AMERICAN LAND LEASE INC
Form 10-K
March 15, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

(Mark one)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from to

Commission file number 1-9360

AMERICAN LAND LEASE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**84-1038736**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
29399 U.S. Hwy 19 North, Suite 320 Clearwater, Florida	**33761**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	**New York Stock Exchange, Inc.**

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

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant, was approximately $137 million as of June 30, 2004. As of March 1, 2005, there were 7,454,000 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

Portions of the Proxy Statement for the registrant s 2005 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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AMERICAN LAND LEASE, INC.

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Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2004

PART I

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Certain information included in this Annual Report on Form 10-K (Annual Report) to Stockholders and our filings with the Securities and Exchange Commission (the SEC) under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as information communicated orally or in writing between the dates of these SEC filings, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include projections relating to our cash flow, dividends, anticipated returns on real estate investments and opportunities to acquire additional communities. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, and performance or achievements expressed or implied by the forward-looking statements. Such factors include: general economic and business conditions; interest rate changes; financing and refinancing risks; risks inherent in owning real estate or debt secured by real estate; future development rate of home sites; competition; the availability of real estate assets at prices which meet our investment criteria; our ability to reduce expense levels, implement rent increases, use leverage and other risks set forth in our SEC filings. In addition to the risks above, the Company s continued qualification as a real estate investment trust (REIT) involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, as amended (the Code). Readers should carefully review the Company s financial statements and the notes thereto, as well as the risk factors described in the documents that the Company files from time to time with the Securities and Exchange Commission. ANL assumes no obligation and does not intend to update these forward-looking statements.

Item 1. Business

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

Company Background

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

As of December 31, 2004, we held interests as owner in 28 residential land lease communities, one of which includes a recreational vehicle park, with an approximate total of 6,931 operational home sites, 1,101 developed home sites, 960 undeveloped home sites and 129 recreational vehicle sites. An operational home site is defined as a home site that is or has been occupied by a home owned by a resident. A developed home site is defined as a home site for which infrastructure is complete, but either a home has not yet been constructed or the home constructed has not been occupied by a resident. An undeveloped home site is defined as a planned home site for which infrastructure is not complete. A recreational vehicle site is defined as a site that is equipped to allow a recreational vehicle to connect to water and electricity.

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

We conduct our business through Asset Investors Operating Partnership, L.P. (the Operating Partnership). Interests in the Operating Partnership held by limited partners other than ANL are referred to as OP Units. The holders of OP Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends, if any, paid to holders of common stock. After holding OP Units for one year, limited partners generally have the right to redeem their OP Units for cash. Notwithstanding that right, the Operating Partnership may elect to acquire some or all of the OP Units tendered for redemption by exchanging shares of our common stock in lieu of cash. At December 31, 2004, the Operating Partnership had a total of 8,321,000 partnership units outstanding and we owned 7,356,000 partnership units comprising 88% of the Operating Partnership.

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

Recent Developments

2004 Events

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

We own an inventory of developed vacant sites within our portfolio of residential land lease communities. In addition, we own undeveloped land that is contiguous to existing occupied communities. Our development activities convert the undeveloped land into developed home sites. Our home sales business facilitates the conversion of these developed home sites into leased sites with long-term cash flows. In 2004, we entered into 392 new land leases related to the purchase of new homes, a 1.3% decrease in this activity compared to the prior year. The changes in our leased sites for the year ended December 31, 2004 are shown in the table below:

	Activity for Year Ended December 31, 2004
New Leases facilitated by Home Sales	392
Leases terminated through removal of home or our repossession, approximately 33% to facilitate redevelopment	(129)
Sales of homes previously repossessed	21
Sales of home sites	(17)
Homes constructed by others	1

Net increase in newly leased sites	268

Property Acquisitions

During the year ended December 31, 2004, the Company acquired individual home sites at two communities where the resident owns certain home sites located within the community. The total cost was $0.9 million and was funded by borrowings under the Company s credit facility.

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Debt Financings

During the year ended December 31, 2004, we issued a $9.9 million ten-year term, non-recourse mortgage note payable with a fixed rate of 5.96%. The proceeds were used to repay existing debt and to continue development of our residential land lease communities.

During the year ended December 31, 2004, we renewed, modified, and extended our existing revolving line of credit with our current lender for a total commitment of $16 million. The loan bears interest at a rate equal to the thirty-day LIBOR plus 200 basis points. This interest-only note matures in December 2006. The availability of funds to the Company under the line of credit is subject to certain borrowing base and other customary restrictions, including compliance with financial and other covenants. Based upon the application of these covenants as of December 31, 2004, $15,977,000 of the total commitment of $16,000,000 was available to the Company.

During the year ended December 31, 2004, we modified our floor plan facility with our current lender used to finance the Company s inventory of homes. The credit facility was increased to $25 million and the advances were modified to include amounts above the invoice cost from the manufacturer to fund construction costs.

Property Dispositions

During 2004, the Company sold to third parties seventeen home sites for a total consideration of approximately $412,000. The Company recognized a gain on sale of approximately $18,000, net of minority interest in the Operating Partnership.

In 2004, the Company sold to a third party a ministorage property in Arizona for an aggregate sales price of approximately $2,035,000. The Company recognized a gain on the sale of approximately $20,000, net of minority interest in the Operating Partnership.

Casualty Events

In August and September 2004, several of the Company s properties were impacted by the four hurricanes that traversed Florida. Hurricanes Charley, Frances, Ivan and Jeanne damaged community amenities and resident homes. The Company incurred damages of approximately $926,000. During the year ended December 31, 2004, the Company recognized a gain of $297,000, net of minority interest in the Operating Partnership, as a result of the receipt of insurance proceeds of approximately $530,000, offset by the write-off of the undepreciated book value of the damaged assets of approximately $193,000. In addition, the Company received insurance proceeds of approximately $705,000 as reimbursement of expenses. The Company has recorded an expense of approximately $194,000, net of minority interest in the Operating Partnership, for the year ended December 31, 2004 for expenses incurred in excess of insurance proceeds.

2005 Events

Property Acquisitions

On February 4, 2005, we announced the acquisition of a 260-acre tract of land in Micco, Florida, south of Melbourne, for an aggregate price of $15.5 million. The land will be used to develop a new senior community for the company that includes approximately 533 home sites.

Debt Financings

Also, on February 4, 2005, we issued an $11 million note payable secured by a mortgage for a term of six months. The loan bears interest at a rate equal to 1-month LIBOR plus 200 basis points. The proceeds were used to fund the property acquisition.

Equity Financings

On January 12, 2005, our Post-Effective Amendment No. 1 to our Registration Statement on Form S-3 was declared effective, registering $200 million of debt securities, preferred stock and common stock. On February 23, 2005 and March 2, 2005, we issued 900,000 shares and 100,000 shares, respectively, of newly created 7.75% Series A Cumulative Redeemable Preferred Stock for a purchase price of $25 per share. The net proceeds from these issuances were used to repay indebtedness including amounts outstanding under the debt financing described above and balances on the Company s revolving line of credit.

Pending Acquisitions and Dispositions

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

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

Industry Background

A residential land lease community is a residential subdivision designed and improved with sites for the placement of homes together with related improvements and amenities. At this time, the homes constructed in residential land lease communities are generally, but not always, manufactured homes. Manufactured homes are detached, single-family homes which are produced off-site by manufacturers and installed on sites within the community. These homes are often improved with the addition of features constructed on site, including garages, screened rooms and carports. Manufactured homes are available in a variety of designs and floor plans, offering many amenities and custom options.

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

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

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

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

Financial Information about Industry Segments

We operate in two reportable segments: real estate (ownership of land leases, land development, investment acquisition and disposition) and home sales (sale of homes, both new and used, to be sited on land owned by the Company). See the consolidated financial statements, including their notes, in Item 8 of this Annual Report.

Growth and Operating Strategies

Our primary objective is to maximize total risk-adjusted stockholder returns over the long term by increasing operating cash flow and increasing the amount and predictability of Funds From Operations or FFO (as defined by the National Association of Real Estate Investment Trusts) per share, less an allowance for capital replacement spending. For a description of the meaning of FFO, see the discussion entitled, Funds From Operations, in Item 7 of this Annual Report. We implement operating and financing strategies to achieve our objectives, which include the following:

- improving net operating income from our existing portfolio of residential land lease communities;
- leasing unoccupied sites in our development portfolio, through the sale of homes by our home sales division;
- acquiring additional communities at values that are accretive on a per share basis; and
- acquiring additional development property that is suitable for development as a residential land lease community.

Company Policies

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

acquiring residential land lease communities that have potential for long-term appreciation of value through, among other things, rent increases, expense efficiencies and in-community home site development;

improving the profitability of our communities through management of occupancy, rent collection, community development and operating expense controls;

providing capital replacement expenditures in support of the continued maintenance of our communities (expenditures per site were approximately $125, $115 and $128 per developed home site for 2004, 2003 and 2002, respectively);

developing and maintaining resident satisfaction and a reputation for quality communities through maintenance of the physical condition of our communities and providing activities that improve the community lifestyle;

- using our home sales division to increase the occupancy rate at our communities by (i) selling homes to be situated on presently unoccupied sites at our development communities and (ii) selling previously owned homes in all communities;
- using our home sales division to upgrade the quality of homes placed on home sites within the community;
- developing additional home sites on land we own that may or may not be contiguous to existing communities;
- seeking to reduce our exposure to downturns in regional real estate markets by diversifying the location of our portfolio of communities (at the end of year 2004, based on total home sites, 77% of our properties were in Florida, 22% were in Arizona and 1% were in New Jersey);
- increasing our financial returns through the use of leverage, primarily long-term, non-recourse debt and preferred stock;
- managing our exposure to interest rate fluctuations by utilizing primarily long-term, fixed-rate debt (67% of our total debt was fixed rate at the end of year 2004); and
- recruiting and retaining capable management and professional staff at the community management level and above.

Future Acquisitions

Our acquisition of interests in residential land lease communities can take many forms. In many cases, we acquire title in fee simple to the community. Alternatively, we may enter into joint venture agreements. We may undertake these activities directly or seek to accomplish this goal by making participating loans to others that are non-recourse to the borrowers and secured by the properties. In general, these participating mortgages earn interest at fixed rates and, in addition, participate in profits or revenues from the community.

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

- the increasing quality of and demand for manufactured homes, as shown by the number of individuals living in manufactured homes;
- the increasing price paid for, and investment by the owner in, manufactured homes; and
- the continued constraints on development of new residential land lease communities.

We believe that our focus on the age-restricted portion of the residential land lease community business is attractive at this time because the number of households with persons 55 to 64 years old is projected to increase by over 47.8% by the year 2010, according to the U.S. Census Bureau. At December 31, 2004, 96% of our total home sites were in age-restricted communities.

We are actively seeking to acquire additional communities and we are currently engaged in various stages of negotiations relating to the possible acquisition of a number of communities. The acquisition of interests in additional communities or other business activities could result in changes in our capital structure through the issuance, or assumption, of additional debt and the issuance of equity.

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

- the location and type of property;
- the value of the homes, if any, located on the leased land;
- the improvements, such as golf courses and swimming pools, at the property;
- the current and projected cash flow of the property and our ability to increase cash flow;
- the potential for capital appreciation of the property;
- the terms of resident leases, including the potential for rent and other revenue increases;

- the tax and regulatory environment of the community in which the property is located;
- the income tax consequences, including the possible effect on our REIT status;
- the potential for expansion of the physical layout of the property and the number of sites;
- the occupancy and demand by residents for properties of a similar type in the vicinity;
- the credit of the residents in the community;
- the prospects for liquidity through sale, financing or refinancing of the property;
- the competition from existing residential land lease communities, single family housing alternatives, and also rental housing;
- the potential for the construction of new communities in the area; and
- the replacement cost of the property.

Expansion of Existing Communities

We expect to increase the number of leased home sites and the amount of earnings generated from our existing portfolio of residential land lease communities through marketing campaigns aimed at increasing new home sales that result in the origination of new leases and increased occupancy. We also expect to seek expansion through future acquisitions and expansion of the number of sites available to be leased to residents, if justified by local market conditions and permitted by zoning and other applicable laws. As of December 31, 2004, we held interests in 28 communities with approximately 6,931 operational home sites, 1,101 developed home sites, 960 undeveloped home sites and 129 recreational vehicle sites.

Competition

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

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

Taxation of the Company

We have elected to be taxed as a REIT under the Code, commencing with our taxable year ended December 31, 1986, and we intend to continue to operate in such a manner. Our current and continuing qualification as a REIT depends on our ability to meet the various requirements imposed by the Code, through actual operating results, including income and asset requirements, distribution levels and diversity of stock ownership.

If we qualify for taxation as a REIT, we will generally not be subject to federal corporate income tax on our net income that is currently distributed to stockholders. This treatment substantially eliminates the double taxation of income (at the corporate and stockholder levels) that results from investment in a corporation under current law. However, our stockholders are generally subject to tax on dividends received from us at regular ordinary income rates (up to a 35% maximum federal rate under current law). They are generally not eligible for tax at the lower capital gain rates (15% maximum) that apply, in the case of stockholders who are individuals, to dividends received from taxable domestic corporations under current law. The extent to which the dividends that we pay are treated as ordinary income varies, and portions of our dividends may be subject to more favorable tax treatment for our shareholders than ordinary income, such as the portion of the dividends that represent return of capital, capital gains, or unrecaptured section 1250 gain. See Dividends and Distributions below.

If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if we qualify as a REIT, we may be subject to certain state and local income taxes, and to federal income and excise taxes and penalties, including taxes on our undistributed income.

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

Certain of our operations, including our home sales business and golf course activities, are conducted through Taxable REIT Subsidiaries, each of which we refer to as a taxable subsidiary. A taxable subsidiary is a corporation that has not elected REIT status and, as such, is subject to federal corporate income tax. We use taxable subsidiaries to offer certain services to our residents and engage in activities that would not otherwise be permitted under the REIT rules if provided directly by us or by the Operating Partnership.

At December 31, 2004, our net operating loss (NOL) carryover was approximately $64,564,000 for the parent REIT entity, and $1,750,000 for our taxable subsidiaries that are consolidated for financial reporting, but not for federal income tax purposes. Subject to certain limitations, the REIT s NOL carryover may be used to offset all or a portion of our REIT taxable income and to reduce the amount that we are required to distribute to stockholders to maintain our status as a REIT. It does not, however, affect the tax treatment to shareholders of any distributions that we make. The REIT s and the taxable subsidiaries NOL carryovers are scheduled to expire between 2007 and 2009, and 2020 and 2022, respectively.

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

Regulation

General

Residential land lease communities, like other housing alternatives, are subject to various laws, ordinances and regulations, including regulations relating to recreational facilities such as swimming pools, clubhouses and other common areas. We believe that we have obtained the necessary permits and approvals to operate each of our properties in conformity with these laws. Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which would adversely affect our cash flows from operating activities. In addition, future enactment of rent control or rent stabilization laws, or other laws regulating housing, may reduce rental revenue or increase operating costs in particular markets.

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Americans with Disabilities Act and Fair Housing Act

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

Rent Control Legislation

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

Environmental

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

Insurance

We believe that our properties are covered by adequate fire, flood, property, and business interruption insurance policies. It is our policy to purchase insurance policies that contain commercially reasonable deductibles and limits from reputable insurers. In the event of changes in the insurance markets, we may be unable to purchase policies with deductibles and limits equal to the coverage currently in place or the costs to procure such coverage may increase at a rate in excess of our ability to recover these costs through increased rental rates. We also believe that we have obtained adequate title insurance policies insuring fee title to properties we have acquired. In the event that a community is subject to a casualty that results in our residents homes being destroyed, insurance proceeds may not be sufficient to replace the rental income lost from the termination of the

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residents leases until such time as we are able to originate new ground leases through our home sales division. We believe our properties present a target of lower interest relative to alternative targets for acts of terrorism because of their diversification and their residential nature. Because we may not be able to obtain coverage for terrorist acts at rates that correspond to the perceived level of risk, we may elect not to purchase insurance for such losses caused by acts of terrorism.

Capital Resources

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

Without further stockholder approval, we are authorized to issue up to 12,000,000 shares of common stock and 1,000,000 shares of preferred stock. As of March 1, 2005, approximately 7,454,000 shares of common stock were outstanding. On February 23, 2005 and March 2, 2005, we issued 900,000 shares and 100,000 shares, respectively, of newly created 7.75% Series A Cumulative Redeemable Preferred Stock. The Board of Directors will not be able to issue any additional shares of preferred stock without stockholder approval. Depending upon the terms set by the Board of Directors, the authorization and issuance of preferred stock or other new classes of stock could adversely affect existing stockholders. Future offerings of stock may result in the reduction of the net tangible book value per outstanding share and a reduction in the market price of the stock. We are unable to estimate the amount, timing or nature of such future offerings, as any such offerings will depend on general market conditions or other factors.

Restrictions on and Ownership of Common Stock

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

- the prohibited owner whose shares were transferred to the trust will receive the lesser of the amount that the prohibited owner paid for the shares or the amount the trustee receives for the shares; and
- any further amounts remaining from the sale will be transferred to a charitable beneficiary.

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

On February 14, 2005, our Board of Directors granted holders of our preferred stock an exemption from the application of the foregoing class limitation. The exemption, by its terms, does not permit such preferred

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stockholders to own more than 5% of our common stock, or more than 5% of the aggregate value of our outstanding stock.

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

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

Employees

As of December 31, 2004, we employed 190 persons that devoted their full-time attention to our communities and certain part-time employees as seasonal or other circumstances dictate. Our employees are not represented by a union and we have never experienced a work stoppage. We believe that we maintain satisfactory relations with our employees.

Company Web Site and Access to Filed Reports

The Company maintains an Internet Web site at *www.americanlandlease.com.* The Company provides access to its reports filed with the SEC, its Code of Business Conduct and Ethics, the charters of the Company s most important committees of the Board of Directors (including those for the audit, compensation and nominating/corporate governance committees) and the Company s Governance Guidelines through this Web site. The SEC reports are available as soon as reasonably practicable after the reports are filed electronically with the SEC. In addition, paper copies of annual and periodic reports filed with the SEC, the Code of Business Conduct and Ethics, the Code of Ethics for Principal Executive and Senior Financial Officers, important board committee charters and Corporate Governance Guidelines may be obtained by contacting the Company s headquarters at the address located within the SEC filings or under Investor Relations, Financials, on the aforementioned web site.

Item 2. Properties.

The residential land lease communities in which we have interests are primarily located in Florida and Arizona and are concentrated in or around four metropolitan areas: Tampa, Fort Myers and Orlando, Florida and Phoenix, Arizona. We hold interests in each of these communities as owner in fee simple. The following table sets forth the states in which the communities we held an interest on December 31, 2004 are located:

		Number of Sites			
	Number of Communities	Operational Home Sites	Developed Home Sites	Undeveloped Home Sites	Recreational Vehicle Sites

Florida	18	5,202	951	765	
Arizona	9	1,639	150	195	129
New Jersey	1	90			
Total	28	6,931	1,101	960	129

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The following table sets forth information as of December 31, 2004 regarding each residential land lease community in which we held an interest.

Community	Location	Operational Home Sites(1)	Occupancy	Average Monthly Rent	RV Sites	Undeveloped Home Sites	Developed Home Sites	Year(s) First Developed
Owned Communities								
Blue Heron Pines	Punta Gorda, FL	304	98%	$ 366		65	22	1983/1999
Brentwood Estates	Hudson, FL	116	97%	254			75	1984
Cypress Greens	Lakeland, FL	158	100%	231			100	1986
Forest View	Homosassa, FL	252	100%	295			52	1987/1997
Gulfstream Harbor	Orlando, FL	382	97%	392		50		1980
Gulfstream Harbor II	Orlando, FL	306	99%	385		37	1	1988
Gulfstream Harbor III	Orlando, FL	272	75%	398			13	1984
Lakeshore Villas	Tampa, FL	281	100%	403				1972
Park Royale	Pinellas Park, FL	284	95%	414			25	1971
Pleasant Living	Riverview, FL	245	96%	335				1979
Riverside GCC	Ruskin, FL	367	100%	494		421	149	1981/2002
Royal Palm Village	Haines City, FL	262	97%	329			123	1971
Savanna Club	Port St. Lucie, FL	750	100%	327		192	118	1999/2001
Serendipity	Ft. Myers, FL	338	96%	331				1971/1974
Stonebrook	Homosassa, FL	165	100%	282			46	1987/1997
Sunlake Estates	Grand Island, FL	326	100%	334			68	1980
Sun Valley	Tarpon Springs, FL	261	99%	372				1972
Woodlands	Groveland, FL	133	99%	243			159	1979
	Sub-total Florida	5,202				765	951	
Blue Star	Apache Junction, AZ	22	73%	298	129			1955
Brentwood West	Mesa, AZ	350	93%	437				1972/1987
Casa Encanta	Mesa, AZ		0%			195		1970
Desert Harbor	Apache Junction, AZ	142	97%	367			64	1997
Fiesta Village	Mesa, AZ	174	73%	358				1962
La Casa Blanca	Apache Junction, AZ	198	89%	374				1993
Lost Dutchman	Apache Junction, AZ	173	90%	306			86	1971/1979/1999
Rancho Mirage	Apache Junction, AZ	312	89%	410				1994
Sun Valley	Apache Junction, AZ	268	94%	317				1984
	Sub-total Arizona	1,639			129	195	150	
Mullica Woods	Egg Harbor City, NJ	90	100%	480				1985
Total Communities	28	6,931	96%	$ 340	129	960	1,101	

(1) We define operational home sites as those sites within our portfolio that have been leased to a resident during our ownership of the community. Since our portfolio contains a large inventory of developed home sites that have not been occupied during our ownership, we have expressed occupancy as the number of occupied sites as a percentage of operational home sites. We believe this measure most accurately describes the performance of an individual property relative to prior periods and other properties within our portfolio. The occupancy of all developed sites was 81.1% across the entire portfolio. Including sites not yet developed, occupancy was 73.6% at December 31, 2004.

At December 31, 2004, these properties contain, on average, 321 sites, with the largest property containing 1,060 home sites. These properties offer residents a range of amenities, including swimming pools, clubhouses, marinas, golf courses and tennis courts.

At December 31, 2004, 23 of these properties were encumbered by mortgage indebtedness totaling $127.3 million. These properties represent approximately 90.5% of our developed home sites. The 23 properties securing our mortgage indebtedness have a combined net book value of approximately $224.1 million and the indebtedness has a weighted average effective interest rate of 6.9% and a weighted average maturity of 10.7 years. As of December 31, 2004, 97.4% of our outstanding debt secured by properties was long-term (maturities

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over one year) and 2.6% was short-term (maturities less than one year). In addition, 5 properties were encumbered by our line of credit. These properties represent approximately 9.5% of our developed home sites and have a combined net book value of approximately $20.9 million. See the consolidated financial statements, including their notes, in Item 8 of this Annual Report for additional information about our indebtedness.

Item 3. Legal Proceedings.

We are party to various legal actions resulting from our operating activities. These actions are routine litigation and administrative proceedings arising in the ordinary course of business, some of which are covered by liability insurance, and none of which are expected to have a material adverse effect on our consolidated financial condition or results of operations taken as a whole.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuerer Purchases of Equity Stock.

Our common stock is listed on the New York Stock Exchange (the NYSE) under the symbol ANL. The following table sets forth the quarterly high and low sales prices of the common stock, as reported on the NYSE, and the dividends paid by us for the periods indicated:

	High	Low	Dividends
2004			
First Quarter	$ 22.20	$ 19.75	$ .25
Second Quarter	20.86	16.89	.25
Third Quarter	19.45	18.75	.25
Fourth Quarter	22.54	19.14	.25
2003			
First Quarter	$ 16.23	$ 13.95	$ .25
Second Quarter	17.36	15.01	.25
Third Quarter	18.78	16.90	.25
Fourth Quarter	20.55	17.96	.25
2002			
First Quarter	$ 13.74	$ 13.30	$ .25
Second Quarter	15.35	13.50	.25
Third Quarter	15.39	13.20	.25
Fourth Quarter	14.49	13.75	.25

On March 1, 2005, we had approximately 7,454,000 shares of common stock outstanding, held by approximately 1,604 stockholders of record, and approximately 976,000 OP Units outstanding.

As a REIT, we are required to distribute annually to holders of common stock at least 90% of our real estate investment trust taxable income, which, as defined by the Code and Treasury regulations, is generally equivalent to net taxable ordinary income. However, subject to certain limitations, our NOL may be used to offset all or a portion of our REIT taxable income, which may allow us to reduce or eliminate our dividends paid and still maintain our REIT status.

We measure our economic profitability based on FFO, less capital replacements during the relevant period. The future payment of dividends by us will be at the discretion of the Board of Directors and will depend on numerous factors, including our financial condition, our capital requirements, the annual distribution requirements under the provisions of the Code applicable to REITs, and such other factors as the Board of Directors deems relevant.

From time to time, we issue shares of common stock in exchange for OP Units tendered to the Operating Partnership for redemption in accordance with the terms and provisions of the agreement of limited partnership of the Operating Partnership. Such shares are issued based on an exchange ratio of one share for each OP Unit. The shares are issued in exchange for OP Units in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act), pursuant to Section 4(2) thereof. During the year ended December 31, 2004, approximately 2,159 shares of common stock were issued in exchange for OP Units.

On October 17, 2000, the Board of Directors authorized the Company to repurchase up to 2,000,000 shares of common stock. No shares were repurchased in 2004 or 2003. The Company has repurchased 576,613 shares under this authorization.

Item 6. Selected Financial Data.

The following selected financial data for the Company is based on audited historical financial statements. This information should be read in conjunction with such financial statements, including the notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations included herein or in previous filings with the SEC.

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Selected Financial Data (in thousands, except per share data):

	For the fiscal year ended December 31,				
	2004	2003(1)	2002(1)	2001(1)	2000(1)
RENTAL PROPERTY OPERATIONS					
Income from rental property operations	$ 14,857	$ 13,322	$ 11,922	$ 8,313	$ 6,925
HOME SALES OPERATIONS					
Income (loss) from home sales operations	3,820	3,324	342	(375)	(709)
SERVICE OPERATIONS					
Loss from service operations					(1,374)
OTHER OPERATIONS					
General and administrative expenses	(3,995)	(2,722)	(1,954)	(1,728)	(1,798)
Interest and other income	366	521	922	1,499	960
Gain on sale of real estate	101	971			
Casualty Gain	337				
Interest expense	(5,698)	(5,309)	(4,715)	(4,287)	(4,199)
Equity in income (losses) of unconsolidated entities		37	(2)	65	712
INCOME BEFORE TAXES AND MINORITY INTEREST IN OPERATING PARTNERSHIP	9,788	10,144	6,515	3,487	517
Income tax (expense) benefit				(600)	
INCOME BEFORE MINORITY INTEREST IN OPERATING PARTNERSHIP	9,788	10,144	6,515	2,887	517
Minority interest in Operating Partnership	(1,173)	(1,211)	(797)	(445)	(76)
INCOME FROM CONTINUING OPERATIONS	8,615	8,933	5,718	2,442	441
Income (loss) from discontinued operations	59	(115)	132	3,688	533
NET INCOME	$ 8,674	$ 8,818	$ 5,850	$ 6,130	$ 974
Basic earnings per share from continuing operations	$ 1.23	$ 1.30	$ 0.85	$ 0.36	$ 0.07
Basic earnings (loss) from discontinued operations	0.01	(0.02)	0.02	0.54	0.09
Basic earnings	$ 1.24	$ 1.28	$ 0.87	$ 0.90	$ 0.16
Diluted earnings per share from continuing operations	$ 1.18	$ 1.26	$ 0.84	$ 0.35	$ 0.07
Diluted (loss) earnings from discontinued operations	0.01	(0.02)	0.02	0.54	0.09
Diluted earnings	$ 1.19	$ 1.24	$ 0.86	$ 0.89	$ 0.16
Dividends declared	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Weighted average common shares outstanding	7,013	6,877	6,741	6,847	6,244
Weighted average common shares and common share equivalents outstanding	7,293	7,093	6,826	6,878	6,244
BALANCE SHEET DATA					
Real estate, before accumulated depreciation	$ 271,671	$ 246,190	$ 224,442	$ 210,247	$ 207,395
Real estate, net of accumulated depreciation	248,868	226,078	206,624	194,719	195,389
Investment in unconsolidated real estate partnerships			1,684	1,754	1,754
Total assets	275,956	247,096	228,843	216,591	216,302
Secured long-term notes payable	127,338	119,194	97,201	93,897	89,697

Secured short-term financing	24,644	10,659	19,118	13,251	7,867
Minority interest in Operating Partnership and other entities	14,746	14,014	13,130	14,071	15,387
Stockholders equity	99,433	94,801	91,842	90,662	97,535
OTHER DATA					
Net cash flow from:					
Operating activities	8,432	13,302	12,417	3,710	6,468
Investing activities	(25,037)	(18,487)	(14,223)	965	(4,681)
Financing activities	15,361	6,026	2,422	(5,285)	(1,140)
Portfolio components:					
Operational home sites	6,931	6,579	6,083	5,855	6,350
Developed home sites	1,101	979	1,125	1,065	1,291
Undeveloped home sites	960	1,437	1,543	1,896	1,761
Total	8,992	8,995	8,751	8,816	9,402

(1) Certain reclassifications have been made to the 2003, 2002, 2001 and 2000 amounts to conform to the 2004 presentation. These reclassifications primarily represent presentation changes related to discontinued operations resulting from the adoption of Statement of Financial Accounting Standards No. 144. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Impairment of Long-Lived Assets.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Executive Overview

American Land Lease is in the business of owning and leasing residential land. Our current business focuses on the ownership of land and generation of these leases within adult or retirement (55+) communities (96% of our total home sites at December 31, 2004); we focus on these communities for the following reasons:

- Current demographic projections predict that the customer base for this asset class will grow for the next 20+ years.
- The residents have established credit histories and therefore are able to obtain favorable financing or pay cash for their home making significant equity investments to improve the leasehold estate that secures our lease.
- The residents, as a result of their retired or semi-retired status, are less affected by current economic changes thereby making their continued rental payments more stable and the continued sales of homes in our communities more consistent year to year.
- The Company is able to leverage its current marketing, brand, and management expertise.

The Company seeks growth through home sales to fill unoccupied home sites in current subdivisions, development of its land portfolio to increase the inventory of available home sites, and the selective acquisition of communities and development opportunities.

This business model presents a number of challenges and risks for the Company s management. Several of these risks are:

- The continued development of additional home sites is a capital-intensive activity that requires substantial investments to be made in advance of returns.
- Older homes may depreciate or become obsolete.
- Changes in the interest rate environment may have an adverse impact our new home sales customers ability to realize sufficient proceeds from the sale of their present homes or finance new purchases, therefore limiting their financial ability to acquire new homes in our communities.
- The cost of developing additional home sites and communities may increase at a rate or to a level that may exceed the costs projected at the point of the initial investment by the Company.
- Based upon the above and other factors, the rate of sale of new homes may be substantially slower than projected at the point of the initial investment by the Company, resulting in returns on investment materially different from original projections.

There are additional challenges that might occur as a result of the 2004 hurricane season:

Our resident s homes may have damage that exceeds the insurance proceeds available under their homeowner s policies, thereby limiting residents ability to restore their home to its pre-hurricane condition. In some instances, this may result in a temporary loss of occupancy. This occupancy loss may be insured under the Company s business interruption policies.

The extent of claims made against properties in our asset class may have a material impact on the cost of insurance for both the Company and our residents, thereby increasing the Company s operating costs at a rate in excess of rental rate increases and limiting our resident s ability to reinvest in their homes at the same rate enjoyed before the hurricanes.

The severity and number of hurricanes that impacted Florida may result in a slowing rate of new customers to buy homes on our expansion sites, thereby reducing rate of absorption and lowering the Company s return on investment.

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The costs of hurricane clean up and repair may not be fully covered by insurance policies, resulting in higher than projected capital spending.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions. We believe that of our significant accounting policies (see Note B to the consolidated financial statements in Item 8 of this Annual Report), the following may involve a higher degree of judgment and complexity.

Impairment of Long-Lived Assets

Real estate and other long-lived assets are recorded at cost, less accumulated depreciation, unless considered impaired. If events or circumstances indicate that the carrying amount of a property may be impaired, we will make an assessment of its recoverability by estimating the undiscounted future cash flows, excluding interest charges, of the property. In the event the property is under development, the estimate of future cash flows includes all future expenditures necessary to develop the property. If the carrying amount exceeds the aggregate future cash flows, we would recognize an impairment loss to the extent the carrying amount exceeds the fair market value of the property.

Real property investments are subject to varying degrees of risk. Several factors may adversely affect the economic performance and value of our real estate investments. These factors include changes in the national, regional and local economic climates; local conditions, such as an oversupply of residential land lease properties or a reduction in the demand for our residential land lease properties; competition from other housing sources including single and multifamily properties; plus changes in market rental rates. Additional factors that may adversely affect the economic performance and value of our development properties include regulatory changes that impact the number of home sites that can be built on our undeveloped land, changes in projected costs to construct new subdivisions in our communities and regulatory changes made by local, regional, state or national authorities. Any adverse changes in these factors could cause impairment in our real estate.

Capitalized Costs

We capitalize direct and indirect costs (including interest, real estate taxes, and other costs) in connection with initial capital expenditures, capital enhancements, and capital replacements, as well as similar spending for development and redevelopment of our properties. Indirect costs that are not capitalized, including general and administrative expenses, are charged to expense as incurred. The amounts capitalized vary with the volume, cost and timing of these activities and, especially, with the pace of development and redevelopment activities. As a result, changes in the volume, cost and timing of these activities may have a significant impact on our financial results.

The most significant capitalized cost is interest. We capitalize interest when the following three conditions are present: (i) expenditures for the asset have been made, (ii) activities necessary to get the asset ready for its intended use are in progress and (iii) interest cost is being incurred. Our determination of the activities in progress for a development property is subject to professional judgment. The most significant judgment is the determination to capitalize interest relating to the ownership of land being developed as new home sites. In many cases, the development activity is expected to take place over several years and in multiple phases. It is our conclusion that the entirety of each parcel is under development and is a qualifying asset. Accordingly, interest is capitalized with respect to the entire parcel until such time as development activities cease or the individual home site is ready for its intended use. During 2004, 2003, and 2002, capitalized interest was approximately $3,768,000, $3,312,000, and $3,426,000, respectively. We regularly review the amount of capitalized costs in conjunction with our review of impairment of long-lived assets. Based on the level of development activity in 2004, if our development activities decrease such that 10% of our assets qualifying for capitalization of interest are no longer qualified, the amount of capitalized interest would have been reduced by $376,800. Reducing capitalized interest would increase interest expense, resulting in lower net income, which would be offset in future periods by lower depreciation expense.

Fair Value of Financial Instruments

The aggregate fair value of our cash and cash equivalents, receivables, payables and short-term secured debt as of December 31, 2004 approximates their carrying value due to their relatively short-term nature. Management further believes that the fair value of our variable rate secured long-term debt approximates carrying value. For the fixed rate secured long-term debt, fair values have been based upon estimates using present value techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent market quotes and, in many cases, may not be realized in immediate settlement of the instrument. The estimated fair value of the Company s secured long-term notes payable was $133,144,000 and $127,731,000 at December 31, 2004 and 2003, respectively, as compared to the carrying value of $127,338,000 and $119,194,000 at December 31, 2004 and 2003, respectively.

Rental Property Depreciation

Depreciation is computed using the straight-line method over an estimated useful life of 5 to 75 years for land improvements, 30 to 45 years for buildings and 5 years for furniture and other equipment, all of which are judgmental determinations. These determinations may prove to be different than the actual life of any individual asset.

Inventory

Carrying amounts for inventory are determined on a specific identification basis and are stated at the lower of cost or market. If actual market conditions are less favorable than those projected by management, if customer preferences change, or if material improvements are made by suppliers that are preferred by our customers compared to inventory we own, inventory write-downs may be required. Any such write-downs may have a significant impact on our financial results. On a quarterly basis, we review each home in inventory that is older than one year and evaluate our carrying amount versus recent offers, comparable sales, and our asking price in order to derive an estimate of its market value. In the event that the carrying amount exceeds our estimate of market value, less a normalized margin, we record a write-down of the carrying amount as a charge to the cost of home sales in the current period. As of December 31, 2004, $1,061,000 of our total inventory of $16,788,000 was older than one year. For the years ended December 31, 2004 and 2003 we recorded charges of $222,000 and $580,000, respectively to write down carrying amounts to market value. If the Company s estimate of fair market value was overstated by 10%, the Company would record an additional write down to fair market value, less a normalized margin, of $99,000 based upon the carrying value of inventory as of December 31, 2004.

Legal Contingencies

The Company is currently involved in certain legal proceedings. The Company does not believe these proceedings will have a material adverse effect on its consolidated financial position. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in assumptions and the effectiveness of strategies related to these proceedings. The amount of loss contingencies involving litigation, for which a loss is probable and can be reasonably estimated, is determined through consultation with legal counsel representing the Company. Our evaluation of loss contingencies arising from litigation, claims and assessments, considers unasserted claims and associated estimates of loss, if any, are provided to the extent probable and reasonably estimable. See Item 3. Legal Proceedings.

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Portfolio Summary

	Operational Home sites	Developed Home sites	Undeveloped Home sites	RV Sites	Total
As of December 31, 2003	6,579	979	1,437	129	9,124
Properties developed		525	(525)		
New lots purchased		14			14
Lots sold	(17)				(17)
New leases originated	367	(367)			
Adjust for site plan changes	2	(50)	48		
As of December 31, 2004	6,931(1)	1,101	960	129	9,121

(1) As of December 31, 2004, 6,617 of these operational home sites were occupied.

Occupancy Roll Forward

	Occupied Home sites	Operational Home sites	Occupancy
As of December 31, 2003	6,349	6,579	96.5%
New home sales	392	367	
Used home sales	21		
Used homes acquired	(50)		
Lots Sold	(17)	(17)	
Homes constructed by others	2		
Site plan changes	(1)	2	
Homes removed from previously leased sites(1)	(79)		
As of December 31, 2004	6,617	6,931	95.5%

(1) Of this total, approximately 47% are due to resident relocation and 53% are due to Company initiated vacation of the leased site in anticipation of future redevelopment.

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RESULTS OF OPERATIONS FOR THE

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

The following discussion and analysis of the consolidated results of our operations and financial condition should be read in conjunction with the consolidated financial statements incorporated by reference in Item 8 of this Annual Report.

Comparison of 2004 to 2003

Net Income

We recognized net income of $8,674,000 for the year ended December 31, 2004, compared to net income of $8,818,000 for the year ended December 31, 2003. The following paragraphs discuss the results of operations in detail.

Rental Property Operations

Rental and other property revenues from our owned properties totaled $28,303,000 for the year ended December 31, 2004 compared to $25,589,000 for the year ended December 31, 2003, an increase of $2,714,000 or 10.6%. The increase in property operating revenue was a result of:

- $2,530,000 increase in base rental income driven by increases in rental rates and the origination of leases of new home sites at our development properties,
- $243,000 increase in the pass on to residents of property tax increases,
- $25,000 increase in other property income, and a
- $5,000 increase in rents for recreational vehicle sites, all offset by an
- $89,000 decrease in late fees, net of amounts written off as uncollectible.

Golf course operating revenues totaled $918,000 for the year ended December 31, 2004 compared to $827,000 for the year ended December 31, 2003, an increase of $91,000 or 11.0%. Golf revenues increased at two of the three communities that operate golf courses. The increases were attributable to higher levels of memberships, while the decrease was attributable to interruptions in operation due to construction of new subdivisions at one community.

Property operating expenses for our owned properties totaled $9,964,000 for the year ended December 31, 2004 compared to $9,218,000 for the same period in 2003, an increase of $746,000 or 8.1%. The increase in property operating expenses was a result of:

- $267,000 increase in utilities expense,
- $244,000 increase in other property level expenses,
- $181,000 increase in salaries, wages and benefits,
- $166,000 increase in property taxes, all offset by a
- $69,000 decrease in utility operations maintenance and repairs at company owned utility plants, and a
- $43,000 decrease in property operating overhead,

Casualty expenses totaled $221,000 for the year ended December 31, 2004 compared to $0 for the year ended December 31, 2003. The increase is due to clean up cost incurred as a result of the four major hurricanes in 2004.

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Golf course operating expenses totaled $1,225,000 for the year ended December 31, 2004 compared to $1,222,000 for the year ended December 31, 2003. The increase in operating expenses at one golf course for additional maintenance costs was offset by a decrease in costs at a second golf course.

Depreciation expense was $2,954,000 during the year ended December 31, 2004 compared to $2,654,000 during the same period in 2003. The increase was as a result of an increase in depreciable property due to the continued development and placing in service of previously undeveloped home sites.

Same store property revenues for the year ended December 31, 2004 increased by 9.8% from the year ended December 31, 2003, consisting of a 3.6% increase from same site rental revenues, 5.8% increase from absorption revenues and 0.4% increase from golf revenues. Expenses related to those revenues increased 6.7% over that same period, consisting of a 3.0% increase in same site rental expenses, 3.7% increase in absorption expenses, and no material increase in golf expenses. Same store property net operating income increased 11.3% for the year ended December 31, 2004. Our same store base included 95% of our property operating revenues for year ended December 31, 2004.

The Company believes that the same store information provides the users of these financial statements with a comparison of the profitability for properties owned during both reporting periods that cannot be obtained from a review of the consolidated income statement. This comparison can be useful to an understanding of the parts in addition to an understanding of the whole. A reconciliation of the same store operating results used in the above calculation to total operating revenues and total expenses for the year ended December 31, 2004 and 2003, determined in accordance with generally accepted accounting principles, is reflected in the table on the following page (in thousands):

		Twelve Months Ended December 31, 2004	Twelve Months Ended December 31, 2003	Change	% Change	Contribution to Same Store % Change(1)
Same site rental revenues		$ 24,719	$ 23,821	$ 898	3.8%	3.6%
Absorption rental revenues		1,994	519	$ 1,475	284.2%	5.8%
Same store golf revenues		918	827	91	11.0%	0.4%
Same store revenues	A	27,631	25,167	2,464	9.8%	9.8%
Properties not in same store		1,574	1,129	445	39.4%	
Revenues related to interest income		16	120	(104)	(86.7%)	
Total property revenues	C	$ 29,221	$ 26,416	$ 2,805	10.6%	
Same site property expense		$ 7,462	$ 7,208	$ 254		