AFFORDABLE RESIDENTIAL COMMUNITIES INC
Form S-11/A
April 25, 2006

**As filed with the Securities and Exchange Commission on April 25, 2006**

**Registration No. 333-129254**

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# AMENDMENT NO. 1

TO

# FORM S-11/S-3

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

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# AFFORDABLE RESIDENTIAL COMMUNITIES LP

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

# AFFORDABLE RESIDENTIAL COMMUNITIES INC.

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

**7887 East Belleview Avenue**
**Suite 200**
**Englewood, CO 80111**
**(303) 291-0222**

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

**Scott L. Gesell**
**7887 East Belleview Avenue**
**Suite 200**
**Englewood, CO 80111**
**(303) 291-0222**

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

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***Copies to:***

**Jeffrey M. Knetsch, Esq.**
**Kirsten N. Neisler, Esq.**
**Brownstein Hyatt & Farber, P.C.**
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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this registration statement becomes effective.

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

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

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

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

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

**The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.**

**SUBJECT TO COMPLETION, DATED APRIL 25, 2006**

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

**PROSPECTUS**

**$96,600,000**

***AFFORDABLE RESIDENTIAL COMMUNITIES LP***

**AFFORDABLE RESIDENTIAL COMMUNITIES INC.**

**7**1⁄2% Senior Exchangeable Notes due 2025

**and**

**Shares of Common Stock Issuable Upon Exchange of the Notes**

Affordable Residential Communities LP, or the Partnership, issued $96,600,000 aggregate principal amount of 71⁄2% Senior Exchangeable Notes due 2025, which are referred to in this prospectus as the Notes , in private placements in August 2005. This prospectus will be used by selling securityholders to resell their Notes and the common stock of the Partnership s general partner, Affordable Residential Communities Inc., or ARC, issuable upon exchange of their Notes. Unless the context otherwise requires or indicates, references in this prospectus to we, our company, the company, our and us refer collectively to Affordable Residential Communities Inc., a Maryland corporation, which we refer to in this prospectus as ARC, and Affordable Residential Communities LP, a Delaware limited partnership, which we refer to in this prospectus as the Partnership, together with their subsidiaries.

The Notes bear interest at the rate of 71⁄2% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year, beginning February 15, 2006. The Notes will mature on August 15, 2025. The Notes are the Partnership s senior unsecured obligations and rank equal in right of payment with the Partnership s other senior unsecured indebtedness and effectively rank junior in right of payment to all of the Partnership s secured indebtedness, to the extent of the value of the assets securing such indebtedness, and to the indebtedness and all other liabilities of the Partnership s subsidiaries. As of December 31, 2005, the Partnership had outstanding $122.4 million of senior unsecured indebtedness, $5.0 million of other unsecured indebtedness and $1,025.6 million of secured indebtedness, and the Partnership s consolidated subsidiaries had outstanding an aggregate of $99.5 million of other liabilities.

Subject to the conditions described in this prospectus, holders may exchange at any time on or prior to maturity or redemption any outstanding Notes (or portions thereof) into shares of ARC common stock, initially at an exchange rate of 69.8812 shares of ARC common stock per $1,000 principal amount of Notes (equivalent to an initial exchange price of $14.31 per share of ARC common stock). If a holder elects to exchange its Notes in connection with certain specified fundamental changes, as described in this prospectus, that occur prior to August 20, 2015, the holder will be entitled to receive additional shares of ARC common stock as a make-whole premium upon exchange. In lieu of delivery of shares of ARC common stock upon exchange of all or any portion of the Notes, we may elect to pay holders surrendering Notes for exchange an amount in cash per note (or a portion of a note). In this prospectus, we sometimes refer to the shares of ARC common stock issuable or issued upon exchange of the Notes as the shares, and to the Notes and the shares, according to the context, as the securities.

Holders may require the Partnership to repurchase for cash all or a portion of their Notes on August 15, 2010, August, 15, 2015 and August 15, 2020 at a purchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, if any, to the repurchase date. In addition, if a fundamental change, as described in this prospectus, occurs at any time prior to maturity, holders of Notes may require the Partnership to repurchase their Notes in whole or in part for cash equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, if any, to the repurchase date.

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

There is no public market for the Notes and we do not intend to apply for listing of the Notes on any securities exchange or for quotation of the Notes through any automated quotation system. The Notes currently trade on the Private Offerings, Resales and Trading through Automated Linkages, or PORTAL, system of the

National Association of Securities Dealers, Inc. ARC s common stock is listed on the New York Stock Exchange under the symbol ARC. On April 13, 2006, the last quoted sale price of ARC s common stock was $9.44 per share.

Neither the Partnership nor ARC will receive any proceeds from the sale by the selling securityholders of the Notes or the common stock issuable upon exchange of the Notes. The selling securityholders may offer the Notes or the underlying common stock in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices. In addition, the common stock may be offered from time to time through ordinary brokerage transactions on the New York Stock Exchange. Certain selling securityholders may be deemed to be underwriters as defined in the Securities Act of 1933. If any broker-dealers are used by selling securityholders, any commissions paid to broker-dealers and, if broker-dealers purchase any Notes or common stock as principals, any profits received by such broker-dealers on the resale of the Notes or common stock, may be deemed to be underwriting discounts or commissions under the Securities Act of 1933. In addition, any profits realized by the selling securityholders may be deemed to be underwriting commissions. Other than selling commissions and fees and stock transfer taxes, we will pay all expenses of registering the Notes and common stock and certain other expenses.

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

**See Risk Factors beginning on page 19.**

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

The date of this prospectus is [ ], 2006

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**ABOUT THIS PROSPECTUS**

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

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

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Forms S-11 and S-3 under the Securities Act of 1933 with respect to the Notes and the ARC common stock issuable upon exchange of the Notes, respectively. This prospectus does not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to us and the securities offered hereby, reference is made to the registration statement, including the exhibits and schedules to the registration statement. Statements contained in this prospectus regarding the contents of any contract or other document referred to in this prospectus are not necessarily complete and, where that contract or other document is an exhibit to the registration statement, each statement is qualified in all respects by reference to the exhibit to which the reference relates. Copies of the registration statement, including the exhibits and schedules to the registration statement, may be examined without charge at the public reference room of the SEC, 100 F Street, NE, Room 1580, Washington, D.C. 20549. Information about the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0300. Copies of all or a portion of the registration statement can be obtained from the public reference room of the SEC upon payment of prescribed fees. Our SEC filings, including our registration statement, also are available to you on the SEC s website at *www.sec.gov*.

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

The SEC allows ARC to incorporate by reference certain of the information required by this prospectus, which means that ARC can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that ARC files later with the SEC will automatically update and supersede information contained in documents filed earlier with the SEC or contained in this prospectus. ARC incorporates by reference in this prospectus the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until all of the securities offered hereby are sold:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2005;

- Current Reports on Form 8-K filed on January 18, March 8, March 15 and April 10, 2006;
- Proxy Statement on Schedule 14A for 2005 annual meeting filed on May 27, 2005; and
- Description of ARC s capital stock contained in its registration statement on Form 8-A filed on February 9, 2004.

Upon receipt of an oral or written request we will provide, free of charge, to any person to whom a prospectus is delivered, a copy of any or all of the information that has been incorporated by reference in the prospectus but not delivered with the prospectus. Please direct your written requests to: Investor Relations, Affordable Residential Communities Inc., 7887 East Belleview Avenue, Suite 200, Englewood, Colorado 80111. Please direct your oral requests to: Investor Relations at 1-866-847-8931.

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

**FOR NEW HAMPSHIRE RESIDENTS ONLY**

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



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**MARKET AND INDUSTRY DATA**

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

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act, as amended by the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this prospectus that address results or developments that we expect or anticipate will or may occur in the future, where statements are preceded by, followed by or include the words *believes*, *expects*, *may*, *will*, *would*, *could*, *should*, *seeks*, *approximately*, *intends* *estimates* or *anticipates* or the negative of these words and phrases or similar words or phrases, including such things as our business strategy, our ability to obtain future financing arrangements, estimates relating to our future distributions, our understanding of our competition, market trends, projected capital expenditures, the impact of technology on our products, operations and business, are forward-looking statements.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, business plan, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. These risks, along with the risks disclosed in the section of this prospectus entitled Risk Factors and the following factors, could cause actual results to vary from our forward-looking statements:

- competition from other forms of single or multifamily housing;
- changes in market rental rates, supply and demand for affordable housing, the cost of acquiring, transporting, setting or selling manufactured homes;
- the availability of manufactured homes from manufacturers;
- the availability of cash or financing for us to acquire additional manufactured homes;
- the ability of manufactured home buyers to obtain financing;
- our ability to maintain rental rates and maximize occupancy;
- the level of repossessions by manufactured home lenders;
- the adverse impact of external factors such as changes in interest rates, inflation and consumer confidence;
- the ability to identify acquisitions, have funds available for acquisitions, the ability to close acquisitions, the pace of acquisitions and/or dispositions of communities and new or rental homes;
- our corporate debt ratings;
- demand for home purchases in our communities and demand for financing of such purchases;

- demand for rental homes in our communities;
- the condition of capital markets;
- actual outcome of the resolution of any conflict;
- our ability to successfully operate existing or newly acquired properties;
- our decision and ability to sell additional communities and the terms and conditions of any such sales and whether any such sales actually close;
- issues arising from our decision not to continue to maintain our status as a real estate investment trust, or REIT;
- the impact of the tax laws on our balance sheet and business operations in light of the above;
- our ability to pay dividends or make other distributions to ARC s stockholders and the Partnership s partnership unitholders;
- environmental uncertainties and risks related to natural disasters;
- our ability to comply with the terms of our various loan agreements;
- changes in and compliance with real estate permitting, licensing and zoning laws including legislation affecting monthly leases and rent control and increases in property taxes; and
- changes in and compliance with licensing requirements regarding the sale or leasing of manufactured homes.

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

**SUMMARY**

*This summary is not complete and does not contain all of the information that you should consider before investing in the Notes and the shares of ARC common stock issuable upon exchange of the Notes. You should read the entire prospectus carefully, including Risk Factors and our historical financial statements and the Notes to those financial statements, which are included or incorporated by reference in this prospectus, and the other financial information appearing elsewhere or incorporated by reference in this prospectus. Unless otherwise indicated, the information contained in this prospectus is as of December 31, 2005.*

**Affordable Residential Communities LP**

**Overview**

The Partnership is a Delaware limited partnership whose sole general partner is ARC. As of December 31, 2005, ARC owned approximately 95.7% of the Partnership s outstanding partnership interests. ARC is a Maryland corporation which was organized as a fully integrated, self administered and self managed real estate investment trust, or REIT, for U.S. Federal income tax purposes through the years ended December 31, 2005. On March 7, 2006, ARC s board of directors announced its decision to revoke ARC s election as a REIT beginning the year ending December 31, 2006.

We acquire, renovate, reposition and operate primarily all-age manufactured home communities. We also conduct certain complimentary business activities focused on maintaining and improving occupancy in our communities. These activities include leasing with the option to purchase, renting and selling manufactured homes, financing sales of manufactured homes and acting as agent in the sale of homeowners insurance and other related insurance products, all exclusively to residents and prospective residents in our communities.

As of December 31, 2005, we owned and operated 278 manufactured home communities in 24 states containing 57,578 homesites, exclusive of communities held for sale as discontinued operations. These properties are located in 59 markets across the United States. Our five largest markets are Dallas/Fort Worth, Texas, with 12.4% of our total homesites; Atlanta, Georgia, with 8.6% of our total homesites; Salt Lake City, Utah, with 6.6% of our total homesites; the Front Range of Colorado, with 5.7% of our total homesites; and Kansas City Lawrence Topeka, Kansas/Missouri, with 4.2% of our total homesites.

Beginning in 1995, ARC s predecessor companies were formed under the name Affordable Residential Communities. ARC was formed in 1998. In the first quarter of 2004, ARC completed its initial public offering, or IPO, of 25,300,209 shares of ARC common stock (including 2,258,617 shares sold by selling securityholders) and 5,000,000 shares of ARC s 8.25% Series A cumulative redeemable preferred stock. In conjunction with the IPO, we also completed a financing transaction involving Merrill Lynch Mortgage Capital Inc., an affiliate of the initial purchaser of the Notes, consisting of $500 million of new mortgage debt and the repayment of some of our existing indebtedness. We used a portion of the proceeds from ARC s IPO and the financing transaction to acquire 90 manufactured home communities from Hometown America, L.L.C., or Hometown.

Our principal executive, corporate and property management offices are located at 7887 East Belleview Avenue, Suite 200, Englewood, Colorado 80111, and our telephone number is (303) 291-0222. Our internet address is *www.aboutarc.com*. The information contained on our website is not part of this prospectus.

**Our Business Objectives, Property Management and Operating Strategies**

Our principal business objectives are to achieve sustainable long-term growth in cash flow and to maximize returns to our investors. We believe that we can provide a clean, attractive and affordable place for our residents to live that is competitive with other forms of housing, provides real value and service to our residents and generates profits for our investors. We have undertaken a detailed, bottom-up budgeting process that focuses on operating effectiveness at the community level. Our primary goals are, first, to reassess expense levels and income opportunities and, second, to indentify opportunities for profitable growth with the liquidity we expect to attain from the sale of the communities we currently hold for sale, as and when such sales are consummated. In regard to our business objectives, we have focused on rent levels and control and recovery of utility cost and other operating expenses.

We have further made a determination to focus on profitable programs in the sale and leasing of homes. As a result, we have implemented procedures to increase the pricing of our home and leasing transactions while attempting to keep them competitively priced as compared to the market. Our primary tools remain (i) our rental home program, including our lease with option to purchase program, (ii) our for-sale inventory and (iii) our consumer finance program.

We have taken steps to down-size our sales and marketing organization and terminated over 150 employees in the fourth quarter of 2005, primarily in these functions. We now operate our sales and marketing initiatives within our community operations utilizing training achieved to-date. Our focus is to utilize our community managers, sales staff and independent sales professionals to make (i) cash sales of less expensive, vacant used homes, used rental homes coming off lease and newly purchased repossessions, (ii) sales of higher priced new and used homes for cash or supported by financing to new residents through our Enspire finance subsidiary, (iii) home leases with option to purchase, and (iv) standard home leases.

We have also made a determination to align our expense structure to one that fits a downsized company once our communities held for sale have been sold. We will address this in due course while continuing to work to maintain effective controls over our business activities.

We evaluate our aggregate community asset pool to determine whether any communities do not meet the established market and asset criteria enumerated above and/or whose cost of operating, development, refurbishment or occupancy fill we consider inordinately high. Historically, ARC has and may continue to acquire such communities in order to facilitate multiple community acquisitions we believe to be essential to planned, strategic growth. In selling communities, we have focused on communities that are in isolated markets where we cannot readily achieve economies of scale, that cannot be readily reached by district management, or that require extensive expenditures of capital and management time in relation to the potential benefit. We also consider the benefits we may obtain from the liquidity provided in the sale that we can better deploy in other development activities elsewhere. As such, we may consider selling those communities that are fully developed and offer little growth prospects or those communities where we believe we will receive a premium price on sale in addition to those that require excess capital investment in relation to the future benefit.

Our key operating objectives include the following:

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

*Presence in Key Markets.* As of December 31, 2005, approximately 74% of our homesites were located in our 20 largest markets. We believe we have a leading market share in 15 of these markets, based on number of homesites. Increasing our presence and market share enables us to (i) achieve operating efficiencies and economies of scale by leveraging our local property management infrastructure and other operating overhead over a larger number of communities and homesites, (ii) provide potential residents with a broader range of affordable housing options in their market, (iii) increase our visibility and brand recognition and leverage advertising costs, and (iv) obtain more favorable terms and faster turnaround time on construction, renovation, repairs and home installation services. We believe the continuing significant size and geographic diversity of our portfolio reduces our exposure to risks associated with geographic concentration, including the risk of economic downturns or natural disasters in any one market in which we operate.

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

*Community Renovation and Repositioning.* While community acquisition opportunities have historically been a significant focus of our activities, we are currently significantly less focused on such opportunities and more focused on community operations, as discussed above. We have historically utilized a comprehensive process to renovate and reposition the communities we acquire and improve their operating performance. In this process we have focused on (i) identifying and making the acquisition of the community, (ii) improving the physical infrastructure and resident quality, (iii) increasing occupancy levels, and then, (iv) managing the ongoing, long-term operations. Our prior acquisitions generally have targeted communities that demonstrate opportunities for improvement in operating results due to (a) below market rate leases, (b) high operating expenses, (c) poor infrastructure and quality of residents, (d) inadequate capitalization, or (e) a lack of professional management.

**Key Programs and Initiatives**

*Rental Programs.* Our real estate segment revenue consists of homeowner rental income, home renter rental income and utility and other income. We receive homeowner rental income from homeowners who lease homesites in our communities, and we receive home renter rental income from persons who rent manufactured homes and homesites from us in our communities pursuant to our home rental and our home lease with option to purchase programs. For the years ended December 31, 2005 and 2004, home renter rental income totaled $48.5 million, or approximately 23% of our total real estate revenue, and $37.7 million, or approximately 20% of our total real estate revenue, respectively, and homeowner rental income totaled $142.8 million, or approximately 67% of our total real estate revenue, and $133.7 million, or approximately 71% of our total real estate revenue, respectively. At December 31, 2005, we owned a total of 9,328 homes that are in our communities with acquisition and improvement costs of $261.5 million, which are rented, available for rent or for sale. These homes had an occupancy rate, at December 31, 2005, of approximately 80.3% in our communities which are not held for sale and 80.5% in our communities overall, including those held for sale. We intend to continue our home rental and lease with option to purchase program in the future.

*Home Lease with Option to Purchase.* Our home lease with option to purchase program was initiated in 2004 to address the demand for home ownership in that segment of the population that might not otherwise qualify to finance the purchase of a home or pay cash. Under this program, a resident enters into a long term lease of a home, typically 24 to 72 months. Over the term of the lease, the resident makes rental payments for the home, and makes additional monthly payments which, if the resident elects to exercise the purchase option, are applied to the purchase price of the home. The resident pays a non-refundable option fee at the time of execution of the home lease. The lease may be terminated at any time by the payment of a termination fee by the resident as provided in the lease, and in the event of such

termination, under the terms of the program the resident is to forfeit all additional payments made through the date of termination of the lease. The resident has the right to purchase the home at any time during the term of the lease for a stated purchase price as provided in the lease. The resident also executes a separate homesite lease as part of this program, and agrees that upon the exercise of the purchase option to maintain the home in our community for an additional period of at least 24 months. This program is only offered on homes we own located in our communities.

*In-Community Retail Home Sales and Consumer Financing Initiative.* Our retail home sales business consists of the sales of manufactured homes in our communities to residents and prospective residents at competitive prices. Through our consumer financing initiative, we provide loans to qualified residents and prospective residents to facilitate purchases of manufactured homes which will remain located in our communities for the longer of the term of the loan or 24 months. We will acquire additional manufactured home inventory on an as needed basis for sale in coordination with the sale of our existing inventory.

**Our Industry**

The manufactured housing industry represents a meaningful portion of the U.S. housing market. In 2002, there were an estimated 22 million people living in manufactured homes in the United States. The manufactured housing industry is primarily focused on providing affordable housing to moderate-income customers. A manufactured home is a single-family house constructed entirely in a factory rather than at a homesite, with generally the same materials found in site-built homes and in conformity with federal construction and safety standards.

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

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

- significant barriers to the entry of new manufactured home communities into the market;
- large and growing demographic group of potential customers;
- comparatively stable resident base;
- fragmented ownership of communities;
- comparatively low recurring capital requirements;
- improved economies of scale in operation of multiple sites; and
- affordable homeowner lifestyle.

The manufactured housing industry faces a challenging operating environment, which has resulted in losses, exits from the industry and significant curtailment of activity among manufacturers, retailers and consumer finance companies. According to Manufactured Housing Institute, or MHI, industry shipments (a measure of manufacturers home production and wholesale sales) have declined from 372,843 homes in 1998 to 130,802 in 2004. We believe this dramatic decline in production and sales is largely the result of an oversupply of consumer credit from 1994 to 1999, which led to over stimulation in the manufacturing, retail and finance sectors of the industry. Current industry conditions are further exacerbated by low mortgage interest rates and less stringent credit requirements for the purchase of entry-level site built homes, thereby reducing the price competitiveness of manufactured housing.

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

## Revocation of ARC s REIT Election

Commencing with its taxable year ending December 31, 1998, ARC elected to be taxed as a REIT, pursuant to the Internal Revenue Code of 1986, as amended, (the Code ). As a REIT, ARC was entitled to a deduction for the dividends that it paid and was therefore generally not subject to U.S. Federal corporate income tax on its taxable net income that it distributed to its stockholders. Under the Code, the proceeds from ARC s community sales would likely have been subject to a U.S. Federal income tax equal to 100% of the net income from such sales as prohibited transactions without offset for net operating losses or capital losses from other transactions. Since ARC has substantial net operating losses, the board of directors of ARC announced on March 7, 2006 that it had determined that it was in the best interest of ARC to revoke its election to be taxed as a REIT for U.S. Federal income tax purposes, as permitted pursuant to ARC s charter, beginning with its tax year ending December 31, 2006 so that such net income could be offset by ARC s net operating losses. As a result of the board s decision, ARC filed a statement with the Internal Revenue Service ( IRS ) revoking its election to be taxed as a REIT on March 30, 2006 (which election is retroactively effective to January 1, 2006).

Effective with such revocation, ARC is taxed as a corporation for U.S. Federal income tax purposes and its net income is subject to taxation at regular (or alternative minimum) corporate rates without the benefit of a dividends paid deduction. As noted above, net operating loss carryforwards from prior years are expected to offset substantially ARC s taxable income, if any, for at least the next five years. ARC may, however, incur some alternative minimum tax liability since net operating loss carryforwards may only offset 90% of alternative minimum taxable income. This will result in some increased U.S. Federal income, state and local tax liability to ARC and, therefore, ARC s net earnings available for investment, debt service and distribution may be reduced. However, ARC does not expect any increase in the amount of its tax liability as a result of the revocation to be material. Under current law, ARC may re-elect REIT status for U.S. Federal income tax purposes beginning with its 2011 tax year. There can be no assurance, however, that the law will not change or that ARC will, if able, elect to be taxed as a REIT at such time. Under current law, in the event that ARC should choose to re-elect REIT status, ARC would have to distribute earnings and profits generated while it was a regular corporation and would be subject to a corporate tax at the highest corporate income tax rate then applicable on the net appreciation at the time of the conversion back to a REIT in its assets disposed of during the next 10 year period.

As a result of the revocation, ARC is no longer be subject to certain stockholder ownership tests imposed on a REIT. Thus, the limitations set forth in ARC s charter that were designed to ensure that ARC would be able to meet with this and other requirements no longer apply. These limitations provided that no individual could own more than 7.3% in value or number, whichever is more restrictive, of the outstanding shares of ARC s common stock or more than 7.3% in value of the outstanding shares of ARC s capital stock.

Further, ARC is no longer required to comply with the REIT income, asset and distribution requirements under the Code, including that ARC distribute annually at least 90% of its REIT taxable income. Thus, ARC will not be compelled to make dividend distributions to its stockholders and, therefore, holders of ARC common stock may receive less in dividend distributions from ARC than if ARC had maintained its REIT status. In addition, holders of ARC common stock will no longer be able to receive dividends designated by ARC for taxation as capital gain dividends within the meaning of the Code.

Investments in ARC common stock will be taxed under the general rules applicable to investments in stock of corporations. Distributions in respect of ARC common stock will be taxed as dividends to the extent of ARC s current and accumulated earnings and profits. Distributions in excess of ARC s current or accumulated earnings and profits will be treated first as nontaxable return of capital reducing a holder s adjusted U.S. tax basis and thereafter as capital gains. However, certain restrictions applicable to the taxation of stockholders of REITs will no longer apply, including:

- Dividends paid by ARC will now be eligible for the preferential tax rates available to U.S. individual stockholders for certain qualified dividend income;
- Subject to certain limitations, dividends paid by ARC to corporate stockholders will be eligible for the dividends received deduction; and
- The special rules applicable to holders of ARC common stock that are U.S. tax-exempt entities will not apply, including rules regarding pension-held REITs.

Nevertheless, because of ARC s substantial investment in U.S. real property, non-U.S. holders may still be subject to taxation on the disposition of Notes or ARC common stock under the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, in certain circumstances. For more information, see Certain U.S. Federal Income and Estate Tax Considerations Non-U.S. Holders Sale, Exchange or Redemption of the Notes and Certain U.S. Federal Income and Estate Tax Considerations Non-U.S. Holders Gain on Disposition of ARC Common Stock.

**Recent Developments**

***We had the following changes in executive management***

On September 22, 2005, we announced that Larry D. Willard, a member of our board of directors, had assumed the additional position of Chairman of the board of directors and Chief Executive Officer of ARC and that director James F. Kimsey had become President and Chief Operating Officer of ARC. On that date, Scott D. Jackson, our former Chairman and Chief Executive Officer, assumed the position of a Vice Chairman of ARC s board of directors. Messrs. Willard and Kimsey also resigned their positions on the Audit Committee, which caused ARC to fail to be in compliance with the requirements of the New York Stock Exchange ( NYSE ) with respect to the makeup of audit committees.

On November 4, 2005, John G. Sprengle, a Vice Chairman of our board of directors, entered into a separation and release agreement with ARC and resigned from ARC s board of directors effective as of that date. Under the agreement, Mr. Sprengle resigned his employment with ARC and its affiliates as of November 30, 2005. Pursuant to the agreement, Mr. Sprengle received a lump sum payment of $750,000, subject to standard withholding, on the separation date and is covered under our health benefit plan in accordance with COBRA for a period of eighteen months following his separation date. Pursuant to the agreement, Mr. Sprengle is also bound by certain non-competition and non-solicitation provisions for a two-year period.

On December 13, 2005, Scott D. Jackson, a Vice Chairman of our board of directors and our former Chairman and Chief Executive Officer, entered into a separation and release agreement with ARC and resigned from ARC s board of directors and as an employee of ARC and its subsidiaries as of that date. Pursuant to the agreement, Mr. Jackson received a lump sum payment of $2.0 million as of January 3, 2006, subject to standard withholding, and is covered under our health benefits plan in accordance with COBRA for a period of 18 months following his separation date. Pursuant to the agreement, Mr. Jackson is also bound by certain non-competition and non-solicitation provisions for a two year period.

***We had the following changes to our board of directors***

At the 2005 annual stockholders meeting held on June 30, 2005, W. Joris Brinkerhoff, Gerald J. Ford, James F. Kimsey, James R. Randy Staff and Carl B. Webb were elected as directors of ARC. Randall A. Hack, Charles Santos-Busch and James L. Clayton were not seeking re-election and ended their service with the board of directors effective that date.

On August 16, 2005, Michael Greene resigned his position on ARC s board of directors.

On October 28, 2005, Charles R. Cummings was elected to ARC s board of directors and was appointed Chairman of the board s Audit Committee and designated an audit committee financial expert.

On November 10, 2005, one of ARC s independent directors, Eugene Mercy, Jr., resigned his position on ARC s board of directors.

On November 29, 2005, Rhodes Bobbitt was elected to ARC s board of directors and was appointed as a member of the board s Audit Committee. His appointment brought ARC back into compliance with the requirements of the NYSE with respect to the makeup of audit committees.

***We had modifications to our debt agreements as follows***

In March 2005, we secured an additional $100.0 million in financing commitments, consisting of $25.0 million in unsecured trust preferred securities, and a $75.0 million lease receivables facility (subsequently amended to $150.0 million) secured by substantially all of ARC s rental homes and the related leases. The $25.0 million trust preferred securities were issued and sold on March 15, 2005, mature in 30 years, and bear interest at 3-month LIBOR plus 3.25% (7.79% at December 31, 2005).

In September 2005, we amended our revolving credit mortgage facility to extend the maturity of the facility to September 2006. As amended, the facility bears interest at the rate of one-month LIBOR plus 2.75% (7.14% at December 31, 2005).

In October 2005, we amended our lease receivables facility to increase the size of the facility from $75 million to $150 million. The amendment also (i) increased the limit on borrowings under the lease receivables facility from an amount equal to approximately 55% of the net book value of the eligible manufactured housing units owned by two of our indirect wholly owned subsidiaries, ARC Housing LLC and ARC HousingTX LP (collectively, Housing ) and located in our communities, to 65%, subject to certain other applicable borrowing base requirements, (ii) increased the interest rate on borrowings under the facility from 3.25% plus one-month LIBOR to 4.125% plus one-month LIBOR (8.52% at December 31, 2005), and (iii) extended the maturity of the facility from March 31, 2007 to September 30, 2008.

On November 11, 2005, we amended our floorplan line of credit to provide borrowings of up to $35.0 million, secured by manufactured homes in inventory. Under the amended lines of credit, the lender will advance 75% of the purchase cost of manufactured homes. Repayments of borrowed amounts are due upon sale or lease of the related manufactured home. Advances under the amended lines of credit will bear interest ranging from the prime rate plus 0.75% to the prime rate plus 4.00% (averaging 8.00% at December 31, 2005) based on the length of time each advance has been outstanding. Monthly curtailment payments are required for unsold homes beginning 360 days following the purchase of the home. The required curtailment payment will be between 3.00% and 5.00% of the home s original invoice amount depending on the type of home and the number of months since the home s purchase. The amended lines of credit require us to maintain a minimum tangible net worth, a maximum debt to tangible net worth ratio of 3 to 1, and minimum cash and cash equivalents of $15.0 million, all as defined in the agreement. As amended, the minimum tangible net worth required is $425.0 million from September 30, 2005 through December 31, 2006, and $385.0 million from January 1, 2007 through September 13, 2007. We are in compliance with all financial covenants of the line of credit as of December 31, 2005. The line of credit is subject to a commitment fee of $250,000, an unused line fee of 0.25% per annum and a termination fee of 1.00% to 3.00%, based on the termination date.

On February 10, 2006, we extended the due date of our senior variable rate mortgage due 2006 to February 11, 2007. At our option and subject to certain conditions, we may extend the Senior Variable Rate Mortgage due 2006 for two additional 12-month periods. In connection with the second and third extensions, we would be required to pay extension fees of 0.25% and 0.375% of the outstanding principal balance, respectively.

On April 5, 2006, we entered into a second amendment to our lease receivables facility. The second amendment (i) eliminates the margin increase requirements for failure to meet certain sales volume requirements for new homes, (ii) increases the allowable age requirements for the collateral portfolio from 4 years to 4.5 years, and (iii) provides an opportunity to purchase an extension of the timeframe to realize $85 million in net proceeds from our community sales process from October 14, 2006 to December 31, 2006.

***Our board of directors authorized community sales***

On September 22, 2005, ARC s board of directors authorized the sale of up to 79 communities in 33 markets, either at auction or through various negotiated sales. On December 15, 2005, we offered 71 of these communities for sale at auction. Eight other properties are being actively marketed and are anticipated to be sold in private party transactions or through brokers. Upon completion of the auction, we have accepted contracts on 30 of the properties and we determined that we would continue to operate 41 of the 79 properties, which would no longer be classified as held for sale. Following these sales, and assuming the 38 communities are sold, we will continue to own 278 communities that we believe meet our business plan objectives and operating strategy objectives.

***We eliminated the quarterly dividend on ARC common stock and the quarterly distributions on the Partnership s common partnership units.***

Also on September 22, 2005, ARC s board of directors eliminated the quarterly common stock dividend and the quarterly distribution on the Partnership s common partnership units beginning with the quarter ended September 30, 2005. ARC s board of directors will review its dividend policy on a quarter by quarter basis going forward.

## The Offering

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes, see Description of Notes in this prospectus.

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| Issuer of Notes | Affordable Residential Communities LP |
| Notes Offered | $96,600,000 aggregate principal amount of 7½% Senior Exchangeable Notes due 2025. |
| Maturity Date | August 15, 2025, unless previously redeemed, repurchased or exchanged prior to such date by the Partnership in accordance with their terms. |
| Interest and Payment Dates | 7½% per year, payable semiannually in arrears in cash on February 15 and August 15 of each year, beginning February 15, 2006. |
| Exchange Rights | Holders may present their Notes for exchange at any time prior to the close of business on the business day preceeding redemption or the second business day preceding the stated maturity date based on the applicable exchange rate. The exchange rate is subject to adjustment as described in Description of Notes Exchange Rights Exchange Rate Adjustments.<br>The initial exchange rate is 69.8812 shares of ARC common stock per $1,000 principal amount of Notes. This is equivalent to an initial exchange price of approximately $14.31 per share of ARC common stock.<br>Upon exchange of a note, a holder will not receive any cash payment of interest, subject to certain exceptions, and we will not adjust the exchange rate to account for accrued and unpaid interest.<br>If a holder elects to exchange its Notes in connection with certain specified fundamental changes, as defined herein, that occur prior to August 20, 2015, the holder will be entitled to receive additional shares of ARC common stock as a make whole premium upon exchange in certain circumstances.<br>In lieu of delivering shares of ARC common stock upon exchange of any Notes, we may elect to pay holders surrendering Notes for exchange an amount in cash per note (or a portion of a note) equal to the average closing price of ARC common stock over the five trading day period starting on and including the third trading day following the exchange date multiplied by the exchange rate in effect on the exchange date (or portion of the exchange rate applicable to a portion of a note if a combination of ARC common stock and cash is to be delivered). See Description of Notes Exchange Rights. |

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| Provisional Redemption of the Notes at the Partnership s Option | Prior to August 20, 2010, the Notes will not be redeemable at the Partnership s option. Beginning on August 20, 2010, the Partnership may redeem the Notes in whole or in part for cash (in principal amounts of $1,000 and integral multiples thereof) at any time at a redemption price equal to 100% of the principal amount of the Notes plus any accrued and unpaid interest to but not including the redemption date if the closing price of the common stock has exceeded 130% of the exchange price for at least 20 trading days in any consecutive 30-day trading period. |
| Repurchase of the Notes at Option of Holders on Specified Dates | Holders may require the Partnership to repurchase all or a portion of their Notes for cash (in principal amounts of $1,000 and integral multiples thereof) on August 15, 2010, August 15, 2015, and August 15, 2020 at a purchase price equal to 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, if any, to the purchase date. |
| Repurchase of the Notes at Option of Holders upon a Fundamental Change | If a fundamental change, as defined in this prospectus, occurs at any time prior to maturity, holders of Notes may require the Partnership to repurchase their Notes in whole or in part for cash (in principal amounts of $1,000 and integral multiples thereof) in an amount equal to 100% of the principal amount of the Notes to be repurchased plus unpaid interest, if any, accrued to the repurchase date. |
| Ranking | The Notes:<br>• will be senior unsecured obligations ranking equally in right of payment with the Partnership s other unsecured senior indebtedness;<br>• will be effectively junior in right of payment to any of the Partnership s existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and<br>• will be effectively junior in right of payment to any existing and future indebtedness and other liabilities or preferred stock of the Partnership s subsidiaries, including trade payables.<br>As of December 31, 2005, the Partnership had outstanding $122.4 million of senior unsecured indebtedness, including the Notes, and $1,025.6 million of secured indebtedness and the Partnership s consolidated subsidiaries had outstanding an aggregate of $99.5 million of other liabilities.<br>The terms of the indenture under which the Notes are issued do not limit our or any of our affiliates or subsidiaries ability to incur additional indebtedness, including secured indebtedness, or issue preferred equity. |

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| Use of Proceeds | We will not receive any proceeds from the sale of the securities offered by this prospectus. |
| Registration Rights | Pursuant to a registration rights agreement, we have filed, at our expense, with the SEC a shelf registration statement on Forms S-11 and S-3 covering resales by holders of the Notes and the ARC common stock issuable upon exchange of the Notes. Under the terms of the registration rights agreement, we have agreed to use our reasonable best efforts to:<br>• cause the registration statement to become effective as promptly as practicable, but in no event later than 180 days after the earliest date of original issuance of any of the Notes; and<br>• keep the registration statement effective until the holders of the Notes and the ARC common stock issuable upon exchange of the Notes are able to sell all such securities immediately without restriction pursuant to the volume limitations of Rule 144(k) under the Securities Act or any successor rule or otherwise.<br>We are currently paying liquidated damages, subject to certain limitations, to the holders of the Notes as the result of our failure to comply with our obligations to registration statement with respect to the Notes and the ARC common stock issuable upon exchange of the Notes to become effective within the specified time period. See Description of Notes Registration Rights. |
| Transfer Restrictions | Our registration of the resale by the holders of the Notes and the ARC common stock issuable upon exchange of the Notes may not be available to all holders at all times. See Plan of Distribution. |
| Form and Denomination | The Notes will be issued only in fully registered, book-entry form, in minimum denominations of $1,000 and any integral multiple of $1,000, except under limited circumstances described in Description of Notes Book-Entry System. |
| Trading | The Notes issued in the original private offerings are eligible for trading on Nasdaq s screen-based automated trading system known as PORTAL, Private Offerings, Resale and Trading through Automated Linkages. However, Notes sold using this prospectus will no longer be eligible for trading in the PORTAL Market. We do not intend to apply for listing of the Notes on any securities exchange or for quotation of the Notes through any automated quotation system. |
| New York Stock Exchange Symbol for ARC Common Stock | ARC s common stock is traded on the New York Stock Exchange under the symbol ARC. |

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| Tax | The Notes and the ARC common stock issuable upon exchange of the Notes will be subject to special and complex United States Federal income tax rules. Prospective purchasers are strongly urged to consult their own tax advisors with respect to the federal, state, local and foreign tax consequences of purchasing, owning and disposing of the Notes and shares of ARC common stock. See Certain U.S. Federal Income and Estate Tax Considerations in this prospectus. |
| Risk Factors | See Risk Factors and other information included or incorporated by reference in this prospectus for a discussion of the factors you should carefully consider before deciding to purchase Notes or ARC common stock issuable upon exchange of the Notes. There could be other factors to consider in addition to those disclosed, some of which may be unique to a prospective purchaser. |

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**RISK FACTORS**

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

**Risks Related to Our Properties and Operations**

***Adverse economic or other conditions in the markets in which we do business, including our five largest markets of Dal***las/Fort Worth, Texas; Atlanta, Georgia; Salt Lake City, Utah; the Front Range of Colorado; and Kansas City Lawrence Topeka, Kansas/Missouri could negatively affect our occupancy and results of operations.

Our operating results are dependent in part upon our ability to maintain and improve occupancy in our communities. Adverse economic or other conditions in the markets in which we do business, and specifically in metropolitan areas of those markets, may negatively affect our occupancy and rental rates, which in turn, may negatively affect our revenues. If our communities and our financing activities do not generate sufficient funds to meet our cash requirements, including operating and other expenses and capital expenditures, our net income, funds from operations, cash flow, financial condition, ability to service our indebtedness, including the Notes, and ability to make distributions could be adversely affected, any of which could adversely affect the trading price of the Notes and ARC s common stock. The following factors, among others, may adversely affect the occupancy of our communities and/or the revenues generated by our communities:

- competition from other available manufactured housing sites or available land for the placement of manufactured homes outside of established communities and alternative forms of housing (such as apartment buildings and site built single-family homes);
- local real estate market conditions such as the oversupply of manufactured housing sites or a reduction in demand for manufactured housing sites in an area;
- the residential rental market, which may limit the extent to which our rents, whether for homes or homesites, may be increased to meet increased expenses without decreasing our occupancy rates;
- perceptions by prospective tenants of the safety, convenience and attractiveness of our communities and the neighborhoods where they are located;
- our residents performance in accordance with the terms of their contractual obligations;
- economic factors in each of these markets, such as loss of a major employer, increases in property tax rates or other similar factors;
- our ability to provide adequate management, maintenance or insurance; or
- increased operating costs, including insurance premiums, real estate taxes and utilities, or increased costs due to changes in zoning or ordinance requirements or enforcement of the same.

Our communities located in Dallas/Fort Worth, Texas; Atlanta, Georgia; Salt Lake City, Utah; the Front Range of Colorado; and Kansas City Lawrence Topeka, Kansas/Missouri contain approximately 12.4%, 8.6%, 6.6%, 5.7% and 4.2%, respectively, of our total homesites as of December 31, 2005.

As a result of the geographic concentration of our communities in these markets, we are particularly exposed to the risks of downturns in these local economies as well as to other local real estate market

conditions or other conditions that could adversely affect our occupancy rates, rental rates, costs of operation and the values of communities in these markets.

Our results of operations also would be adversely affected if our tenants are unable to pay rent or if our homesites or our rental homes are unable to be rented on favorable terms. If we are unable to promptly relet our homesites and rental homes or renew our leases for a significant number of our homesites and rental homes, or if the rental rates upon such renewal or reletting are significantly lower than expected rates, then our business and results of operations would be adversely affected. In addition, certain expenditures associated with each community (such as real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in income from such community and could increase without a corresponding increase in rental or other income. Furthermore, real estate investments are relatively illiquid and, therefore, will tend to limit our ability to vary our portfolio promptly in response to changes in economic or market conditions.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increase in defaults under existing leases, which would adversely affect our net income, funds from operations, cash flow, financial condition, ability to service our indebtedness, including the Notes, and ability to make distributions, any of which could adversely affect the trading price of the Notes and ARC s common stock.

***We may not be able to maintain and improve our occupancy by continuing or expanding our home rental program and our home lease with option to purchase program, which could negatively affect our revenue and our results of operations.***

We have responded to the challenging operating environment for manufactured home communities by developing and implementing a range of programs and initiatives aimed at maintaining and improving our occupancy, including our home rental program and our home lease with option to purchase program. Our ability to maintain and increase occupancy and to improve our operating margins in our existing communities in the future will depend to a certain degree upon the success of these programs.

In conjunction with our home rental program, we acquire manufactured homes, place them on unoccupied homesites in selected communities in our portfolio and lease them, typically for a one-year lease term. We also acquire repossessed homes in our communities through an offer and bid process with third party finance companies. For the year ended December 31, 2005, rental income received from residents of our rental homes totaled $48.5 million. Our overall occupancy at December 31, 2005, excluding communities held for sale, was 83.9% with homeowners occupying 70.9% of our total homesites and tenants in our rental homes occupying approximately 13.0% of our total homesites. If we are unable to maintain and improve occupancy in our communities by continuing or expanding our lease with option to purchase program and our home rental program, our operating results may be negatively affected. Our ownership of rental homes also increases our capital requirements and our operating expenses and subjects us to greater exposure to risks such as re-leasing risks and mold related claims. In addition, any increased sales and leasing activities increase our exposure to these matters as well as to legal and regulatory compliance costs and risks and to litigation and claims arising out of our sales and leasing activities.

Our home lease with option to purchase program is a program that differs significantly from programs offered by some of our competitors, and we are not aware of any home lease with option to purchase program structured similarly to ours. Accordingly, while we believe our program has been structured and is being implemented in compliance with applicable legal and regulatory requirements in all material respects, we have no significant experience operating this program, and neither the structure and terms of the program nor our management and implementation of the program have been subject to review by any court or regulatory agency or authority in any suit or proceeding. We cannot assure you, if any such review were to occur, that the structure and terms of the program and our management and implementation of the program will be found to be in compliance with all such applicable legal and regulatory requirements. Any determination by a court or other agency or authority of competent jurisdiction finding a violation of any applicable legal or regulatory requirements, or the threat of such a determination, could subject us to material costs, fines, penalties, judgments or other payments, or could cause us to have significant issues with respect to the continuation of the program, which could have an adverse effect on our financial condition and results of operations, and also could result in significant changes to the structure and terms of the program, which could increase the costs to us of continuing the program or otherwise adversely affect our ability to continue to maintain the program, which could have an adverse effect on our ability to increase occupancy and improve our results of operations.

***We may not be able to maintain and improve our occupancy through our in-community home sales and financing initiatives, which could adversely affect our revenues and our results of operations.***

We have responded to the challenging operating environment for manufactured home communities by developing and implementing a range of programs and initiatives aimed at increasing and maintaining our occupancy, including our in-community home sales and financing initiative. Our ability to maintain or increase occupancy and to maintain or improve our operating margins in our existing communities and retail operations in the future will depend to some degree upon the success of this initiative. Through our in-community home sales and financing initiative, we have expanded our capability both to acquire for sale manufactured home inventory and sell these homes to customers in our communities at competitive prices and to finance sales of these homes to customers in our communities. We have obtained a multiyear debt facility pursuant to which we will be able to fund up to $125.0 million to support loan originations in connection with the sale of homes in our communities. If we are not able to maintain this debt facility, we do not expect to be able to fully fund this initiative, which could significantly impair our ability to maintain or increase our occupancy in our communities, maintain or improve operating margins in our retail operations and to achieve growth in our revenue and overall operating margins. Additionally, if we do not have sufficient overall capital available to purchase additional homes in the future, we may not be able to implement or fully implement these programs or initiatives, which could significantly impair our ability to maintain or increase our occupancy in our communities, maintain or improve operating margins in our retail operations and to achieve growth in our revenues and overall operating margins.

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

Although some members of our management group have experience in the consumer finance business, we have limited operating history in the consumer finance business, and we cannot assure you that we will be able to successfully expand this initiative and manage this business. Loans produced by our in-community home sales and financing initiative may have higher default rates than we anticipate, and demand for consumer financing may not be as great as we anticipate or may decline.

Our in-community home sales and financing initiative operates in a regulated industry with significant licensing and consumer protection laws, and the regulatory framework may change in a manner that may adversely affect our operating results. The regulatory environment and associated consumer finance laws create a risk of greater liability from our in-community home sales and financing initiative and could subject us to private claims and awards. This initiative is dependent on licenses granted by state, federal and local regulatory bodies, which may be withdrawn or which may not be renewed and which could have an adverse impact on our ability to achieve our operating objectives. We have obtained many, and are in the process of obtaining all of the remaining state and local licenses and permits necessary for us to implement this initiative in all of the markets in which we operate.

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

Pursuant to the acquisition agreement with Hometown, we have assumed all liabilities and obligations of Hometown with respect to the Hometown communities and the other acquired assets, whether known or unknown, absolute or contingent, and whether arising before or after the date we acquired the Hometown communities, subject to limited exceptions. In addition, Hometown is not required to indemnify us for any inaccuracy in or breach of any of its representations or warranties in the agreement. As a result of these provisions, we are responsible for liabilities and obligations with respect to the Hometown communities and the other acquired assets for which we have no recourse to Hometown or anyone else, and we may incur unanticipated costs in connection with the completion of the Hometown acquisition and the integration of the Hometown communities, in excess of our expected costs. We may also have disagreements with Hometown regarding the scope of each party s rights and obligations under the acquisition agreement, which could lead to ongoing disputes with Hometown.

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

The manufactured housing industry continues to face a challenging operating environment that has resulted in losses, exits from the industry and significant curtailment of activity among manufacturers, retailers and consumer finance companies. When compared to the manufacturing, retail home sales and consumer finance sectors of the manufactured housing industry, the manufactured home community sector has been relatively less affected than these other sectors but is also facing challenging conditions, including an increase in the number of repossessed and abandoned homes, a shortage of consumer financing to support new manufactured home sales and move-ins and resale of existing homes in manufactured home communities, and historically low mortgage interest rates and favorable credit terms for traditional entry-level, site-built housing, all of which has put downward pressure on occupancy levels in our manufactured home communities and may continue to do so. We expect industry conditions will remain difficult for the foreseeable future, based partly on overall economic conditions throughout the United States and a continued shortage of consumer financing for manufactured home buyers.

***We have reported historical accounting losses on a consolidated basis since our inception, and we may continue to report accounting losses in the future.***

We had net losses attributable to ARC s common stockholders of $194.8 million, $94.7 million and $34.4 million for the years ended December 31, 2005, 2004 and 2003, respectively. We had net losses attributable to the Partnership s common partnership unitholders of $203.9 million, $101.3 million and $39.9 million for the years ended December 31, 2005, 2004 and 2003, respectively. There can be no assurance that we will not continue to incur net losses in the future, which could adversely affect our ability to service our indebtedness, including the Notes, and our ability to pay dividends or make distributions, any of which could adversely affect the trading price of the Notes and ARC s common stock.

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

Our ability to expand through acquisitions has historically been a significant part of our business expansion strategy and requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our strategy. We may not continue to seek acquisitions, be successful in identifying suitable real estate properties or other assets that meet our acquisition criteria, or be successful in consummating acquisitions or investments on satisfactory terms. If we do not continue to identify or consummate acquisitions it could reduce the number of acquisitions we complete and slow our growth, which could in turn adversely affect our ability to service our indebtedness, including the Notes, and ability to make distributions, any of which could adversely affect the trading price of the Notes and ARC s common stock.

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

- we may not have sufficient capital available to seek additional acquisitions;
- we may be unable to acquire a desired property because of competition from local investors and other real estate investors with significant capital, including other publicly traded companies and institutional investment funds;
- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price which could reduce our profitability;
- even if we enter into agreements for the acquisition of manufactured home communities, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction, which conditions, if not met, might result in our decision not to close;
- we may be unable to finance the acquisition at all or on favorable terms;
- we may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired properties;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and consequently our results of operations and financial condition could be adversely affected;
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and
- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for cleanup of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

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

All of our properties are located in markets that include other manufactured home communities. The number of competing manufactured home communities in a particular market could have a material effect on our ability to lease our homes and/or homesites and to maintain or raise rents. Other forms of

multi-family residential properties and single-family housing, including rental properties, represent competitive alternatives to our communities. The availability of a number of other housing options, such as apartment units and new or existing site-built housing stock, the comparative pricing of the same, as well as more favorable financing alternatives for the same, could have an adverse effect on our occupancy and rents, which could adversely affect our cash flow and financial condition, ability to service our indebtedness, including the Notes, and ability to make distributions, any of which could adversely affect the trading price of the Notes and ARC s common stock.

***Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow.***

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

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

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

***Environmental compliance costs and liabilities associated with operating our communities may affect our results of operations.***

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

In connection with the ownership (direct or indirect), operation, management and development of real properties, we may be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, potentially liable for removal or remediation costs, as well as certain other related costs, including governmental fines and injuries to persons and property. All but one of our properties has 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 we believe would have a material adverse effect on our business or results of operations. No assurances can be given that existing environmental studies with respect to any of our properties reveal all environmental liabilities, that any prior owner or operator of our properties did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any one or more of our properties. Furthermore, material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future; actions or conduct by our residents or their guests or invitees may cause violations of existing environmental laws, and future laws, ordinances or regulations may impose material additional environmental liability, which would adversely affect our financial condition, results of operations, ability to service our indebtedness, including the Notes, and ability to make distributions, any of which could adversely affect the trading price of the Notes and ARC s common stock.

In addition, to the extent we maintain and operate a water delivery system in any community, we are subject to Federal regulations and state statutes regarding operation of said system.

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

Costs resulting from changes in real estate tax laws generally are not passed through to tenants directly and will affect us. Increases in income, service or other taxes generally are not passed through to tenants under leases and may adversely affect any net income, funds from operations, cash flow, financial condition, results of operations and ability to service our indebtedness, including the Notes, and ability to make distributions, any of which could adversely affect the trading price of the Notes and ARC s common stock.

***Rent control or rent stabilization legislation and other regulatory restrictions may limit our ability to increase rents or dispose of our properties.***

Certain states and municipalities have adopted laws and regulations specifically regulating the ownership and operation of manufactured home communities. These laws and regulations include provisions imposing restrictions on the timing or amount of rent increases and granting to community residents a right of first refusal on a sale of their community by the owner to a third party. Enactments of similar laws and regulations have been or may be considered from time to time in other jurisdictions. We currently own 6,286 homesites (excluding discontinued operations) in Florida, a state that maintains rent control regulations. These communities represent 10.9% of our total homesites. We presently expect to continue to operate manufactured home communities, and may in the future acquire manufactured home communities, in areas that either are subject to one or more of these types of laws or regulations or where legislation with respect to such laws or regulations may be enacted in the future. Laws and regulations regulating landlord/tenant relationships or otherwise relating to the ownership and operation of manufactured home communities, whether currently existing or enacted in the future, could limit our ability to increase rents or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances.

***Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses.***

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

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

The properties in our portfolio are subject to various Federal, state and local regulatory requirements, such as state and local fire, life-safety and utility compliance requirements requirements. If we fail to comply with these various requirements, we might incur governmental fines or private damage awards. We believe that the properties in our portfolio are currently in material compliance with all applicable regulatory requirements. Requirements may change, and future requirements may require us to make significant unanticipated expenditures that could adversely affect our net income, funds from operations, cash flow and financial condition, ability to service our indebtedness, including the Notes, and ability to make distributions, any of which could adversely affect the trading price of the Notes and ARC s common stock.

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

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

**Risks Related to Our Other Debt Financings**

***We are subject to the risks normally associated with debt financing, including the risk that payments of principal and interest on borrowings may leave us with insufficient cash to operate our communities or to pay distributions.***

As of December 31, 2005, we had approximately $1,153.0 million of outstanding indebtedness, consisting of $1,025.6 million of secured debt, as well as the $96.6 million of the Notes, $25.8 million in trust preferred securities and $5.0 million notes payable to D.A.M. which were each unsecured. We expect to incur additional indebtedness in the future to the extent necessary to fund our future cash needs and make additional borrowings under our revolving credit facility or additional borrowings pursuant to other available financing sources. Additionally, we do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity and, therefore, we expect to repay our indebtedness through refinancings and equity offerings.

Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

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

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

Our organizational documents contain no limitations on the amount of indebtedness that we may incur. Although we intend to maintain a balance between our total outstanding indebtedness and the value of our portfolio, we could alter this balance at any time. If we become more highly leveraged, then the resulting increase in debt service could adversely affect our ability to make payments on our outstanding indebtedness, including the Notes. As of December 31, 2005, the Partnership s debt to partners capital ratio is 2.4 to 1.

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

As of December 31, 2005, approximately 28% of our debt was subject to variable interest rates. An increase in interest rates could increase our interest expense, which would adversely affect our cash flow, our ability to service our indebtedness, including the Notes, and our ability to make distributions, any of which could adversely affect the trading price of the Notes and ARC s common stock. As of December 31, 2005, we had a total of $325.6 million of variable rate debt bearing a weighted average interest rate of approximately 7.67% per annum. On February 26, 2004 we entered into a two-year interest rate swap agreement pursuant to which we effectively fixed the base rate portion of the interest rate with respect to the $100 million of our variable rate debt. As a result of this swap, as of December 31, 2005, approximately 20% of our total indebtedness was subject to variable interest rates for a minimum of two years. The swap agreement matured on March 1, 2006, and we do not intend to renew the agreement.

***Failure to hedge effectively against interest rate changes may adversely affect our results of operations.***

We seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements that involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, and that these arrangements may not be effective in reducing our exposure to interest rate changes. Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations, ability to service our indebtedness, including the Notes, and ability to make distributions, any of which could adversely affect the trading price of the Notes and ARC s common stock.

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

We have historically relied on third party sources to fund our capital needs. We may not be able to obtain such financing on favorable terms or at all. Any additional indebtedness we incur may increase our leverage. Our access to third-party sources of capital depends, in part, on:

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

If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist or service our indebtedness, including the Notes.

**Risks Related to Organizational and Corporate Structure**

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

**Our success is dependent on the efforts of our executive officers and senior management team. The loss of the services of this key personnel could materially and adversely affect our operations. See Summary Recent Developments regarding recent changes in ARC management.**

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

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

***Conflicts of interest could arise as a result of the Partnership s relationship with ARC.***

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

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

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

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

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

We own or invest in businesses that currently or may in the future engage in more diverse and riskier ventures, such as the sale of manufactured homes, and financing of manufactured home sales on a broader scale (rather than only to customers in our communities), inventory financing, sales of home improvement products, brokerage of manufactured homes, acting as agent for sales of insurance and related products, third-party property management and other non-real estate business ventures that ARC s management and board of directors determine, using reasonable business judgment, will benefit us.

This strategy could expose the holders of our securities to more risk than a business strategy in which our operations are limited to real estate business ventures, because we may not have the same experience in non-real estate business ventures that we do in the ownership and operation of manufactured home communities and the related businesses we conduct.

***Certain provisions of Maryland law and ARC s organizational documents may inhibit market activity in ARC common stock and could prevent or delay a change in control transaction.***

ARC s charter and bylaws, the Partnership s partnership agreement and Maryland law contain provisions that may delay, defer or prevent a change of control or other transaction that might involve a premium price for ARC common stock or otherwise be in the best interest of its stockholders, including supermajority vote and cause requirements for removal of directors and advance notice requirements for director nominations and stockholder proposals.

ARC s board of directors has the power to issue additional shares of stock in a manner that may not be in your best interests. ARC s charter authorizes the board of directors to amend the charter without stockholder approval to increase the total number of authorized shares of stock or the number of shares of stock of any class or series and issue additional common stock, preferred stock or special voting stock. In addition, ARC s board of directors may classify or reclassify any unissued shares of common stock or preferred stock and may set the preferences, rights and other terms of the classified or reclassified shares. Although the board of directors has no intention to do so at the present time, it could issue additional shares of our special voting stock or establish a series of preferred stock that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for ARC common stock or otherwise be in the best interest of its stockholders.

***Our rights and the rights of ARC s stockholders to take action against its directors and officers are limited.***

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, ARC s charter eliminates its directors and officers liability to ARC and its stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. ARC s bylaws require it to indemnify its directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, ARC and its stockholders may have more limited rights against its directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by ARC s directors and officers.

**Risks Related to Ownership of the Notes**

***The Notes are effectively subordinated to the Partnership s existing and future secured indebtedness.***

The Notes are general obligations of the Partnership. Accordingly, holders of the Partnership s secured indebtedness will have claims that are superior to the claims of holders of the Notes to the extent of the value of the assets securing that other indebtedness. As of December 31, 2005, the Partnership had approximately $1,153.0 million of outstanding indebtedness, consisting of $1,025.6 million secured indebtedness, as well as the $96.6 million of the Notes which are the subject of this prospectus, $25.8 million in trust preferred securities and $5.0 million of Notes payable to D.A.M. which were each unsecured. In the event of a bankruptcy, liquidation or dissolution, the assets which serve as collateral for any secured indebtedness will be available to satisfy the obligations under the secured indebtedness before any payments are made on the Notes. The terms of the indenture governing the Notes do not prohibit the Partnership from incurring future indebtedness.

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

The Notes are not guaranteed by the Partnership s subsidiaries and therefore the Notes will be effectively subordinated to all indebtedness and other liabilities of its subsidiaries. In the event of a bankruptcy, liquidation or dissolution of a subsidiary, following payment by the subsidiary of its liabilities, the subsidiary may not have sufficient assets to make payments to the Partnership. As of December 31, 2005, the Partnership s subsidiaries had an aggregate of $1,127.2 million of existing indebtedness. The terms of the indenture governing the Notes do not prohibit the Partnership s subsidiaries from incurring future indebtedness.

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

The indenture governing the Notes does not contain any financial or operating covenants or restrictions on the payment of distributions, the incurrence of indebtedness, transactions with affiliates, incurrence of liens or the issuance or repurchase of securities by the Partnership or any of its subsidiaries. The Partnership therefore may incur additional indebtedness, including secured indebtedness that would be effectively senior to the Notes to the extent of the value of the assets securing such indebtedness, or indebtedness at the subsidiary level to which the Notes would be structurally subordinated. The Partnership cannot assure you that it will be able to generate sufficient cash flow to pay the interest on its indebtedness, including the Notes, or that future working capital, borrowings or equity financing will be available to pay or refinance any such indebtedness.

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

If you exchange your Notes in connection with a specified fundamental change that occurs prior to August 20, 2015 we may be required to issue you additional shares of ARC common stock as a make whole premium (subject to our ability to elect to pay cash or a combination of cash and shares of ARC common stock in lieu of delivering shares of ARC common stock). The make whole payment is described under Description of Notes Exchange Rights Determination of Make Whole Premium. While the make whole premium is designed to compensate you for the lost option time value of your Notes as a result of a specified fundamental change, the make whole amount is only an approximation of such lost value and may not adequately compensate you for such loss. In addition, if a specified fundamental change occurs after August 20, 2015, there will be no such make whole premium.

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

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

***If you hold Notes, you are not entitled to any rights with respect to the ARC common stock, but you are subject to all changes made with respect to ARC common stock.***

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

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

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

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

The exchange rate of the Notes is subject to adjustment for certain events including, but not limited to, the issuance of stock dividends on ARC s common stock, the issuance of rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness or assets, cash dividends and certain tender or exchange offers as described under Description of Notes Exchange Rights Exchange Rate Adjustments. The exchange rate will not be adjusted for other events, such as an issuance of ARC common stock for cash or in connection with an acquisition, that may adversely affect the trading price of the Notes or ARC common stock. There can be no assurance that an event that adversely affects the value of the Notes, but does not result in an adjustment to the exchange rate, will not occur.

***You should consider the U.S. Federal income tax consequences of owning the Notes.***

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

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

The Notes constitute a new issue of securities for which there is no established trading market. The Notes currently trade on the PORTAL Market. However, the Notes sold under this prospectus will no longer be eligible for trading on the PORTAL Market. We do not intend to list the Notes on any national or other securities exchange, or on the Nasdaq National Market. As a result, an active trading market for the Notes may not develop. If an active trading market does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. In that case, you may not be able to sell your Notes at a particular time or you may not be able to sell your Notes at a favorable price. Future trading prices of the Notes will depend on many factors, including:

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

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

***We expect that the trading price of the Notes will be significantly affected by the trading price of ARC common stock.***

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

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

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

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

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

We have not in the past and do not intend to provide estimates of our future financial performance to the investor markets. Certain analysts, however, provide their own estimates of our future financial performance based on their review of our public financial information. In the past, our actual results have been below the expectations of such analysts. In the event our results continue to be less than analyst estimates, the trading price of ARC common stock could be adversely affected, which could, in turn, adversely affect the trading price of the Notes.

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

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

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

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

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

For the years ended December 31, 2004, and 2005, ARC s annual cash distribution to its common stockholders and quarterly distributions to its preferred stockholders and the Partnership s distributions to its limited partners have exceeded our operating cash flows. We funded these distributions from a combination of operating cash flows, cash generated from senior fixed and variable rate mortgage debt incurred in connection with the completion of ARC s IPO in February 2004, other borrowings, and sales of assets. On September 21, 2005, the board of directors of ARC announced that it had eliminated the quarterly dividends and distributions on ARC common stock and the Partnership s common partnership units for the quarter ending September 30, 2005 and no such dividends or distributions were declared for the quarters ending December 31, 2005 or March 31, 2006. ARC s board of directors will review its dividend policy on a quarter by quarter basis going forward.

Unless operating cash flows increase substantially, we may be required to (1) continue to eliminate cash distributions or (2) fund future cash distributions to ARC s stockholders or the Partnership s limited partners from other borrowings, sales of some of our properties, and/or other available financing sources. If we use working capital or proceeds from such other borrowings, sales of some of ARC s properties, or other available financing sources to fund these distributions, this will reduce the availability of these funds for other purposes, including repurchase of the Notes and the purchase of homes necessary to implement our programs for increasing occupancy. This could adversely affect our financial condition and results of operations and ability to expand our business and further fund our operating and growth initiatives, any of which could adversely affect the market price of the Notes and ARC common stock.

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

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

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

The market price of ARC common stock has been and may continue to be volatile. For example, the market price of ARC common stock on the New York Stock Exchange has fluctuated for the period from April 14, 2005 to April 13, 2006 between $8.20 per share and $13.70 per share, respectively, and may continue to fluctuate. Therefore, the volatility may affect your ability to sell ARC common stock at an advantageous price. In addition, this may result in greater volatility in the market price, if any, of the Notes than would be expected for non-exchangeable debt securities. Market price fluctuations in ARC common stock may be due to acquisitions, dispositions or other material public announcements, including those regarding dividends or changes in management, along with a variety of additional factors including, without limitation, other risks identified in Risk Factors and Special Note Regarding Forward-looking Statements. In addition, the stock markets in general, including the New York Stock Exchange, recently have experienced extreme price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often have been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market price of ARC common stock, and the market price of the Notes.

**USE OF PROCEEDS**

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

**RATIO OF EARNINGS TO FIXED CHARGES**

The following financial ratios measure our ability to repay interest from our earnings. Earnings were computed by adding fixed charges (adjusted for capitalized interest) to net loss from continuing operations. Fixed charges consist of interest costs (adjusted for capitalized interest) and amortization of debt issuance costs (in thousands).

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| **Earnings:** | | | | | |
| Net loss from continuing operations | $ (181,525) | $ (86,160) | $ (44,186) | $ (48,700) | $ (13,505) |
| Add: | | | | | |
| Fixed charges. | 79,186 | 66,116 | 62,045 | 44,035 | 15,181 |
| Less capitalized interest | (406) | (2,304) | | | |
| Add amortization of capitalized interest | 256 | 87 | | | |
| Net loss from continuing operations plus fixed charges adjusted for capitalized interest | (102,489) | (22,261) | 17,859 | (4,665) | 1,676 |
| **Fixed charges:** | | | | | |
| Interest expense(2) | 78,661 | 63,686 | 61,473 | 43,887 | 14,973 |
| Capitalized interest | 406 | 2,304 | | | |
| Interest factor included in rental expense(1) | 119 | 126 | 572 | 148 | 208 |
| Total fixed charges. | 79,186 | 66,116 | 62,045 | 44,035 | 15,181 |
| Deficiency in achieving a 1:1 coverage ratio | $ 181,675 | $ 88,377 | $ 44,186 | $ 48,700 | $ 13,505 |

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

(2) Includes interest expense in discontinued operations and finance segment interest expense.

**PRICE RANGE OF ARC COMMON STOCK**

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

| | High | Low |
|---|---|---|
| **2004** | | |
| First quarter | $ 19.00 | $ 18.10 |
| Second quarter | $ 18.92 | $ 14.33 |
| Third quarter | $ 17.01 | $ 14.10 |
| Fourth quarter | $ 15.12 | $ 12.26 |
| **2005** | | |
| First quarter | $ 14.34 | $ 11.77 |
| Second quarter | $ 13.66 | $ 11.90 |
| Third quarter | $ 13.70 | $ 9.63 |
| Fourth quarter | $ 10.29 | $ 8.20 |
| **2006** | | |
| First quarter | $ 10.78 | $ 8.83 |
| Second quarter (through April 13, 2006) | $ 10.60 | $ 9.26 |

On April 13, 2006, the last reported closing sale price of ARC common stock on the New York Stock Exchange was $9.44 per share.

**CAPITALIZATION**

The following table sets forth the capitalization of the Partnership as of December 31, 2005 (in thousands):

| | |
|---|---|
| Cash | $ 27,926 |
| **Long-term debt:** | |
| Senior fixed rate mortgage due 2009 | $ 89,512 |
| Senior fixed rate mortgage due 2012 | 288,622 |
| Senior fixed rate mortgage due 2014 | 196,270 |
| Senior variable rate mortgage due 2007(1) | 130,595 |
| Various individual fixed rate mortgages due 2006 through 2031 | 150,104 |
| Revolving credit mortgage facility due 2006 | 58,764 |
| Trust preferred securities due 2035 (due to ARC) | 25,780 |
| Senior exchangeable notes due 2025 | 96,600 |
| Consumer finance facility due 2008 | 18,607 |
| Lease receivables facility due 2008 | 77,500 |
| Floorplan line of credit due 2007 | 14,368 |
| D.A.M. PPU notes payable due 2006 | 4,999 |
| Other loans | 1,277 |
| Total debt | 1,152,998 |
| **Capital:** | |
| Partners capital | |
| Preferred partnership units | 136,750 |
| Common partnership units: | |
| General partner | 325,215 |
| Limited partners | 14,264 |
| Total partners capital | 476,229 |
| Total capitalization | $ 1,629,227 |

(1) The senior variable rate mortgage due 2007 may be extended for two additional 12-month periods at our option, and subject to certain conditions.

**AFFORDABLE RESIDENTIAL COMMUNITIES LP**

**SELECTED CONSOLIDATED FINANCIAL DATA**

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

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

Our consolidated balance sheet data as of December 31, 2005 and 2004 and our consolidated statement of operations data for the years ended December 31, 2005, 2004, and 2003 have been derived from our audited historical financial statements included elsewhere in this prospectus.

**Selected Consolidated Financial Data**

**(in thousands, except per unit data)**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004(1) | 2003 | 2002(3) | 2001 |
| Revenue | | | | | |
| Rental income. | $ 192,472 | $ 172,375 | $ 116,997 | $ 85,478 | $ 30,191 |
| Sales of manufactured homes | 39,671 | 14,280 | 21,965 | 31,942 | |
| Utility and other income. | 22,370 | 17,795 | 14,186 | 10,941 | 1,938 |
| Total revenue | 254,513 | 204,450 | 153,148 | 128,361 | 32,129 |
| Expenses | | | | | |
| Property operations | 76,447 | 68,324 | 40,624 | 30,699 | 8,848 |
| Real estate taxes | 16,506 | 15,241 | 9,529 | 6,107 | 1,905 |
| Cost of manufactured homes sold. | 39,973 | 17,351 | 18,623 | 25,826 | |
| Retail home sales, finance and insurance. | 15,516 | 8,187 | 7,208 | 8,582 | |
| Property management | 9,781 | 7,127 | 5,527 | 4,105 | 2,491 |
| General and administrative | 27,634 | 29,373 | 17,029 | 13,087 | 9,047 |
| Initial public offering related costs | | 4,417 | | | |
| Early termination of debt. | | 16,685 | | | |
| Depreciation and amortization | 78,154 | 61,311 | 39,945 | 34,603 | 13,102 |
| Real estate and retail home asset impairment | 21,822 | 3,358 | 1,385 | 13,557 | |
| Goodwill impairment. | 78,783 | 863 | | | |
| Net consumer finance interest expense | 525 | 1,319 | | | |
| Interest expense. | 73,164 | 58,665 | 58,898 | 41,885 | 13,112 |
| Total expenses. | 438,305 | 292,221 | 198,768 | 178,451 | 48,505 |
| Interest income | (2,267 ) | (1,611 ) | (1,434 ) | (1,390 ) | (2,871 ) |
| Loss from continuing operations | (181,525 ) | (86,160 ) | (44,186 ) | (48,700 ) | (13,505 ) |
| Income (loss) from discontinued operations | (10,059 ) | 3,162 | 950 | 1,631 | 375 |
| Gain (loss) on sale of discontinued operations. | (678 ) | (8,549 ) | 3,333 | | |
| Net loss | (192,262 ) | (91,547 ) | (39,903 ) | (47,069 ) | (13,130 ) |
| Preferred unit distributions | (11,672 ) | (9,752 ) | | | |
| Net loss attributable to common partnership unitholders | $ (203,934 ) | $ (101,299 ) | $ (39,903 ) | $ (47,069 ) | $ (13,130 ) |
| Net loss per common partnership unit from continuing operations. | $ (4.49 ) | $ (2.37 ) | $ (2.24 ) | $ (2.98 ) | $ (1.49 ) |
| Income (loss) per common partnership unit from discontinued operations | (0.25 ) | (0.14 ) | 0.21 | 0.10 | 0.04 |
| Net loss per common partnership unit. | $ (4.74 ) | $ (2.51 ) | $ (2.03 ) | $ (2.88 ) | $ (1.45 ) |
| Weighted average units outstanding | 43,059 | 40,413 | 19,699 | 16,353 | 9,062 |

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| | Year Ended December 31, 2005 | 2004(1) | 2003 | 2002(3) | 2001 |
|---|---|---|---|---|---|
| **Cash flow data:** | | | | | |
| Net cash provided by (used in): | | | | | |
| Operating activities | $ 7,035 | $ 27,412 | $ 10,592 | $ 14,267 | $ 6,626 |
| Investing activities | $ (112,948 ) | $ (595,851 ) | $ (41,066 ) | $ (167,564 ) | $ (102,762 ) |
| Financing activities. | $ 100,980 | $ 578,693 | $ 18,762 | $ 167,878 | $ 82,464 |
| **Cash distributions declared per unit:** | | | | | |
| Series A preferred unit distributions. | $ 2.06 | $ 1.97 | $ | $ | $ |
| Series B preferred unit distributions | $ 0.78 | $ 0.78 | $ | $ | $ |
| Series C preferred unit distributions | $ 1.56 | $ 0.78 | $ | $ | $ |
| Common unit dividends | $ 0.50 | $ 1.09 | $ | $ | $ |
| **Non-GAAP financial measure:** | | | | | |
| Funds from operations available to common partnership unitholders ("FFO")(2) | $ (122,911 ) | $ (24,818 ) | $ 1,495 | $ (13,202 ) | $ 2,216 |
| EBITDA, as adjusted(2) | $ 68,131 | $ 53,111 | $ 54,608 | $ 39,955 | $ 9,838 |

| Balance sheet data: | December 31, 2005 | 2004(1) | 2003 | 2002(3) | 2001 |
|---|---|---|---|---|---|
| Rental and other property, net | $ 1,463,091 | $ 1,416,136 | $ 800,201 | $ 792,343 | $ 293,202 |
| Cash and cash equivalents. | 27,926 | 32,859 | 22,605 | 34,317 | 21,374 |
| Loan reserves and restricted cash | 42,110 | 38,340 | 50,098 | 54,738 | 10,108 |
| Total assets. | 1,728,712 | 1,813,232 | 1,126,069 | 1,136,737 | 429,979 |
| Notes payable and preferred interest. | 1,152,998 | 953,381 | 741,805 | 704,831 | 211,336 |
| Total liabilities | 1,252,483 | 1,097,293 | 817,852 | 788,617 | 271,143 |
| Partners' capital. | 476,229 | 715,939 | 308,217 | 348,120 | 158,836 |

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

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

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

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

FFO and EBITDA, as adjusted, do not represent cash generated from operating activities in accordance with GAAP and are not necessarily indicative of cash available to fund cash needs, including the repayment of principal on indebtedness and payment of dividends and distributions. FFO and EBITDA, as adjusted, should not be considered as substitutes for net income (calculated in accordance with GAAP), as a measure of results of operations or cash flows from operations (calculated in

accordance with GAAP) as a measure of liquidity. FFO and EBITDA, as adjusted, as calculated by us may not be comparable to similarly titled, but differently calculated, measures of other REITs.

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

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| **Reconciliation of FFO:** | | | | | |
| Loss from continuing operations | $ (181,525 ) | $ (86,160 ) | $ (44,186 ) | $ (48,700 ) | $ (13,505 ) |
| Plus: | | | | | |
| Depreciation and amortization | 78,154 | 61,311 | 39,945 | 34,603 | 13,102 |
| Income (loss) from discontinued operations. | (10,059 ) | 3,162 | 950 | 1,631 | 375 |
| Depreciation and amortization from discontinued operations | 4,271 | 7,885 | 5,898 | 283 | 2,481 |
| Less: | | | | | |
| Depreciation expense on furniture, equipment and vehicles | (2,080 ) | (1,264 ) | (1,112 ) | (1,019 ) | (237 ) |
| FFO | $ (111,239 ) | $ (15,066 ) | $ 1,495 | $ (13,202 ) | $ 2,216 |
| Less: preferred unit distributions. | (11,672 ) | (9,752 ) | | | |
| FFO available to common partnership unitholders. | $ (122,911 ) | $ (24,818 ) | $ 1,495 | $ (13,202 ) | $ 2,216 |
| FFO includes the following charges: | | | | | |
| Goodwill impairment. | $ 78,783 | $ 863 | $ | $ | $ |
| Real estate and retail home asset impairment | 21,822 | 3,358 | 1,385 | 13,557 | |
| Impairment charges included in discontinued operations. | 10,254 | | | | |
| Executive severance charges | 2,870 | 1,197 | 337 | | |
| IPO executive unit grants compensation expense. | | 10,195 | | | |
| IPO related early termination of debt | | 16,685 | | | |
| Other IPO related costs | | 4,417 | | | |
| Total | $ 113,729 | $ 36,715 | $ 1,722 | $ 13,557 | $ |

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| **Reconciliation of EBITDA, as adjusted:** | | | | | |
| Net loss attributable to common partnership unitholders | $ (203,934 ) | $ (101,299 ) | $(39,903 ) | $(47,069 ) | $(13,130 ) |
| Plus: | | | | | |
| Preferred unit distributions | 11,672 | 9,752 | | | |
| Discontinued operations | 10,737 | 5,387 | (4,283 ) | (1,631 ) | (375 ) |
| Interest expense | 73,164 | 58,665 | 58,898 | 41,885 | 13,112 |
| Depreciation and amortization | 78,154 | 61,311 | 39,945 | 34,603 | 13,102 |
| Early termination of debt | | 16,685 | | | |
| Real estate and retail home asset impairment | 21,822 | 3,358 | 1,385 | 13,557 | |
| Goodwill impairment | 78,783 | 863 | | | |
| **Less:** | | | | | |
| Interest income | (2,267 ) | (1,611 ) | (1,434 ) | (1,390 ) | (2,871 ) |
| EBITDA, as adjusted | $ 68,131 | $ 53,111 | $ 54,608 | $ 39,955 | $ 9,838 |

**AFFORDABLE RESIDENTIAL COMMUNITIES LP**

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

The following discussion should be read in conjunction with the consolidated historical financial statements and Notes appearing elsewhere in this prospectus and the financial information in the tables below. Financial information contained in this discussion is not presented as of any date or for any period following December 31, 2005, unless otherwise indicated.

**General Structure**

Affordable Residential Communities LP is the operating partnership of ARC, a fully integrated, self-administered and self-managed Maryland corporation which acquires, renovates, repositions and operates primarily all-age manufactured home communities. The Partnership also conducts certain complementary business activities focused on maintaining and improving occupancy in our communities, including the rental of manufactured homes, the retail sale of manufactured homes, the financing of sales of manufactured homes and acting as agent in the sale of homeowners insurance and other related insurance products. ARC conducts substantially all of its activities through the Partnership, of which ARC is the sole general partner, holding a 95.7% ownership interest as of December 31, 2005.

Beginning in 1995, ARC s predecessor companies were formed under the name Affordable Residential Communities for the purpose of engaging in the business of acquiring, renovating, repositioning and operating manufactured home communities, as well as certain related businesses. ARC was formed in July 1998 as a Maryland corporation for the purpose of acting as the investment vehicle for and a co-general partner of the Partnership, the fourth real property partnership organized and operated by ARC s co-founders. In May 2002, ARC and the Partnership completed a reorganization in which the Partnership acquired substantially all of the other real property partnerships and other related businesses organized and operated by our co-founders.

ARC completed its initial public offering in the first quarter of 2004. ARC issued approximately 24.6 million shares of common stock at $19.00 per share (including, approximately 2.3 million shares sold by existing shareholders). In March 2004, ARC s underwriters exercised their over-allotment option to purchase 791,592 shares of common stock at $19.00 per share. Concurrent with the IPO, ARC raised $125.0 million of gross proceeds through the issuance of 5.0 million shares of Series A cumulative redeemable preferred stock. All proceeds were directly contributed to the Partnership.

**Revocation of ARC s REIT Election**

Commencing with its taxable year ending December 31, 1998, ARC elected to be taxed as a REIT pursuant to the Code. As a REIT, ARC was entitled to a deduction for the dividends that it paid and was therefore generally not subject to U.S. Federal corporate income tax on its taxable net income that it distributed to its stockholders. Under the Code, the proceeds from ARC s community sales would likely have been subject to a U.S. Federal income tax equal to 100% of the net income from such sales as prohibited transactions without offset for net operating losses or capital losses from other transactions. Since ARC has substantial net operating losses, the board of directors of ARC announced on March 7, 2006 that it had determined that it was in the best interest of ARC to revoke its election to be taxed as a REIT for U.S. Federal income tax purposes, as permitted pursuant to ARC s charter, beginning with its tax year ending December 31, 2006 so that such net income could be offset by ARC s net operating losses. As a result of the board s decision, ARC filed a statement with the IRS revoking its election to be taxed as a REIT on March 30, 2006 (which election is retroactively effective to January 1, 2006).

Effective with such revocation, ARC is taxed as a corporation for U.S. Federal income tax purposes and its net income is subject to taxation at regular (or alternative minimum) corporate rates without the benefit of a dividends paid deduction. As noted above, net operating loss carryforwards from prior years are expected to offset substantially ARC s taxable income, if any, for at least the next five years. ARC may, however, incur some alternative minimum tax liability since net operating loss carryforwards may only offset 90% of alternative minimum taxable income. This will result in some increased U.S. Federal income, state and local tax liability to ARC and, therefore, ARC s net earnings available for investment, debt service and distribution may be reduced. However, ARC does not expect any increase in the amount of its tax liability as a result of the revocation to be material. Under current law, ARC may re-elect REIT status for U.S. Federal income tax purposes beginning with its 2011 tax year. There can be no assurance, however, that the law will not change or that ARC will, if able, elect to be taxed as a REIT at such time. Under current law, in the event that ARC should choose to re-elect REIT status, ARC would have to distribute earnings and profits generated while it was a regular corporation and would be subject to a corporate tax at the highest corporate income tax rate then applicable on the net appreciation at the time of the conversion back to a REIT in its assets disposed of during the next 10 year period.

As a result of the revocation, ARC is no longer be subject to certain stockholder ownership tests imposed on a REIT. Thus, the limitations set forth in ARC s charter that were designed to ensure that ARC would be able to meet with this and other requirements no longer apply. These limitations provided that no individual could own more than 7.3% in value or number, whichever is more restrictive, of the outstanding shares of ARC s common stock or more than 7.3% in value of the outstanding shares of ARC s capital stock.

Further, ARC is no longer required to comply with the REIT income, asset and distribution requirements under the Code, including that ARC distribute annually at least 90% of its REIT taxable income. Thus, ARC will not be compelled to make dividend distributions to its stockholders and, therefore, holders of ARC common stock may receive less in dividend distributions from ARC than if ARC had maintained its REIT status. In addition holders of ARC common stock will no longer be able to receive dividends designated by ARC for taxation as capital gain dividends within the meaning of the Code.

Investments in ARC common stock will be taxed under the general rules applicable to investments in stock of corporations. Distributions in respect of ARC common stock will be taxed as dividends to the extent of ARC s current and accumulated earnings and profits. Distributions in excess of ARC s current or accumulated earnings and profits will be treated first as nontaxable return of capital reducing a holder s adjusted U.S. tax basis and thereafter as capital gains. However, certain restrictions applicable to the taxation of stockholders of REITs will no longer apply, including:

- Dividends paid by ARC will now be eligible for the preferential tax rates available to U.S. individual stockholders for certain qualified dividend income;

- Subject to certain limitations, dividends paid by ARC to corporate stockholders will be eligible for the dividends received deduction; and

- The special rules applicable to holders of ARC common stock that are U.S. tax-exempt entities will not apply, including rules regarding pension-held REITs.

Nevertheless, because of ARC s substantial investment in U.S. real property, non-U.S. holders may still be subject to taxation on the disposition of Notes or ARC common stock under FIRPTA in certain circumstances. For more information, see Certain U.S. Federal Income and Estate Tax Considerations Non-U.S. Holders Sale, Exchange or Redemption of the Notes and Certain U.S. Federal Income and Estate Tax Considerations Non-U.S. Holders Gain on Disposition of ARC Common Stock.

**Recent Developments**

***We had the following changes in executive management***

On September 22, 2005, we announced that Larry D. Willard, a member of our board of directors, had assumed the additional position of Chairman of the board of directors and Chief Executive Officer of ARC and that director James F. Kimsey had become President and Chief Operating Officer of ARC. On that date, Scott D. Jackson, our former Chairman and Chief Executive Officer, assumed the position of a Vice Chairman of ARC s board of directors. Messrs. Willard and Kimsey also resigned their positions on the Audit Committee, which caused ARC to fail to be in compliance with the requirements of the New York Stock Exchange ( NYSE ) with respect to the makeup of audit committees.

On November 4, 2005, John G. Sprengle, a Vice Chairman of our board of directors, entered into a separation and release agreement with ARC and resigned from ARC s board of directors effective as of that date. Under the agreement, Mr. Sprengle resigned his employment with ARC and its affiliates as of November 30, 2005. Pursuant to the agreement, Mr. Sprengle received a lump sum payment of $750,000, subject to standard withholding, on the separation date and is covered under our health benefit plan in accordance with COBRA for a period of eighteen months following his separation date. Pursuant to the agreement, Mr. Sprengle is also bound by certain non-competition and non-solicitation provisions for a two-year period.

On December 13, 2005, Scott D. Jackson, a Vice Chairman of our board of directors and our former Chairman and Chief Executive Officer, entered into a separation and release agreement with ARC and resigned from ARC s board of directors and as an employee of ARC and its subsidiaries as of that date. Pursuant to the agreement, Mr. Jackson received a lump sum payment of $2.0 million as of January 3, 2006, subject to standard withholding, and is covered under our health benefits plan in accordance with COBRA for a period of 18 months following his separation date. Pursuant to the agreement, Mr. Jackson is also bound by certain non-competition and non-solicitation provisions for a two year period.

***We had the following changes to our board of directors***

At the 2005 annual stockholders meeting held on June 30, 2005, W. Joris Brinkerhoff, Gerald J. Ford, James F. Kimsey, James R. Randy Staff and Carl B. Webb were elected as directors of ARC. Randall A. Hack, Charles Santos-Busch and James L. Clayton were not seeking re-election and ended their service with the board of directors effective that date.

On August 16, 2005, Michael Greene resigned his position on ARC s board of directors.

On October 28, 2005, Charles R. Cummings was elected to ARC s board of directors and was appointed Chairman of the board s Audit Committee and designated an audit committee financial expert.

On November 10, 2005, one of ARC s independent directors, Eugene Mercy, Jr., resigned his position on ARC s board of directors.

On November 29, 2005, Rhodes Bobbitt was elected to ARC s board of directors and was appointed as a member of the board s Audit Committee. His appointment brought ARC back into compliance with the requirements of the NYSE with respect to the makeup of audit committees.

***We had modifications to our debt agreements as follows***

In March 2005, we secured an additional $100.0 million in financing commitments, consisting of $25.0 million in unsecured trust preferred securities, and a $75.0 million lease receivables facility (subsequently amended to $150.0 million) secured by substantially all of ARC s rental homes and the

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related leases. The $25.0 million trust preferred securities were issued and sold on March 15, 2005, mature in 30 years, and bear interest at 3-month LIBOR plus 3.25% (7.79% at December 31, 2005).

In September 2005, we amended our revolving credit mortgage facility to extend the maturity of the facility to September 2006. As amended, the facility bears interest at the rate of one-month LIBOR plus 2.75% (7.14% at December 31, 2005).

In October 2005, we amended our lease receivables facility to increase the size of the facility from $75 million to $150 million. The amendment also (i) increased the limit on borrowings under the lease receivables facility from an amount equal to approximately 55% of the net book value of the eligible manufactured housing units owned by two of our indirect wholly owned subsidiaries, ARC Housing LLC and ARC HousingTX LP (collectively, Housing ) and located in our communities, to 65%, subject to certain other applicable borrowing base requirements, (ii) increased the interest rate on borrowings under the facility from 3.25% plus one-month LIBOR to 4.125% plus one-month LIBOR (8.52% at December 31, 2005), and (iii) extended the maturity of the facility from March 31, 2007 to September 30, 2008.

On November 11, 2005, we amended our floorplan line of credit to provide borrowings of up to $35.0 million, secured by manufactured homes in inventory. Under the amended lines of credit, the lender will advance 75% of the purchase cost of manufactured homes. Repayments of borrowed amounts are due upon sale or lease of the related manufactured home. Advances under the amended lines of credit will bear interest ranging from the prime rate plus 0.75% to the prime rate plus 4.00% (averaging 8.00% at December 31, 2005) based on the length of time each advance has been outstanding. Monthly curtailment payments are required for unsold homes beginning 360 days following the purchase of the home. The required curtailment payment will be between 3.00% and 5.00% of the home s original invoice amount depending on the type of home and the number of months since the home s purchase. The amended lines of credit require us to maintain a minimum tangible net worth, a maximum debt to tangible net worth ratio of 3 to 1, and minimum cash and cash equivalents of $15.0 million, all as defined in the agreement. As amended, the minimum tangible net worth required is $425.0 million from September 30, 2005 through December 31, 2006, and $385.0 million from January 1, 2007 through September 13, 2007. We are in compliance with all financial covenants of the line of credit as of December 31, 2005. The line of credit is subject to a commitment fee of $250,000, an unused line fee of 0.25% per annum and a termination fee of 1.00% to 3.00%, based on the termination date.

On February 10, 2006, we extended the due date of our senior variable rate mortgage due 2006 to February 11, 2007. At our option and subject to certain conditions, we may extend the senior variable rate mortgage due 2006 for two additional 12-month periods. In connection with the second and third extensions, we would be required to pay extension fees of 0.25% and 0.375% of the outstanding principal balance, respectively.

On April 5, 2006, we entered into a second amendment to our lease receivables facility. The second amendment (i) eliminates the margin increase requirements for failure to meet certain sales volume requirements for new homes, (ii) increases the allowable age requirements for the collateral portfolio from 4 years to 4.5 years, and (iii) provides an opportunity to purchase an extension of the timeframe to realize $85 million in net proceeds from our community sales process from October 14, 2006 to December 31, 2006.

***Our board of directors authorized community sales***

On September 22, 2005, ARC s board of directors authorized the sale of up to 79 communities in 33 markets, either at auction or through various negotiated sales. On December 15, 2005, we offered 71 of these communities for sale at auction. Eight other properties are being actively marketed and are anticipated to be sold in private party transactions or through brokers. Upon completion of the auction, we have accepted contracts on 30 of the properties and we determined that we would continue to operate 41 of the 79 properties, which would no longer be classified as held for sale. Following these sales, and assuming the 38 communities are sold, we will continue to own 278 communities that we believe meet our business plan objectives and operating strategy objectives.

***We eliminated the quarterly dividend on ARC s common stock and the quarterly distribution on the Partnership s common partnership units.***

Also on September 22, 2005, ARC s board of directors eliminated the quarterly common stock dividend and the quarterly distribution on the Partnership s common partnership units beginning with the quarter ended September 30, 2005. ARC s board of directors will review its dividend policy on a quarter by quarter basis going forward.

## Overview of Results

The following table summarizes our occupancy net activity for the years ended December 31, 2005, 2004 and 2003:

| | Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | Company Total | | | 2005 Same Communities | | 2004 Same Communities | |
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2004 | 2003 |
| **Homeowner activity:** | | | | | | | |
| Homeowner move ins | 621 | 440 | 767 | 468 | 342 | 305 | 687 |
| Homeowner move outs | (2,647) | (2,590) | (1,308) | (1,502) | (1,424) | (1,313) | (1,199) |
| Home sales(1) | 2,471 | 1,260 | | 1,747 | 942 | 894 | |
| Repossession move outs | (1,856) | (1,970) | (1,797) | (1,369) | (1,730) | (1,606) | (1,643) |
| Net homeowner activity | (1,411) | (2,860) | (2,338) | (656) | (1,870) | (1,720) | (2,155) |
| **Home renter activity:** | | | | | | | |
| Home renter move ins | 2,624 | 5,184 | 4,393 | 1,738 | 4,411 | 4,133 | 4,190 |
| Home renter lease with option to purchase move ins. | 4,178 | 377 | | 2,931 | 254 | 242 | |
| Home renter move outs. | (4,733) | (4,815) | (3,297) | (3,859) | (3,982) | (3,797) | (3,172) |
| Net home renter activity. | 2,069 | 746 | 1,096 | 810 | 683 | 578 | 1,018 |
| Net activity | 658 | (2,114) | (1,242) | 154 | (1,187) | (1,142) | (1,137) |
| Acquisitions and other homeowners | | 18,858 | | | | | |
| Acquisitions and other home renters | | 813 | | | | | |
| Net activity, including acquisitions and other | 658 | 17,557 | (1,242) | 154 | (1,187) | (1,142) | (1,137) |
| The following reconciles the above activity to the period end occupied homesites. | | | | | | | |
| Net homeowner activity | (1,411) | 15,998 | (2,338) | (656) | (1,870) | (1,720) | (2,155) |
| Occupied homeowner sites, beginning of period | 42,240 | 26,242 | 28,580 | 24,372 | 26,242 | 23,997 | 26,152 |
| Occupied homeowner sites, end of period | 40,829 | 42,240 | 26,242 | 23,716 | 24,372 | 22,277 | 23,997 |
| Net home renter activity | 2,069 | 1,559 | 1,096 | 810 | 683 | 578 | 1,018 |
| Occupied home renter sites, beginning of period | 5,422 | 3,863 | 2,767 | 4,546 | 3,863 | 3,661 | 2,643 |
| Occupied home renter sites, end of period | 7,491 | 5,422 | 3,863 | 5,356 | 4,546 | 4,239 | 3,661 |
| Total occupied homesites, end of period | 48,320 | 47,662 | 30,105 | 29,072 | 28,918 | 26,516 | 27,658 |

(1) Home sales were executed by our retail sales dealerships in 2003 and therefore are reflected in homeowner move ins rather than in home sales.

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At December 31, 2005, the total number of our manufactured homes owned was 9,328 homes. In the year ended December 31, 2005, as compared to 2004, we increased sales of older homes primarily through our in-community sales operations in which we focused on affordable price points, increased marketing and training of our employees. In the year ended December 31, 2005, we sold 2,471 manufactured homes from our home inventory, compared to 1,260 in 2004.

**Critical Accounting Policies and Estimates**

We have prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP, which require us to make certain estimates and assumptions that affect the recorded amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from these estimates. We have provided a summary of our significant accounting policies in Note 1 to our consolidated financial statements as of and for the year ended December 31, 2004. We have summarized below those accounting policies that require our most difficult, subjective or complex judgments and that have the most significant impact on our financial condition and results of operations. Our management evaluates these estimates on an ongoing basis. These estimates are based on information currently available to management and on various other assumptions management believes are reasonable.

*Acquisition of Real Estate and Intangible Assets*. When we acquire real estate properties, we allocate the components of these acquisitions using relative fair values determined based on certain estimates and assumptions. These estimates and assumptions impact the allocation of costs between land and different categories of land improvements, as well as the amount of costs assigned to individual properties in multiple property acquisitions. These allocations impact the amount of depreciation expense and gains and losses recorded on future sales of communities, and therefore the net income or loss we report.

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

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

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

*Useful Lives of Assets and Amortization Methods*. We determine the useful lives of our real estate assets (generally 30 years) and rental homes (generally three years) based on historical and industry experience with the lives of those particular assets and experience with the timing of significant repairs and replacement of those assets. We have estimated the useful life of acquired community customer relationships as five years based on our experience with the period of time a resident lives in our community and industry experience generally with resident turnover. We have established the life of the rental home customer relationships as the term of the initial related lease. The acquired community customer relationships and rental home customer relationships are amortized on a straight-line basis since we cannot reliably determine the pattern of economic benefit associated with the individual contracts comprising the intangible assets. We do not have sufficient historical or industry data to reliably estimate the tenure of an individual customer or to pool our customer contracts on a homogeneous basis as a basis to amortize the intangible assets in a manner other than straight line. We will reassess this determination as we gain additional experience with lease renewals. The estimates of useful lives and the amortization method impact the amount of depreciation and amortization expense we report, and therefore the amount of net income or loss we report.

*Impairment of Real Estate Assets.* We recognize an impairment loss on a real estate asset (including mobile homes) if the asset s undiscounted expected future cash flows are less than its depreciated cost whenever events and circumstances indicate that the carrying value of the real estate asset may not be recoverable. We compute a real estate asset s undiscounted expected future cash flow using certain estimates and assumptions. We calculate the impairment loss as the difference between the asset s fair market value and its carrying value. Upon recording the impairment loss, the fair value becomes the new carrying value. Impairment losses were recorded by the Partnership for the years ended December 31, 2004 and 2003 and are reflected as real estate and retail asset impairments in the expenses section of the consolidated statements of operations.

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

*Impairment of Goodwill.* We evaluate goodwill for potential impairment using the market values of our equity and multiples of earnings to value our reporting units based on our experience in the industry and industry analyses provided by financial institutions. We perform this evaluation at least annually, and more frequently if events and circumstances warrant. If the market value of our equity decreases, an additional impairment charge related to our goodwill may be necessary. As of December 31, 2005, all of our goodwill had been written-off or allocated to discontinued operations.

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

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

*Convertible Debt.* We treat our convertible debt as a combined instrument and it is not bifurcated to separately account for any instruments principally because in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (i) the conversion feature is indexed to ARC s common

stock and would be classified in partners capital if it were a freestanding derivative, and (ii) the put and call option features are clearly and closely related to the Notes at fixed conversion amounts.

*Derivatives.* We manage our exposure to interest rate risk through the use of interest rate swaps and caps and recognize in earnings the ineffective portion of gains or losses associated with these instruments immediately. We obtain values for the interest rate swaps and caps from financial institutions that market these instruments. Our derivative instruments are used for hedging purposes and as such result in no charge or credit to the consolidated statements of operations. Unrealized income (loss) related to derivatives is reflected as other comprehensive income within the consolidated statements of partners capital and totalled ($0.2) million and $1.2 million for the nine months ended September 30, 2005 and year ended December 31, 2004, respectively.

*Discontinued Operations*. We consider a community to be a discontinued operation when: (i) management commits to a plan to sell the asset, supported by a Board resolution granting approval to proceed with the sale; (ii) the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; (iii) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated; (iv) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year; (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (vi) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. In accordance with the guidance provided by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* we measure each of our assets held for sale at the lower of its carrying amount or fair value, less cost to sell at the balance sheet date and re-cast any applicable balances and corresponding liabilities related to the communities identified in all comparable periods presented. Depreciation of the assets held for sale, if applicable, is suspended at the date of the determination of discontinuance. Interest and other expenses attributable to the liabilities of the communities classified as held for sale continues to be accrued. The results of operations and cash flows of the assets sold and those classified as held for sale are reported as discontinued operations for all periods presented. We recognize any estimated losses on the sales of communities in the period in which the properties are discontinued and recognize any resulting gains on the sales of communities when realized. A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of that disposal, and, if not separately presented on the face of the balance sheet, the carrying amounts of the major classes of assets and liabilities included as part of the disposal group is disclosed in the notes to the financial statements. We disclose in the notes to our financial statements (and on the face of the income statement) the gain or loss recognized in accordance with SFAS No. 144 and, if applicable, the amounts of revenue and pretax profit or loss reported in discontinued operations. We disclose, if applicable, in the notes to our financial statements the segment under which the long-lived asset is reported.

**Results of Operations**

***Comparison of the Year Ended December 31, 2005 to the Year Ended December 31, 2004***

*Overview.* Our results for the year ended December 31, 2005 as compared to the year ended December 31, 2004 include the operations of 76 communities acquired from Hometown, comprising 22,970 homesites, for a full year while our results for the year ended December 31, 2004 include Hometown results from the date of acquisition, February 18, 2004, through December 31, 2004. Our results for the year ended December 31, 2005 also include the operations of 36 communities acquired from D.A.M. comprising 3,573 homesites and six other acquisitions we completed between January 1, 2004 and December 31, 2004 for a full year while our results for the year ended December 31, 2004 include the D.A.M. results from the date of acquisition, June 30, 2004, through December 31, 2004 and the six other acquisitions from the date of acquisition through December 31, 2004.

*Revenue.* Revenue for the year ended December 31, 2005 was $254.5 million compared to $204.5 million for the year ended December 31, 2004, an increase of $50.0 million or 24%. This increase is due to an increase of $20.0 million in rental income and an increase of $30.0 million in other revenue consisting of sales of manufactured homes, and utility and other income.

The rental income increase of $20.0 million is due to $11.6 million from the Hometown acquisition, $6.9 million from D.A.M. and other community acquisitions and $1.5 million from same communities. The increase in same communities revenues is due to $2.3 million from increased rental rates and $3.3 million from home renter rental income partially offset by $4.1 million from lower homeowner occupancy.

The increase in other income of $30.0 million is due to a $25.4 million increase in sales of manufactured homes and an increase of $4.6 million in utility and other income. Sales of manufactured homes increased to 2,471 units in 2005 from 1,260 units in 2004, accounting for $19.4 million of the $25.4 million increase. Per unit sales prices increased by approximately $4,700 for the year ended December 31, 2005, compared to the same period in 2004, accounting for $6.0 million of the $25.4 million increase.

*Property Operations Expense.* For the year ended December 31, 2005 total property operations expenses were $76.4 million, as compared to $68.3 million for the year ended December 31, 2004, an increase of $8.1 million, or 12%. The increase primarily is due to additional expenses of $3.4 million from the Hometown acquisition, $3.4 million from the D.A.M. acquisition and other community acquisitions and $1.3 million from same communities. The increase from same communities primarily is due to higher salaries and benefits of $2.4 million partially offset by lower repairs and maintenance and other expenses of $1.1 million.

*Real Estate Taxes Expense.* Real estate taxes expense for the year ended December 31, 2005, was $16.5 million, as compared to $15.2 million for the year ended December 31, 2004, an increase of $1.3 million or 8%. The increase primarily is due to the Hometown and D.A.M. acquisitions.

*Cost of Manufactured Homes Sold.* The cost of manufactured homes sold was $40.0 million for the year ended December 31, 2005 compared to $17.4 million for the year ended December 31, 2004, an increase of $22.6 million. The increase was a result of the higher volume of homes sold in 2005 as compared with 2004, as discussed above. The gross margin loss from manufactured homes sold was a loss of 1% for the year ended December 31, 2005, compared with a gross margin loss of 22% for the year ended December 31, 2004. The improvement in gross margin was due to sales of newer homes in 2005, as compared to 2004.

*Retail Home Sales, Finance and Insurance Expense.* For the year ended December 31, 2005, total retail home sales, finance and insurance expenses were $15.5 million, compared to $8.2 million for year ended December 31, 2004, an increase of $7.3 million or 90%. This increase is due to an increase in staffing levels to handle the 96% increase in the volume of homes sold in 2005, as compared with 2004.

*Property Management Expense.* Property management expenses for the year ended December 31, 2005 were $9.8 million, as compared to $7.1 million for the year ended December 31, 2004, an increase of $2.7 million, or 37%. The increase primarily is due to the expansion from 12 to 18 district offices and the related staffing costs for the new districts in connection with the Hometown and D.A.M. acquisitions and the resultant increase in our community portfolio.

*General and Administrative Expense.* General and administrative expense for the year ended December 31, 2005, was $27.6 million, as compared to $29.4 million for the year ended December 31, 2004, a decrease of $1.8 million, or 6%. After deducting a one-time charge in 2004 of $10.2 million incurred in conjunction with ARC s IPO in which we granted 531,000 shares of restricted units that vested immediately, general and administrative expense increased by $8.4 million. This increase primarily was due to higher salaries and benefits of approximately $4.1 million from increased staffing levels, additional executive severance of $1.7 million and increased expenses for Sarbanes-Oxley compliance.

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*IPO Related Costs.* During the year ended December 31, 2004, we incurred $4.4 million in organization and other costs directly related to ARC s IPO. These costs included legal fees, third party due diligence costs, travel expenses, transfer taxes, filing fees and other miscellaneous items.

*Early termination of debt.* During the year ended December 31, 2004, we wrote off $10.4 million of loan origination costs and incurred an expense of $6.3 million related to exit fees applicable to the repayment of debt in the financing transaction.

*Depreciation and Amortization Expense.* Depreciation and amortization expense for the year ended December 31, 2005 was $78.2 million as compared to $61.3 million for the year ended December 31, 2004, an increase of $16.9 million, or 27%. The increase primarily is due to $12.4 million of depreciation and amortization from communities acquired in the Hometown, D.A.M. and other acquisitions. Depreciation and amortization from same communities increased $4.5 million primarily due to community improvements and manufactured home purchases.

*Real Estate and Retail Home Asset Impairment*. During the year ended December 31, 2005, we recognized $21.8 million of impairment charges as compared to $3.4 million for the twelve months ended December 31, 2004. The charge in 2005 related to communities classified as discontinued in the third quarter 2005 and then re-continued in the fourth quarter 2005 whose estimated fair value was less than their carrying values. We determined fair value based on the current earnings level of these communities and, because they had previously been discontinued, without regard to whether or not we expect future undiscounted cash flows to exceed carrying value. The charge in 2004 related to $2.9 million of impairment charges from older vacant homes that we sold in 2005 at prices less than their carrying value in order to continue to drive occupancy in specific markets and reduce repair and maintenance costs in the rental home portfolio and approximately $0.5 million of impairment charges related to three communities whose estimated fair value was less than their carrying values.

*Goodwill Impairment.* During the third quarter of 2005, approximately $6.5 million of goodwill was assigned to the 38 communities designated as assets held for sale, based on their relative asset value. Subsequent to an announcement on September 21, 2005, that ARC was making changes in senior management, eliminating the dividend on its common stock, and planning the sale of certain communities, the market value of ARC s common stock declined. As a result, and because the estimated fair value of our tangible net assets was above the market value of our equity at December 31, 2005, we recorded an impairment charge of $78.8 million. During the year ended December 31, 2004, we recognized $0.9 million of goodwill impairment charges related to our insurance business, reducing goodwill in our insurance business to zero.

*Net Consumer Finance Interest Expense.* Represents interest expense and amortization of loan origination costs related to our consumer finance facility less interest income received from tenant notes receivable. The net expense is lower in 2005, as compared with 2004, primarily due the increase in mobile home sales over the two-year period while borrowings under the consumer finance facility have not increased proportionately.

*Interest Expense.* Interest expense for the year ended December 31, 2005 was $73.2 million, as compared to $58.7 million for the year ended December 31, 2004, an increase of $14.5 million. The increase primarily is due to an increase in average outstanding debt and, to a lesser extent, higher average interest rates. In addition, we capitalized $2.3 million of interest incurred in 2004 as compared with $0.4 million in 2005.

*Interest Income.* Interest earned on cash and cash equivalents, restricted cash and loan reserves was $2.3 million for the year ended December 31, 2005 and $1.6 million for the year ended December 31, 2004. The increase primarily is due to higher average cash balances due to the issuance of the Notes.

*Discontinued Operations.* In the third quarter of 2005, ARC s board of directors authorized the sale of up to 79 communities. These communities were accordingly reclassified to discontinued operations. In the fourth quarter of 2005, management determined that only 38 of the 79 communities would be held for sale, and that 41 of the 79 communities would be reclassified to continuing operations. In connection with these determinations, we recast all prior period results to reflect the 38 communities as discontinued operations. Upon classification of the 38 communities as discontinued operations, we performed an analysis of their fair market value as compared to their book value and recorded real estate and retail home asset impairments of approximately $10.3 million. This charge is reflected in the loss from discontinued operations in 2005.

In the third quarter of 2004, we entered into a real estate auction agreement to sell a total of twelve communities and two parcels of land. In addition, we separately entered into a sales agreement to sell our Sea Pines, Camden Point and Butler Creek communities. In the fourth quarter of 2004, we entered into a real estate auction agreement to sell an additional 15 communities. During the year ended December 31, 2004, we have recorded a loss of $8.5 million on the sale of these assets in discontinued operations.

*Preferred Partnership Unit Distribution.* For the year ended December 31, 2005, we have recorded four quarterly preferred unit distributions declared at the annual rate of 8.25% or $2.0625 per share on the 5.0 million shares of Series A preferred partnership units issued in connection with ARC s IPO on February 18, 2004. For the year ended December 31, 2004, we recorded these distributions prorated from the IPO through December 31, 2004.

*Net Loss Attributable to Common Partnership Unitholders.* As a result of the foregoing, our net loss attributable to common partnership unitholders was $203.9 million for the year ended December 31, 2005, as compared to $101.3 million for the year ended December 31, 2004, an increase of $102.6 million. Our results for 2005 were impacted by the following charges totaling $113.8 million: (i) goodwill impairment of $78.8 million; (ii) real estate and retail home asset impairment of $21.8 million; (iii) $10.3 million of impairment related to discontinued operations; and (iv) employee severance of $2.9 million related to the termination of executive officers. Our net loss attributable to common partnership unitholders for the year ended December 31, 2004 was impacted by the following charges totaling $36.8 million: (i) $16.7 million from the early termination of debt; (ii) $10.2 million from restricted stock grants; (iii) $4.4 million from ARC IPO related organization and other costs; (iv) $3.4 million of real estate and retail home asset impairment; (v) employee severance of $1.2 million related to the termination of executive officers; and (vi) $0.9 million of goodwill impairment.

The following tables present certain information relative to our real estate segment as of and for the year ended December 31, 2005 and 2004 on a historical and Same Communities basis. Same Communities reflects information for all communities owned by us at both January 1, 2004 and December 31, 2005. Same Communities does not include the Hometown acquisition, the D.A.M. portfolio acquisition, the nine other communities we acquired subsequent to January 1, 2004 or the communities sold during 2004 and 2005 or held for sale as of December 31, 2005 (in thousands, except occupancy, homesites, community and per unit information).

| | **Same Communities(4)** | | **Real Estate Segment(4)** | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **Year Ended December 31:** | | | | |
| Average total homesites | 34,797 | 34,962 | 57,988 | 53,439 |
| Average total rental homes | 6,155 | 5,780 | 8,283 | 6,817 |
| Average occupied homesites homeowners | 24,184 | 25,416 | 41,667 | 39,818 |
| Average occupied homesites rental homes | 5,131 | 4,115 | 6,716 | 4,566 |
| Average total occupied homesites | 29,315 | 29,531 | 48,383 | 44,384 |
| Average occupancy rental homes | 83.4 % | 71.2 % | 81.1 % | 67.0 % |
| Average occupancy total | 84.2 % | 84.5 % | 83.4 % | 83.1 % |
| Real estate revenue | | | | |
| Homeowner rental income | $ 82,807 | $ 84,563 | $ 142,841 | $ 133,670 |
| Home renter rental income | 37,204 | 33,982 | 48,547 | 37,676 |
| Other | 495 | 438 | 1,084 | 1,029 |
| Rental income | 120,506 | 118,983 | 192,472 | 172,375 |
| Utility and other income | 13,253 | 11,969 | 20,555 | 17,154 |
| Total real estate revenue | 133,759 | 130,952 | 213,027 | 189,529 |
| Real estate expenses | | | | |
| Property operations expenses | 46,522 | 45,247 | 76,447 | 68,324 |
| Real estate taxes | 9,246 | 10,888 | 16,506 | 15,241 |
| Total real estate expenses | 55,768 | 56,135 | 92,953 | 83,565 |
| Real estate net segment income | $ 77,991 | $ 74,817 | $ 120,074 | $ 105,964 |
| Average monthly real estate revenue per total occupied homesite(1) | $ 380 | $ 370 | $ 367 | $ 356 |
| Average monthly homeowner rental income per homeowner occupied homesite(2) | $ 285 | $ 277 | $ 286 | $ 280 |
| Average monthly real estate revenue per total homesite(3) | $ 320 | $ 312 | $ 306 | $ 296 |
| **As of December 31:** | | | | |