

AFFORDABLE RESIDENTIAL COMMUNITIES INC  
Form 8-K  
May 17, 2004

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**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 8-K**

**Current Report Pursuant to Section 13  
of the Securities Exchange Act of 1934**

**Date of Report (Date of Earliest Event reported) May 17, 2004 (May 14, 2004)**

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**AFFORDABLE RESIDENTIAL COMMUNITIES INC.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State of Incorporation)

**001-31987**  
(Commission File Number)  
**600 Grant Street, Suite 900, Denver, Colorado, 80203**

**84-1477939**  
(IRS Employer Identification No.)

(Address of principal executive offices and zip code)

**(303) 383-7500**  
(Registrant's Telephone Number)

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**Item 12. Results of Operations and Financial Condition**

(a) On May 14, 2004, Affordable Residential Communities Inc. (the "Company") posted on the Company's website a supplemental presentation concerning the Company's results of operations for the first quarter of 2004. The supplemental presentation is attached hereto as Exhibit A to this Form 8-K and is furnished to, but not filed with, the Commission.



**First Quarter 2004  
Earnings Release and  
Supplemental Operating and Financial Data**

**Affordable Residential Communities  
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[www.aboutarc.com](http://www.aboutarc.com)**

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**Note:** This earnings release and supplemental operating and financial data report contains certain non-GAAP financial measures that we believe are helpful in understanding our business as further described in Exhibit I. These financial measures that principally include Funds From Operations, Funds Available for Distribution, Earnings Before Interest, Taxes, Depreciation and Amortization, and Net Segment Income should not be considered an alternative to Loss Available to Common Stockholders or any other GAAP measurement of performance or as an alternative to cash flows from operating, investing or financing activities. Furthermore, these non-GAAP financial measures are not intended to be a measure of cash flow or liquidity.

**Portfolio Map**

**Press Release Text**

**Affordable Residential Communities Inc. Reports First Quarter 2004 Results**

DENVER, May 4, 2004 (BUSINESS WIRE) Affordable Residential Communities Inc. (NYSE: ARC) today announced results for the quarter ended March 31, 2004.

For the quarter ended March 31, 2004, funds from operations available to common stockholders (FFO)<sup>1</sup> was \$(21.7) million or \$(0.74) per share. For the quarter ended March 31, 2004, net loss available to common stockholders was \$35.0 million or \$1.20 per share as compared to a net loss available to common stockholders of \$8.4 million or \$0.49 per share for the three months ended March 31, 2003. Our results in the quarter ended March 31, 2004 reflect the inclusion of one-time charges of \$27.9 million or \$0.88 per share related to our IPO, acquisition of certain assets from Hometown America LLC and the repayment of certain indebtedness, all of which were completed in February. Excluding these one-time charges, our FFO would have been \$4.0 million or \$0.14 per share. On a same community basis, revenue in our real estate segment was up 3.5% to \$36.9 million from \$35.7 million for the first quarter ended March 31, 2004 as compared to the first quarter ended March 31, 2003. Same community expenses increased 2.3% to \$14.1 million from \$13.8 million for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003. As a result, same communities real estate net segment income<sup>2</sup> increased 4.2% to \$22.8 million from \$21.9 million for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003.

See the attachment to this press release for reconciliation of FFO and real estate net segment income to net loss (\$35.0) million, and FFO per share to net loss per share (\$0.49) per share, the most directly comparable GAAP measures, and to Notes 1 and 2 for a definition of FFO and real estate net segment income.

Total portfolio occupancy averaged 81.4% for the three months ended March 31, 2004. Average occupancy for same communities decreased from 87.3% for the three months ended March 31, 2003 to 83.5% for the three months ended March 31, 2004 due mainly to the lack of available chattel lending and lenders moving repossessed homes out of the communities.

Our results in the first quarter of 2004 were impacted by a series of one-time charges related to our recent activities totaling \$27.9 million or \$0.88 per share. The primary components of the charges include: (i) restricted stock grant of \$10.1 million, (ii) write-off of loan origination costs and exit fees associated with the repayment of indebtedness of \$13.4 million and (iii) IPO related costs of \$4.4 million. These costs will not impact future reporting periods.

"We are satisfied thus far with the integration of the Hometown portfolio. We have expanded our district management infrastructure from 7 districts to 12 districts to reflect the increase of approximately 26,000 homesites to our portfolio. We have not experienced any significant issues associated with this portfolio that were not previously identified through our due diligence process. Our new employees and communities are fully equipped and are undergoing training in ARC's systems and procedures," said Scott Jackson, Chairman and Chief Executive Officer. "Our capital expenditure projects are focused on preparing homesites for new home deliveries, addressing deferred maintenance issues and improving amenities in order to meet ARC's quality standards. In addition to the approximately 1,100 homes we acquired in the acquisition, we purchased or ordered approximately 500 new homes for these communities in the first quarter. We do not expect homesite upgrades and preparation to be a limiting factor in our ability to place rental homes and for-sale homes into these communities."

"We are pleased to have the IPO and the Hometown acquisition behind us," added Mr. Jackson. "Our full attention has now turned to our occupancy initiatives. We look forward to the

implementation of these programs in all of our communities and the on-going training of our new employees located in the Hometown communities. We remain confident in our rental home program with 438 net lease-ups, excluding the Hometown communities, in the first quarter. We have several additional occupancy initiatives including our in-community home sales program, our consumer finance program and our Hispanic marketing program. We are particularly excited about our focus on providing homes at affordable prices and our ability to finance the sale of these homes. We look forward to these activities positively impacting our performance going forward."

We completed our initial public offering on February 18, 2004. We issued 24.5 million shares of common stock at \$19.00 per share, of which 2.3 million shares were offered by selling stockholders. On March 18, 2004, our underwriters exercised their over-allotment option to purchase 0.8 million shares of common stock at \$19.00 per share. Concurrent with the IPO, we raised \$125 million of gross proceeds through the issuance of 5.0 million shares of Series A Cumulative Redeemable Preferred Stock.

In connection with the IPO, we completed the acquisition of 90 communities from Hometown America for approximately \$615.3 million comprising 26,406 homesites. This includes a small number of communities acquired post-closing upon the completion of the loan assumption process with the final three loan assumptions completed on April 9, 2004.

In conjunction with the IPO, we completed a \$250 million finance facility to support our in-community home sales and in-community finance programs. The facility consists of two funding components: (i) a \$225 million four-year facility to fund consumer loans and (ii) a \$25 million facility to fund for-sale home inventory.

In addition, we closed on two communities on February 26, 2004 consisting of 401 homesites in the Nashville, TN market. These communities were acquired for approximately \$7.4 million in cash and had occupancy at acquisition of 66% reflecting an initial capitalization rate of 8.7%. This acquisition affords us significant upside in terms of occupancy and rent growth. Nashville now represents a core market for us with five communities totaling 1,134 homesites.

On May 3, 2004 we placed a 36-community portfolio under contract. This portfolio consists of approximately 3,600 homesites that are approximately 88% occupied with an average rent of \$254 per month. The portfolio will be purchased for approximately \$65.0 million, including closing costs, and represents an in-place capitalization rate of approximately 8.5%. The acquisition comes with \$28.5 million of existing debt that will be assumed by ARC and has an interest rate of 7.2%. The remainder of the consideration is expected to consist of cash and preferred operating partnership units. Taking into account the loan assumption process, we expect this portfolio to close in June 2004. The communities are located in the eastern half of the U.S. and fit well with our existing footprint. At this time, there is no guarantee we will close on this portfolio.

In addition, we have placed four communities under contract in Salt Lake City, UT. There are a total of 558 homesites with an average occupancy of 78.5%. These communities are each under separate contract for a total of \$12.6 million with an in-place capitalization rate of 6.7%. These contracts are subject to completion of our due diligence and can be terminated by us.

A conference call to discuss first quarter results will be held Tuesday, May 4, 2004 at 12:00 p.m. Eastern Time. This call is being webcast by CCBN and can be accessed at ARC's website at [www.aboutarc.com](http://www.aboutarc.com). The webcast is also being distributed over CCBN's Investor Distribution Network to both institutional and individual investors. Individual investors can listen to the call through CCBN's individual investor center at [www.fulldisclosure.com](http://www.fulldisclosure.com) or by visiting any of the investor sites in CCBN's Individual Investor Network. Institutional investors can access the call via CCBN's password-protected event management site, StreetEvents at [www.streetevents.com](http://www.streetevents.com).

Affordable Residential Communities Inc. currently owns and operates approximately 67,000 homesites located in 304 communities in 29 states. ARC is a fully integrated, self-administered, self-managed equity real estate investment trust (REIT) focused on the acquisition, renovation, repositioning and operation of primarily all-age manufactured home communities with headquarters in Denver, CO.

1. As defined by NAREIT, FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions.

2. Real estate net segment income provides a measure of rental operations that does not include property management, depreciation, amortization, interest expense and non-property specific expenses such as general and administrative expenses. We present real estate net segment income because we consider it an important supplemental measure of the operating performance of our communities and believe it is frequently used by lenders, securities analysts, investors and other interested parties in the evaluation of REITs, many of which present real estate net segment income when reporting their results. Real estate net segment income is defined as income from rental and other property and manufactured homes less expenses for property operations and real estate taxes. Real estate net segment income does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs, including the repayment of principal on debt and payment of dividends on common and preferred stock. Real estate net segment income should not be considered a substitute for net income (calculated in accordance with GAAP) nor a measure of results of operations or cash flows (calculated in accordance with GAAP) as a measure of liquidity.

The forward-looking statements contained in this news release are subject to certain risks and uncertainties including, but not limited to, general risks affecting the real estate industry; the Company's ability to maintain or increase rental rates and occupancy with respect to properties currently owned; the Company's assumptions on rental home and home sales and financing activity; completion of pending acquisitions, if any, and timing with respect thereto; the Company's growth and expansion into new markets or to integrate acquisitions successfully; and the effect of interest rates as well as other risks indicated from time to time in the Company's filings with the Securities and Exchange Commission. The Company expressly disclaims any intention or obligation to provide public updates, revisions or amendments to any forward-looking statements that become untrue because of subsequent events.

## Financial Highlights

	Three Months Ended		
	03/31/04	03/31/03	Change
(\$ in thousands, except per share data)			
<b>Operating Data</b>			
Total revenue	\$ 45,470	\$ 42,842	6.1%
Same community real estate net segment income(c)	\$ 22,801	\$ 21,874	4.2%
Avg. monthly real estate revenue per occupied homesite	370	343	8.0%
Avg. monthly homeowner rental income per homeowner occupied homesite	285	273	4.2%
Weighted average occupied homesites	33,228	34,682	(4.2)%
EBITDA(c)	\$ 6,583	\$ 16,194	(32.1)%
Adjusted EBITDA(a)(c)	21,070	16,194	30.1%
Funds from operations available to common stockholders and OP unitholders (c)	\$ (23,609)	\$ 1,572	(1601.8)%
FFO per share diluted	(0.74)	0.08	(1030.5)%
FFO payout ratio	NA	NA	NA
Recurring capital expenditures	\$ 520	\$ 1,325	(60.8)%
Scheduled principal amortization of indebtedness	1,936	2,246	(13.8)%
Funds available for distribution ("FAD") (c)	\$ (26,065)	\$ (1,999)	1203.9%
FAD per share diluted	(0.82)	(0.10)	707.9%
FAD payout ratio	NA	NA	NA
Net income (loss) to common stockholders	\$ (34,969)	\$ (8,401)	316.2%
Earnings (loss) per share basic	(1.20)	(0.50)	139.2%
Earnings (loss) per share diluted	(1.20)	(0.50)	139.2%
Distributions per common share (through March 31, 2004)	\$ 0.1493(b)	NA	NA
Distributions per preferred share (through April 30, 2004)	0.4182(b)	NA	NA
Interest expensed	\$ 14,684	\$ 13,880	5.8%
Interest capitalized	544	0	NA
Total interest incurred	\$ 15,228	\$ 13,880	
EBITDA/interest	0.43x	1.17x	
EBITDA/interest + preferred stock dividend	0.40x	1.17x	
<b>Share Detail</b>			
Average number of common shares outstanding	29,233	16,973	72.2%
Average number of OP units outstanding	2,560	2,726	(6.1)%
Diluted shares outstanding	31,793	19,699	61.4%
	<b>03/31/04</b>	<b>12/31/03</b>	<b>Change</b>

**Balance Sheet Data**

Total assets	\$	1,770,503	\$	1,125,833	57.3%
Total debt		933,942		789,574	18.3%
Market equity value, end of period		802,234		NA	NA
Debt/total assets		52.8%		70.1%	(24.8)%
Debt/total market capitalization		53.8%		NA	NA

**Other Data**

Total properties (at period end)		301		211	
Total homesites (at period end)		66,548		39,943	
Occupied homesites (at period end)		53,353		34,881	
Occupancy percentage total portfolio		80.2%		87.3%	

- (a) Adjusted EBITDA reflects the add-back of \$27.9 million in one-time costs related to the IPO and the early termination of certain indebtedness.
- (b) Reflects partial period.
- (c) See Exhibit I for definition and reconciliation to nearest GAAP measure.

## First Quarter Adjustments

	<u>3/31/04</u>
	(\$ in thousands; except per share data)
FFO available to common stockholders & OP unitholders(a)	\$ (23,609)
Plus:	
Restricted stock grants	10,070
IPO related costs	4,417
Early termination of debt	13,427
	<u>                    </u>
Adjusted FFO(a)	\$ 4,305
Plus:	
Preferred dividend	1,232
Depreciation on F, F & E	369
Amortization of loan origination fees	868
Net interest expense	14,296
	<u>                    </u>
Adjusted EBITDA(a)	\$ 21,070
	<u>                    </u>
Adjusted FFO(a)	\$ 4,305
FFO per share diluted	0.14
FFO payout ratio	150.4%
Recurring capital expenditures	\$ 520
Scheduled principal amortization of indebtedness	1,936
Adjusted FAD(a)	\$ 1,849
FAD per share diluted	0.06
FAD payout ratio	350.1%
Adjusted EBITDA/interest	1.38x
Adjusted EBITDA/interest + preferred dividend	1.28x
Distributions payable on common shares and OP units	\$ 6,474

(a) See Exhibit I for definition and reconciliation to nearest GAAP measure.

## Balance Sheet

	Period Ending	
	03/31/04	12/31/03
(\$ in thousands)		
<b>Assets</b>		
Rental property		
Land	\$ 211,432	\$ 125,977
Land improvements and buildings	1,230,974	738,807
Manufactured homes and improvements	163,430	136,589
Furniture, equipment and vehicles	9,200	8,896
	<u>1,615,036</u>	<u>1,010,269</u>
Rental property, gross	1,615,036	1,010,269
Accumulated depreciation	(116,441)	(103,221)
	<u>1,498,595</u>	<u>907,048</u>
Rental property, net	1,498,595	907,048
Cash and cash equivalents	87,986	26,631
Restricted cash	1,435	13,669
Tenant, notes and other receivables, net	14,190	8,392
Inventory	3,085	3,878
Loan origination costs, net	15,108	11,921
Loan reserves	29,643	32,414
Goodwill	86,126	86,126
Lease intangibles and customer relationships, net	24,668	11,626
Prepaid expenses and other assets	9,667	24,128
	<u>1,770,503</u>	<u>1,125,833</u>
Total assets	\$ 1,770,503	\$ 1,125,833
<b>Liabilities and Stockholders' Equity</b>		
Notes payable and preferred interest	\$ 933,942	\$ 789,574
Accounts payable and accrued expenses	32,492	20,174
Tenant deposits and other liabilities	12,024	8,101
	<u>978,458</u>	<u>817,849</u>
Total liabilities	978,458	817,849
Minority interest	37,175	42,639
Stockholders' equity		
Preferred stock	119,108	
Common stock	410	170
Paid-in capital	791,916	378,018
Unearned compensation	(1,760)	
Accumulated other comprehensive expense	(518)	
Retained deficit	(154,286)	(112,843)
	<u>754,870</u>	<u>265,345</u>
Total stockholders' equity	754,870	265,345

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	Period Ending	
Total liabilities and stockholders' equity	\$ 1,770,503	\$ 1,125,833

**Debt Analysis**

	<b>Debt Amount</b>	<b>% of Total Debt</b>	<b>Interest Rate</b>	<b>Maturity Date</b>		
(\$ in thousands)						
<b>Fixed Rate Debt</b>						
Senior fixed rate mortgage due 2012	\$ 306,040	32.8%	7.350%	2012		
Senior fixed rate mortgage due 2014	215,313	23.1%	5.530%	2014		
Senior fixed rate mortgage due 2009	100,676	10.8%	5.050%	2009		
Various individual fixed rate mortgages	123,942	13.3%	6.121%	2004-2031		
Existing other loans	1,106	0.1%	8.670%	2005		
<b>Total fixed rate debt</b>	<b>747,077</b>	<b>80.0%</b>	<b>6.314%</b>			
<b>Variable Rate Debt(a)</b>						
Senior variable rate mortgage	184,011	19.7%	4.090%	2006		
Consumer finance credit facility	0	0.0%	0.000%	2008		
Floorplan lines of credit	2,643	0.3%	7.750%	2004		
Revolving credit facility	0	0.0%	0.000%	2006		
Other loans	211	0.0%	4.000%	2004		
<b>Total variable rate debt</b>	<b>186,865</b>	<b>20.0%</b>	<b>4.142%</b>			
<b>Total debt</b>	<b>\$ 933,942</b>	<b>100.0%</b>	<b>5.879%</b>			
<b>% Fixed/Variable</b>						
Fixed	\$ 747,077	80.0%	6.314%			
Variable	186,865	20.0%	4.142%			
<b>Total debt</b>	<b>\$ 933,942</b>	<b>100.0%</b>	<b>5.879%</b>			
<b>Maturity Schedule(b)</b>						
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Thereafter</b>
Senior fixed rate mortgages	\$ 6,028	\$ 8,068	\$ 8,574	\$ 9,111	\$ 9,622	\$ 580,627
Various individual fixed rate mortgages	11,963	3,870	14,090	1,864	25,155	60,692
Senior variable rate mortgage	0	0	184,011	0	0	0
Consumer finance line of credit	0	0	0	0	0	0
Floorplan lines of credit	2,643	0	0	0	0	0
Revolving line of credit	0	0	0	0	0	0
Other debt	270	1,047	0	0	0	0
<b>Total debt maturities</b>	<b>\$ 20,903</b>	<b>\$ 12,985</b>	<b>\$ 206,675</b>	<b>\$ 10,975</b>	<b>\$ 34,777</b>	<b>\$ 641,319</b>

(a) In February 2004, we entered into a two-year \$100 million swap and purchased interest rate caps covering our senior variable rate mortgage.

(b)

Does not include debt premium.

## Statement of Operations

	03/31/04
	(\$ in thousands; except per share data)
<b>Revenue</b>	
Communities	\$ 44,573
Retail sales	754
Consumer finance and insurance	134
Corporate and other	9
	<hr/>
Total revenue	45,470
<b>Operating Expenses</b>	
Communities	17,024
Retail sales	934
Consumer finance and insurance	170
Corporate and other	84
Property management	1,454
IPO related costs(a)	4,417
General and administrative(a)	14,804
	<hr/>
Total expenses	38,887
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EBITDA(b)	6,583
Early termination of debt(a)	13,427
Depreciation & amortization	15,660
Net interest expense	14,296
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Income (loss) before minority interest	(36,800)
Minority interest	3,063
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Income (loss) before preferred stock dividend	(33,737)
Preferred stock dividend	(1,232)
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Income (loss) available to common stockholders	\$ (34,969)
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<b>FFO Calculation(b)</b>	
Income (loss) before minority interest(a)	\$ (36,800)
Plus: Depreciation and amortization	15,660
Less: Amortization of loan origination fees	(868)