily due to the increased number of new leases.

SUN COMMUNITIES, INC.

The following table reflects certain financial and statistical information for our Home Sales Program for the year ended December 31, 2013 and 2012 (in thousands, except for statistical information):

	Year Ended December 31,			
Financial Information	2013	2012	Change	% Change
New home sales	$6,645	$5,380	$1,265	23.5 %
Pre-owned home sales	48,207	39,767	8,440	21.2 %
Revenue from homes sales	54,852	45,147	9,705	21.5 %
New home cost of sales	5,557	4,553	1,004	22.1 %
Pre-owned home cost of sales	34,740	30,365	4,375	14.4 %
Cost of home sales	40,297	34,918	5,379	15.4 %
NOI / Gross profit	$14,555	$10,229	$4,326	42.3 %
Gross profit – new homes	$1,088	$827	$261	31.6 %
Gross margin % – new homes	16.4 %	15.4 %	1.0 %	
Gross profit – pre-owned homes	$13,467	$9,402	$4,065	43.2 %
Gross margin % – pre-owned homes	27.9 %	23.6 %	4.3 %	
Statistical Information				
Home sales volume:				
New home sales	85	76	9	11.8 %
Pre-owned home sales	1,844	1,666	178	10.7 %
Total homes sold	1,929	1,742	187	10.7 %

Home Sales NOI/Gross profit increased $0.3 million on new home sales and $4.1 million on preowned home sales. The increased profits are due to both an increase in volume of home sales and an increase in average selling price.

SUN COMMUNITIES, INC.

OTHER INCOME STATEMENT ITEMS

The following table summarizes other income and expenses for the years ended December 31, 2013 and 2012 (amounts in thousands):

	Year Ended December 31,			
	2013	2012	Change	% Change
Ancillary revenues, net	$1,151	$(180)	$1,331	(739.4)%
Interest income	$13,073	$11,018	$2,055	18.7%
Brokerage commissions and other revenues	$549	$617	$(68)	(11.0)%
Real property general and administrative	$25,941	$20,037	$5,904	29.5%
Home sales and rentals general and administrative	$9,913	$8,316	$1,597	19.2%
Acquisition related costs	$3,928	$4,296	$(368)	(8.6)%
Depreciation and amortization	$110,078	$89,674	$20,404	22.8%
Interest expense	$76,577	$71,180	$5,397	7.6%
Distributions from affiliates	$2,250	$3,900	$(1,650)	(42.3)%

Ancillary revenues, net increased $1.3 million primarily related to increases in our vacation rental income and golf course, restaurant and pro shop income, as a result of our acquisition of 14 RV communities during 2013.

Interest income increased primarily due to increases in interest income of $1.3 million from collateralized receivables and $0.7 million from installment note receivables.

Real property general and administrative costs increased primarily due to increased salaries, wages and bonus expense of $2.1 million as a result of our acquisitions and increased headcount year over year, increased health insurance and workers compensation costs of $0.5 million, increased deferred compensation of $1.7 million due to awards of restricted stock to our executives and key employees, increased other expenses of $0.9 million related to training and development, travel, consulting fees, software support and maintenance expenses, office expenses and rent, increased human resources expense of $0.3 million primarily related to pre-employment costs and an update to our payroll processing server and increased legal expense of $0.3 million.

Home sales and rentals general and administrative costs increased primarily due to increased salary expense of $0.5 million, increased health insurance costs of $0.2 million, increased commissions on home sales of $0.3 million, increased advertising expense of $0.3 million and increased utility expense of $0.2 million.

Depreciation and amortization costs increased as a result of additional depreciation and amortization of $9.5 million primarily related to our newly acquired properties (See Note 2 to our financial statements), $6.9 million related to depreciation on investment property for use in our rental program, $2.3 million related to the amortization of in place leases and promotions, and $1.7 million related to the write off of the remaining net book value for assets replaced during the year.

Interest expense on debt, including interest on mandatorily redeemable debt, increased primarily due to an increase of $1.8 million in our mortgage interest due to debt associated with the acquired properties (See Note 2 to our financial statements), an increase of $1.5 million in amortized financing costs, an increase of $1.3 million in interest expense on our secured borrowing arrangements, and an increase of $0.9 million in interest on our lines of credit, partially offset by a decrease in preferred OP unit interest expense.

Distributions from affiliate decreased approximately $1.7 million. We suspended equity accounting in 2010 on our affiliate, Origen, as our investment balance is zero. The income recorded in 2013 and 2012 is distribution income. The amount of the distribution is determined by Origen on a quarterly basis. See Note 7 to our financial statements.

SUN COMMUNITIES, INC.

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2012 AND 2011

REAL PROPERTY OPERATIONS – TOTAL PORTFOLIO

The following tables reflect certain financial and other information for our Total Portfolio for the year ended December 31, 2012 and 2011:

	Year Ended December 31,			
Financial Information (in thousands)	2012	2011	Change	% Change
Income from Real Property	$255,761	$223,613	$32,148	14.4 %
Property operating expenses:				
Payroll and benefits	20,340	17,312	3,028	17.5 %
Legal, taxes, & insurance	3,216	3,200	16	0.5 %
Utilities	29,445	25,146	4,299	17.1 %
Supplies and repair	10,085	8,852	1,233	13.9 %
Other	5,753	4,680	1,073	22.9 %
Real estate taxes	19,207	17,547	1,660	9.5 %
Property operating expenses	88,046	76,737	11,309	14.7 %
Real Property NOI	$167,715	$146,876	$20,839	14.2 %

	As of December 31,		
Other Information	2012	2011	Change
Number of properties	173	159	14
Developed sites	63,697	54,811	8,886
Occupied sites [(1)] [(2)]	50,412	44,204	6,208
Occupancy % [(1)]	87.3 %	85.3 %	2.0 %
Weighted average monthly site rent - MH [(3)]	$434	$420	$14
Weighted average monthly site rent - RV [(3)]	$406	$418	$(12)
Sites available for development	6,969	6,443	526

(1) Occupied sites and occupancy % include MH and annual RV sites and excludes transient RV sites.

(2) Occupied sites include 4,989 sites acquired in 2012 and 4,814 sites acquired during 2011.

(3) Weighted average rent pertains to annual RV sites and excludes transient RV sites.

The 14.2% growth in NOI was primarily due to $13.0 million from newly acquired properties and $7.8 million from Same Site properties as detailed below.

SUN COMMUNITIES, INC.

REAL PROPERTY OPERATIONS – SAME SITE

The Same Site information in this comparison of the years ended December 31, 2012 and 2011 includes all properties acquired on or prior to December 31, 2010 and which were owned and operated by the Company during the years ended December 31, 2012 and 2011.

	Year Ended December 31,			
Financial Information (in thousands)	2012	2011	Change	% Change
Income from Real Property	$207,849	$198,806	$9,043	4.5 %
Property operating expenses:				
Payroll and benefits	16,696	16,223	473	2.9 %
Legal, taxes, & insurance	2,652	2,993	(341)	(11.4)%
Utilities	11,288	11,004	284	2.6 %
Supplies and repair	8,428	8,163	265	3.2 %
Other	4,807	4,310	497	11.5 %
Real estate taxes	16,157	16,055	102	0.6 %
Property operating expenses	60,028	58,748	1,280	2.2 %
Real Property NOI	$147,821	$140,058	$7,763	5.5 %

	As of December 31,		
Other Information	2012	2011	Change
Number of properties	136	136	—
Developed sites	48,222	47,850	372
Occupied sites (1)	39,860	39,230	630
Occupancy % (1) (2)	86.7 %	85.8 %	0.9 %
Weighted average monthly rent per site - MH (3)	$437	$425	$12
Weighted average monthly rent per site - RV (3)	$453	$431	$22
Sites available for development	4,908	5,247	(339)

(1) Occupied sites and occupancy % include MH and annual RV sites, and excludes transient RV sites.

(2) Occupancy % excludes recently completed but vacant expansion sites.

(3) Weighted average rent pertains to annual RV sites and excludes transient RV sites.

Real Property NOI increased $7.8 million, or 5.5%, compared to 2011. Income from real property revenue consists of manufactured home and RV site rent, and miscellaneous other property revenues. The 4.5% growth in income from real property was due to a combination of factors. Revenue from our manufactured home and RV portfolio increased $9.5 million due to average rental rate increases of 2.8% and due to the increased number of occupied home sites. This growth in revenue was partially offset by rent concessions offered to new residents and current residents converting from home renters to home owners. Additionally, other revenues decreased $0.5 million due to a decrease in cable television royalties and utility income partially offset by an increase in other charges and fees.

Property operating expenses increased $1.3 million, or 2.2%, compared to 2011. Payroll and benefits increased by $0.5 million due to increased salaries partially offset by decreased health and life insurance costs. Other expenses increased $0.5 million primarily due to increased operational meeting expenses, general office expenses, security service expenses, regional manager travel expense and resident relations expenses. Supplies and repairs increased $0.3 million primarily due to increased lawn services and community maintenance expenses. Utilities expenses increased $0.3 million primarily due to increased cable, telephone and internet expenses, and real estate taxes increased $0.1 million. These increases were partially offset by a decrease in property insurance of $0.3 million.

SUN COMMUNITIES, INC.

HOME SALES AND RENTALS

We acquire pre-owned and repossessed manufactured homes generally located within our communities from lenders and dealers at substantial discounts. We lease or sell these value priced homes to current and prospective residents. We also purchase new homes to lease and sell to current and prospective residents.

The following table reflects certain financial and other information for our Rental Program for the year ended December 31, 2012 and 2011 (in thousands, except for statistical information):

	Year Ended December 31,				
Financial Information	2012	2011	Change	% Change	
Rental home revenue	$26,589	$22,290	$4,299	19.3	%
Site rent from Rental Program [1]	38,636	31,897	6,739	21.1	%
Rental Program revenue	65,225	54,187	11,038	20.4	%
Expenses					
Commissions	2,207	1,908	299	15.7	%
Repairs and refurbishment	9,002	8,080	922	11.4	%
Taxes and insurance	3,467	3,100	367	11.8	%
Marketing and other	3,465	3,108	357	11.5	%
Rental Program operating and maintenance	18,141	16,196	1,945	12.0	%
Rental Program NOI	$47,084	$37,991	$9,093	23.9	%
Other Information					
Number of occupied rentals, end of period	8,110	7,047	1,063	15.1	%
Investment in occupied rental homes	$287,261	$237,383	$49,878	21.0	%
Number of sold rental homes	953	789	164	20.8	%
Weighted average monthly rental rate	$782	$756	$26	3.4	%

[1] The renter's monthly payment includes the site rent and an amount attributable to the leasing of the home. The site rent is reflected in the Real Property Operations segment. For purposes of management analysis, the site rent is included in the Rental Program revenue to evaluate the incremental revenue gains associated with implementation of the Rental Program, and assess the overall growth and performance of Rental Program and financial impact to our operations.

The 23.9% growth in Rental Program NOI was primarily due to increased revenues of $11.0 million, offset by increased expenses of $1.9 million. Revenues increased primarily due to the increased number of residents participating in the Rental Program and from increased monthly rental rates as indicated in the table above.

The increase in operating and maintenance expense of $1.9 million was due to several factors. Due to the increased number of occupied rental homes in the Rental Program, refurbishment costs for occupant turnover increased $0.5 million, personal property and use taxes increased $0.4 million, bad debt expense increased $0.4 million and repair costs increased $0.4 million. Commissions increased $0.3 million due to the increased number of new and renewed leases. Those increases were partially offset by a $0.1 million decrease in advertising costs.

SUN COMMUNITIES, INC.

The following table reflects certain financial and statistical information for our Home Sales Program for the year ended December 31, 2012 and 2011 (in thousands, except for statistical information):

	Year Ended December 31,			
Financial Information	2012	2011	Change	% Change
New home sales	$5,380	$2,062	$3,318	160.9 %
Pre-owned home sales	39,767	30,190	9,577	31.7 %
Revenue from homes sales	45,147	32,252	12,895	40.0 %
New home cost of sales	4,553	1,700	2,853	167.8 %
Pre-owned home cost of sales	30,365	23,692	6,673	28.2 %
Cost of home sales	34,918	25,392	9,526	37.5 %
NOI / Gross profit	$10,229	$6,860	$3,369	49.1 %
Gross profit – new homes	$827	$362	$465	128.5 %
Gross margin % – new homes	15.4 %	17.6 %	(2.2)%	
Gross profit – pre-owned homes	$9,402	$6,498	$2,904	44.7 %
Gross margin % – pre-owned homes	23.6 %	21.5 %	2.1 %	
Statistical Information				
Home sales volume:				
New home sales	76	28	48	171.4 %
Pre-owned home sales	1,666	1,411	255	18.1 %
Total homes sold	1,742	1,439	303	21.1 %

Home Sales NOI increased 49.1% compared to 2011. Gross profit on new home sales increased $0.5 million and gross profit on pre-owned home sales increased $2.9 million primarily due to increased sales volume.

SUN COMMUNITIES, INC.

OTHER INCOME STATEMENT ITEMS

The following table summarizes other income and expenses for the years ended December 31, 2012 and 2011 (amounts in thousands):

	Year Ended December 31,			
	2012	2011	Change	% Change
Ancillary revenues, net	$(180)	$7	$(187)	(2,671.4)%
Interest income	$11,018	$9,509	$1,509	15.9%
Brokerage commissions and other revenues	$617	$929	$(312)	(33.6)%
Real property general and administrative	$20,037	$19,704	$333	1.7%
Home sales and rentals general and administrative	$8,316	$7,571	$745	9.8%
Acquisition related costs	$4,296	$1,971	$2,325	118.0%
Depreciation and amortization	$89,674	$74,193	$15,481	20.9%
Interest expense	$71,180	$67,939	$3,241	4.8%
Distributions from affiliates	$3,900	$2,100	$1,800	85.7%

Ancillary revenues, net decreased primarily due increased costs related to the maintenance and operation of our golf courses, restaurants and pro shops and increased insurance, warranty and credit bureau expense, partially offset by increased revenue from our golf courses, restaurants and pro shops.

Interest income increased primarily due to increases in interest income of $0.9 million from collateralized receivables and $0.5 million from installment note receivables.

Home sales and rentals general and administrative costs increased primarily due to increased salary, commission and bonus costs.

Acquisition related costs increased by $2.3 million. These costs have been incurred for both completed and potential acquisitions (See Note 2 to our financial statements).

Depreciation and amortization costs increased primarily due to increased depreciation on investment property for use in our Rental Program of $4.9 million and increased other depreciation and amortization of $10.6 million primarily due to the newly acquired properties (See Note 2 to our financial statements).

Interest expense on debt, including interest on mandatorily redeemable debt, increased primarily due to an increase in expense associated with our secured borrowing arrangements of $0.9 million, an increase of $4.2 million in our mortgage interest due to debt associated with the acquired properties (See Note 2 to our financial statements) and a higher rate on our FNMA debt and an increase of $0.1 million in amortized financing costs, offset by a decrease of $2.0 million in interest on our lines of credit.

Distributions from affiliate increased by $1.8 million. We suspended equity accounting in 2010 on our affiliate, Origen, as our investment balance is zero. The income recorded in 2012 and 2011 is distribution income. The amount of the distribution is determined by Origen on a quarterly basis. See Note 7 of our financial statements.

SUN COMMUNITIES, INC.

FUNDS FROM OPERATIONS

We provide information regarding FFO as a supplemental measure of operating performance. FFO is defined by NAREIT as net income (loss) (computed in accordance GAAP), excluding gains (or losses) from sales of depreciable operating property, plus real estate-related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Due to the variety among owners of identical assets in similar condition (based on historical cost accounting and useful life estimates), we believe excluding gains and losses related to sales of previously depreciated operating real estate assets, impairment and real estate asset depreciation and amortization, provides a better indicator of our operating performance. FFO is a useful supplemental measure of our operating performance because it reflects the impact to operations from trends in occupancy rates, rental rates, and operating costs, providing perspective not readily apparent from net income (loss). Management believes that the use of FFO has been beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Management, the investment community, and banking institutions routinely use FFO, together with other measures, to measure operating performance in our industry. Further, management uses FFO for planning and forecasting future periods.

Because FFO excludes significant economic components of net income (loss) including depreciation and amortization, FFO should be used as an adjunct to net income (loss) and not as an alternative to net income (loss). The principal limitation of FFO is that it does not represent cash flow from operations as defined by GAAP and is a supplemental measure of performance that does not replace net income (loss) as a measure of performance or net cash provided by operating activities as a measure of liquidity. In addition, FFO is not intended as a measure of a REIT’s ability to meet debt principal repayments and other cash requirements, nor as a measure of working capital. FFO only provides investors with an additional performance measure. FFO is compiled in accordance with its interpretation of standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently.

SUN COMMUNITIES, INC.

The following table reconciles net income (loss) to FFO data for diluted purposes for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Net income (loss) attributable to Sun Communities, Inc. common stockholders	$10,610	$4,958	$(1,086)
Adjustments:			
Preferred return to Series A-1 preferred OP units	2,598	2,329	1,222
Preferred return to Series A-3 preferred OP units	166	—	—
Amounts attributable to noncontrolling interests	718	(318)	(671)
Depreciation and amortization	111,083	90,577	75,479
Asset impairment charge	—	—	1,382
Gain on disposition of assets	(7,592)	(5,137)	(2,635)
Funds from operations ("FFO")	$117,583	$92,409	$73,691
Adjustments:			
State income tax adjustment(1)	—	—	(407)
Acquisition related costs	3,928	4,296	1,971
FFO excluding certain items	$121,511	$96,705	$75,255
Weighted average common shares outstanding:	34,228	26,970	21,147
Add:			
Common OP Units	2,069	2,071	2,075
Restricted stock	504	285	235
Common stock issuable upon conversion of Series A-1 preferred OP units	1,111	1,111	580
Common stock issuable upon conversion of Series A-3 preferred OP units	67	—	—
Common stock issuable upon conversion of stock options	15	17	16
Weighted average common shares outstanding - fully diluted	37,994	30,454	24,053
FFO per share - fully diluted	$3.11	$3.05	$3.06
FFO per share excluding certain items - fully diluted	$3.22	$3.19	$3.13

(1) The state income tax adjustment for the period ended December 31, 2011 represents the reversal of the corporate and business tax expense previously excluded from FFO in a prior period.

SUN COMMUNITIES, INC.

LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity demands have historically been, and are expected to continue to be, distributions to our stockholders and the unitholders of the Operating Partnership, capital improvements of properties, the purchase of new and pre-owned homes, property acquisitions, development and expansion of properties, and debt repayment.

Subject to market conditions, we intend to continue to look for opportunities to expand our development pipeline and acquire existing communities. We also intend to continue to strengthen our capital and liquidity positions by continuing to focus on our core fundamentals, which are generating positive cash flows from operations, maintaining appropriate debt levels and leverage ratios, and controlling overhead costs. We intend to meet our liquidity requirements through available cash balances, cash flows generated from operations, draws on our secured credit facility, secured debt financing transactions, and the use of debt and equity offerings under our automatic shelf registration statement.

We completed six acquisitions in 2013 in which we acquired 15 properties in total, one MH community and 14 RV communities. See Note 2 to our financial statements for details on the acquisitions and Note 9 to our financial statements for related debt transactions. We will continue to evaluate acquisition opportunities that meet our criteria for acquisition. Should additional investment opportunities arise in 2014, we may finance the acquisitions through secured financing, draws on our credit facilities, the assumption of existing debt on the properties and/or the issuance of certain equity securities.

During the year ended December 31, 2013, we invested $59.3 million in the acquisition of homes intended for the Rental Program net of proceeds from third party financing from homes sales. Expenditures for 2014 will be dependent upon the condition of the markets for repossessions and new home sales, as well as rental homes. We finance new home purchases with a $12.0 million floor plan facility. Our ability to purchase homes for sale or rent may be limited by cash received from third party financing of our home sales, available floor plan financing, operating cash flows and working capital available on our secured lines of credit.

Our cash flow activities are summarized as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Net Cash Provided by Operating Activities	$114,683	$87,251	$63,311
Net Cash Used in Investing Activities	$(352,412)	$(375,219)	$(159,328)
Net Cash Provided by Financing Activities	$212,974	$311,619	$93,454

Operating Activities

Cash and cash equivalents decreased by $24.8 million from $29.5 million as of December 31, 2012, to $4.8 million as of December 31, 2013. Net cash provided by operating activities increased by $27.4 million from $87.3 million for the year ended December 31, 2012 to $114.7 million for the year ended December 31, 2013.

Our net cash flows provided by operating activities from continuing operations may be adversely impacted by, among other things: (a) the market and economic conditions in our current markets generally, and specifically in metropolitan areas of our current markets; (b) lower occupancy and rental rates of our properties; (c) increased operating costs, such as wage and benefit costs, insurance premiums, real estate taxes and utilities, that cannot be passed on to our tenants; (d) decreased sales of manufactured homes and (e) current volatility in economic conditions and the financial markets. See Part I, Item 1A, “Risk Factors” in this 10-K.

Investing Activities

Net cash used in investing activities was $352.4 million for the year ended December 31, 2013, compared to $375.2 million for the year ended December 31, 2012. The decrease of $22.8 million is primarily a result of less cash invested into acquisitions during 2013, partially offset by increased investment in properties, largely due to homes purchased for the Rental Program in recently acquired and expanded communities, costs incurred for the expansion of usable sites in our communities and an investment in a note receivable, which was extinguished in a net cash settlement during the acquisition of the properties upon which the note receivable was attributable to.

Financing Activities

Net cash provided by financing activities was $213.0 million for the year ended December 31, 2013, compared to $311.6 million for the year ended December 31, 2012. Cash provided by financing activities in 2012 includes $82.2 million of cash received from the issuance of Series A Preferred Stock. No such issuance was done in 2013, which accounts for the majority of the $98.6 million decrease in cash provided by financing activities.

We continually evaluate our debt maturities, and, based on management's current assessment, believe we have viable financing and refinancing alternatives that will not materially adversely impact our expected financial results. We continue to pursue borrowing opportunities with a variety of different lending institutions and have noticed that, although pricing and loan-to-value ratios remain dependent on specific deal terms, spreads for non-recourse mortgage financing are compressing and loan-to-value ratios are gradually increasing from levels a year ago. The unsecured debt markets are functioning well and credit spreads are at manageable levels. We continue to assess our debt maturities and financing needs in 2014 and beyond to try to best position the Company if current credit market conditions change.

Financial Flexibility

In May 2013, we entered into a credit agreement with Citibank, N.A. and certain other lenders consisting of a $350.0 million senior secured revolving credit facility (the "Facility"), subject to certain borrowing base calculations, and a built in accordion allowing for up to $250.0 million in additional borrowings. The Facility replaced our $150.0 million senior secured revolving credit facility, which was scheduled to mature on October 1, 2014. As of December 31, 2013, we had an outstanding balance of $178.1 million on the Facility. We did not have an outstanding balance on the Facility as of December 31, 2012. Borrowings under the Facility bear a floating interest rate based on Eurodollar plus a margin that is determined based on our leverage ratio calculated in accordance with the Facility agreement, which can range from 1.65% to 2.90%. During 2013, the highest balance on the Facility was $178.1 million, and the highest balance on the previous senior secured revolving credit facility was $110.2 million. The borrowings under the Facility mature May 15, 2017, which can be extended for one additional year at our option, subject to the satisfaction of certain conditions as defined in the credit agreement. Although the Facility is a committed facility, the financial failure of one or more of the participating financial institutions may reduce the amount of available credit for use by us.

Our Facility provides us with the ability to issue letters of credit. Our issuance of letters of credit does not increase our borrowings outstanding under our line of credit, but it does reduce the borrowing amount available. At December 31, 2013, we had outstanding letters of credit to back standby letters of credit totaling approximately $2.7 million, leaving approximately $169.2 million available under the Facility.

Pursuant to the terms of the Facility, we are subject to various financial and other covenants. We are currently in compliance with these covenants. The most restrictive financial covenants for the Facility are as follows:

Covenant	Must Be	As of 12/31/13
Maximum Leverage Ratio	<68.5%	46.6%
Minimum Fixed Charge Coverage Ratio	>1.40	2.19
Minimum Tangible Net Worth	>$850,141	$1,123,878
Maximum Dividend Payout Ratio	<95.0%	72.2%

Market and Economic Conditions

While the U.S. continues to see moderate signs of recovery including improvements in job growth, motor vehicle sales and the housing market, the improvements are somewhat inconsistent. The Federal Reserve's tapering of monetary stimulus which began in December 2013, and which has long suppressed long term interest rates, brings the risk of rising interest rates to the forefront which could move investor sentiment away from the real estate sector. The change in monetary policy could also be perceived as the precursor to real economic improvement which could bode well for real estate operations. Rising interest rates in the U.S as well as the slowing of quantitative easing by the Federal Reserve has also had a significant impact on global economies which were are also challenged by political and financial instability. Continued economic uncertainty, both nationally and internationally, causes increased volatility in investor confidence thereby creating similar volatility in the availability of both debt and equity capital. If such volatility is experienced in future periods, our industry, business and results of operations may be adversely impacted.

SUN COMMUNITIES, INC.

We anticipate meeting our long-term liquidity requirements, such as scheduled debt maturities, large property acquisitions, and Operating Partnership unit redemptions through the issuance of certain debt or equity securities and/or the collateralization of our properties. At December 31, 2013, we had 75 unencumbered properties with an estimated market value of $676.1 million, 58 of these properties support the borrowing base for our $350.0 million secured line of credit. From time to time, we may also issue shares of our capital stock, issue equity units in our Operating Partnership, obtain debt financing, or sell selected assets. Our ability to finance our long-term liquidity requirements in such a manner will be affected by numerous economic factors affecting the manufactured housing community industry at the time, including the availability and cost of mortgage debt, our financial condition, the operating history of the properties, the state of the debt and equity markets, and the general national, regional, and local economic conditions. When it becomes necessary for us to approach the credit markets, the volatility in those markets could make borrowing more difficult to secure, more expensive, or effectively unavailable. See “Risk Factors” in Part I, Item 1A. If we are unable to obtain additional debt or equity financing on acceptable terms, our business, results of operations and financial condition would be adversely impacted.

Contractual Cash Obligations

Our primary long-term liquidity needs are principal payments on outstanding indebtedness. As of December 31, 2013, our outstanding contractual obligations, including interest expense, were as follows:

		Payments Due By Period (In thousands)			
Contractual Cash Obligations	Total Due	<1 year	1-3 years	3-5 years	After 5 years
Collateralized term loans - CMBS [1]	$643,172	$6,639	$271,122	$48,967	$316,444
Collateralized term loans - FNMA	366,019	5,178	62,998	10,991	286,852
Aspen preferred OP Units and Series B-3 preferred OP Units	47,022	11,240	—	—	35,782
Lines of credit	181,383	3,283	—	178,100	—
Secured borrowing	110,510	4,871	11,358	13,562	80,719
Mortgage notes, other [2]	143,343	14,986	33,050	21,601	73,706
Total principal payments	1,491,449	46,197	378,528	273,221	793,503
Interest expense [3]	362,504	61,272	108,816	71,742	120,674
Operating leases	2,511	918	1,593	—	—
Total contractual obligations	$1,856,464	$108,387	$488,937	$344,963	$914,177

(1) Our contractual cash obligation related to our Collateralized term loans - CMBS excludes a $1.7 million premium.

(2) Our contractual cash obligation related to our Mortgage notes, other excludes a $0.3 million discount.

(3) Our contractual cash obligation related to interest expense is calculated based on the current debt levels, rates and maturities as of December 31, 2013 (excluding secured borrowings), and actual payments required in future periods may be different than the amounts included above.

As of December 31, 2013, our net debt to enterprise value approximated 45.8% (assuming conversion of all common OP units, A-1 preferred OP units and A-3 preferred OP units to shares of common stock). Our debt has a weighted average maturity of approximately 6.8 years and a weighted average interest rate of 5.0%.

Capital expenditures for the year ended December 31, 2013 and 2012 included recurring capital expenditures of $14.0 million and $9.1 million, respectively. We are committed to the continued upkeep of our properties and therefore do not expect a significant decline in our recurring capital expenditures during 2014.

SUN COMMUNITIES, INC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In preparing these financial statements, management has made its best estimate and judgment of certain amounts included in the financial statements. Nevertheless, actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of our consolidated financial statements:

Investment Property

Investment property is recorded at cost, less accumulated depreciation. We review the carrying value of long-lived assets to be held and used for impairment quarterly or whenever events or changes in circumstances indicate a possible impairment. Circumstances that may prompt a test of recoverability may include a significant decrease in the anticipated market price, an adverse change to the extent or manner in which an asset may be used or in its physical condition or other such events that may significantly change the value of the long-lived asset. An impairment loss is recognized when a long-lived asset's carrying value is not recoverable and exceeds estimated fair value. We estimate the fair value of our long-lived assets based on future cash flows and any potential disposition proceeds for a given asset. Forecasting cash flows requires management to make estimates and assumptions about such variables as the estimated holding period, rental rates, occupancy, development and operating expenses during the holding period, as well as disposition proceeds. Management uses its best judgment when developing these estimates and assumptions, but the development of the projected future cash flows is based on subjective variables. Future events could occur which would cause us to conclude that impairment indicators exist, and significant adverse changes in national, regional, or local market conditions or trends may cause us to change the estimates and assumptions used in our impairment analysis. The results of an impairment analysis could be material to our financial statements.

Capitalized Costs

We capitalize certain costs incurred in