

SUN COMMUNITIES INC
Form 10-K
March 02, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014
Commission file number 1-12616

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

Maryland (State of Incorporation) 27777 Franklin Rd. Suite 200 Southfield, Michigan (Address of Principal Executive Offices) (248) 208-2500 (Registrant's telephone number, including area code)	38-2730780 (I.R.S. Employer Identification No.)
Common Stock, Par Value \$0.01 per Share Securities Registered Pursuant to Section 12(b) of the Act	New York Stock Exchange Name of each exchange on which registered
7.125% Series A Cumulative Redeemable Preferred Stock, Par Value \$0.01 per Share Securities Registered Pursuant to Section 12(b) of the Act	New York Stock Exchange Name of each exchange on which registered
Securities Registered Pursuant to Section 12(g) of the Act: None	

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

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of June 30, 2014, the aggregate market value of the Registrant's stock held by non-affiliates was approximately \$1,948,452,037.28 (computed by reference to the closing sales price of the Registrant's common stock as of June 30, 2014). For this computation, the Registrant has excluded the market value of all shares of common stock reported as beneficially owned by executive officers and directors of the Registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the Registrant.

Number of shares of common stock, \$0.01 par value per share, outstanding as of February 18, 2015: 53,465,428

Documents Incorporated By Reference

Unless provided in an amendment to this Annual Report on Form 10-K, the information required by Part III is incorporated by reference to the registrant's proxy statement to be filed pursuant to Regulation 14A, with respect to the registrant's 2015 annual meeting of stockholders.

SUN COMMUNITIES, INC.

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SUN COMMUNITIES, INC.

PART I

ITEM 1. BUSINESS

GENERAL

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

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

We own, operate, and develop MH and RV communities throughout the United States. As of December 31, 2014, we owned and operated a portfolio of 217 properties located in 29 states (collectively, the "Properties"), including 183 MH communities, 25 RV communities, and nine Properties containing both MH and RV sites. As of December 31, 2014, the Properties contained an aggregate of 79,554 developed sites comprised of 61,231 developed manufactured home sites, 9,297 annual RV sites (inclusive of both annual and seasonal usage rights), 9,026 transient RV sites, and approximately 7,000 additional manufactured home sites suitable for development.

Our executive and principal property management office is located at 27777 Franklin Road, Suite 200, Southfield, Michigan 48034 and our telephone number is (248) 208-2500. We have regional property management offices located in Austin, Texas; San Antonio, Texas; Dayton, Ohio; Grand Rapids, Michigan; Elkhart, Indiana; Indianapolis, Indiana; Traverse City, Michigan; Charlotte, North Carolina; Denver, Colorado; Ft. Myers, Florida and Orlando, Florida; and we employed an aggregate of 1,525 full and part time employees as of December 31, 2014.

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

STRUCTURE OF THE COMPANY

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

provided directly by us or by the Operating Partnership. The taxable REIT subsidiaries include our home sales business, SHS, which provides manufactured home sales, leasing and other services to current and prospective tenants of the Properties.

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We do not own all of the Operating Partnership units ("OP units"). As of December 31, 2014, the Operating Partnership had issued and outstanding:

51,134,405 common OP units,
1,283,819 preferred OP units ("Aspen preferred OP units"),
429,097 Series A-1 preferred OP units,
40,268 Series A-3 preferred OP units,
1,152,766 Series A-4 preferred OP units,
3,400,000 7.125% Series A Cumulative Redeemable Preferred OP Units ("7.125% Series A OP units"), and
112,400 Series B-3 preferred OP units.

As of December 31, 2014, we held:

48,573,063 common OP units, or approximately 95% of the issued and outstanding common OP units,
483,317 Series A-4 preferred OP units, or approximately 42% of the issued and outstanding Series A-4 preferred OP units,
all of the 7.125% Series A OP units, and
no Aspen preferred OP units, Series A-1 preferred OP units, Series A-3 preferred OP units or Series B-3 preferred OP units.

In January 2015, the Operating Partnership issued an additional 6,047,234 Series A-4 preferred OP units, of which 5,847,234 are held by us.

Ranking and Priority

The various classes and series of OP units issued by the Operating Partnership rank as follows with respect to rights to the payment of distributions and the distribution of assets in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Operating Partnership:

first, the 7.125% Series A OP units;
next, the Series A-4 preferred OP units, Aspen preferred OP units and Series A-1 preferred OP units, on parity with each other;
next, the Series B-3 preferred OP units;
next, the Series A-3 preferred OP units; and
finally, the common OP units.

Common OP Units

Subject to certain limitations, the holder of each common OP unit at its option may convert such common OP unit at any time into one share of our common stock. Holders of common OP units are entitled to receive distributions from the Operating Partnership as and when declared by the general partner, provided that all accrued distributions payable on OP units ranking senior to the common OP units have been paid. The holders of common OP units generally receive distributions on the same dates and in amounts equal to the distributions paid to holders of our common stock.

Aspen Preferred OP Units

Subject to certain limitations, at any time prior to January 1, 2024, the holder of each Aspen preferred OP unit at its option may convert such Aspen preferred OP unit into: (a) if the market price of our common stock is \$68.00 per share or less, 0.397 common OP units, or (b) if the market price of our common stock is greater than \$68.00 per share,

that number of common OP units determined by dividing (i) the sum of (A) \$27.00 plus (B) 25% of the amount by which the market price of our common stock exceeds \$68.00 per share, by (ii) the per-share market price of our common stock. The holders of Aspen preferred OP units are entitled to receive distributions not less than quarterly. Distributions on Aspen preferred OP units are generally paid on the same dates as distributions are paid to holders of common OP units. Each Aspen preferred OP unit is entitled to receive distributions in an amount equal to the product of (x) \$27.00, multiplied by (y) an annual rate equal to the 10-year United States Treasury bond yield plus 239 basis points; provided, however, that the aggregate distribution rate shall not be less than 6.5% nor more than 9%. On January 2, 2024, we are required to redeem all Aspen preferred OP units that have not been converted to common OP units. In addition, we are required to redeem the Aspen preferred OP units of any holder thereof within five days after receipt of a written demand during the existence of certain uncured Aspen preferred OP unit defaults, including our failure to pay distributions on the

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Aspen preferred OP units when due and our failure to provide certain security for the payment of distributions on the Aspen preferred OP units. We may also redeem Aspen preferred OP units from time to time if we and the holder thereof agree to do so.

Series A-1 Preferred OP Units

Subject to certain limitations, the holder of each Series A-1 preferred OP unit at its option may exchange such Series A-1 preferred OP unit at any time into 2.439 shares of our common stock (which exchange rate is subject to adjustment upon stock splits, recapitalizations and similar events). The holders of Series A-1 preferred OP units are entitled to receive distributions not less than quarterly. Distributions on Series A-1 preferred OP units are generally paid on the same dates as distributions are paid to holders of common OP units. Each Series A-1 preferred OP unit is entitled to receive distributions in an amount equal to the product of \$100.00 multiplied by an annual rate equal to 6.0%. Series A-1 preferred OP units do not have any voting or consent rights requiring the consent or approval of the Operating Partnership's limited partners.

Series A-3 Preferred OP Units

Subject to certain limitations, the holder of each Series A-3 preferred OP unit at its option may exchange such Series A-3 preferred OP unit at any time into 1.8605 shares of our common stock (which exchange rate is subject to adjustment upon stock splits, recapitalizations and similar events). The holders of Series A-3 preferred OP units are entitled to receive distributions not less than quarterly. Each Series A-3 preferred OP unit is entitled to receive distributions in an amount equal to the product of \$100.00 multiplied by an annual rate equal to 4.5%. Series A-3 preferred OP units do not have any voting or consent rights requiring the consent or approval of the Operating Partnership's limited partners.

Series A-4 Preferred OP Units

In connection with the issuance of our 6.50% Series A-4 Cumulative Convertible Preferred Stock (the "Series A-4 Preferred Stock") in November 2014, the Operating Partnership created the Series A-4 preferred OP units as a new class of OP units. Series A-4 preferred OP units have economic and other rights and preferences substantially similar to those of the Series A-4 Preferred Stock, including rights to receive distributions at the same time and in the same amounts as distributions paid on Series A-4 Preferred Stock. Each Series A-4 preferred OP unit is exchangeable into approximately 0.4444 shares of common stock or common OP units (which exchange rate is subject to adjustment upon stock splits, recapitalizations and similar events). We hold 6,330,551 Series A-4 preferred OP units that the Operating Partnership issued to us in connection with the acquisition of certain MH communities from Green Courte Real Estate Partners, LLC, Green Courte Real Estate Partners II, LLC, Green Courte Real Estate Partners III, LLC and certain of their affiliated entities. In 2014, we also issued 669,449 Series A-4 preferred OP units to the sellers as consideration for the Green Courte acquisition. In January 2015, we issued 200,000 Series A-4 Preferred OP units in a private placement in connection with the Green Courte acquisition. The rights of the 6,330,551 Series A-4 preferred OP units held by us mirror the economic rights of the Series A-4 preferred OP units issued to the Green Courte entities, but certain voting, consent and other rights do not apply to the Series A-4 preferred OP units held by us.

7.125% Series A OP Units

In connection with the issuance of our 7.125% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") in November 2012, the Operating Partnership created the 7.125% Series A OP units as a new class of OP units. All of the outstanding 7.125% Series A OP units are held by us and they have rights, preferences and other terms substantially similar to the Series A Preferred Stock, including rights to receive distributions at the same time and in the same amounts as distributions paid on Series A Preferred Stock. The Operating Partnership issued the

7.125% Series A OP units to us in consideration of our contributing to the Operating Partnership the net proceeds of our November 2012 offering of shares of Series A Preferred Stock.

Series B-3 Preferred OP Units

Series B-3 preferred OP units are not convertible. The holders of Series B-3 preferred OP units generally receive distributions on the same dates as distributions are paid to holders of common OP units. Each Series B-3 preferred OP unit is entitled to receive distributions in an amount equal to the product of \$100.00 multiplied by an annual rate equal to 8.0%. As of December 31, 2014, there were outstanding 36,700 Series B-3 preferred OP units which were issued on December 1, 2002, 33,450 Series B-3 preferred OP units which were issued on January 1, 2003, and 42,250 Series B-3 preferred OP units which were issued on January 5, 2004. Subject to certain limitations, (x) during the 90-day period beginning on each of the tenth through fifteenth anniversaries of the issue date of the applicable Series B-3 preferred OP units, (y) at any time after the fifteenth anniversary of the issue date of the applicable Series B-3 preferred OP units, or (z) after our receipt of notice of the death of the electing holder of a Series B-3 preferred OP unit, each holder of Series B-3 preferred OP units may require us to redeem such holder's Series B-3 preferred OP units at the

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redemption price of \$100.00 per unit. In addition, at any time after the fifteenth anniversary of the issue date of the applicable Series B-3 preferred OP units we may redeem, at our option, all of the Series B-3 preferred OP units of any holder thereof at the redemption price of \$100.00 per unit. Series B-3 preferred OP units do not have any voting or consent rights requiring the consent or approval of the Operating Partnership's limited partners.

REAL PROPERTY OPERATIONS

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

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

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

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

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

PROPERTY MANAGEMENT

Our property management strategy emphasizes intensive, hands on management by dedicated, on site district and community managers. We believe that this on site focus enables us to continually monitor and address resident concerns, the performance of competitive properties and local market conditions. As of December 31, 2014, we employed 1,525 full and part time employees, of which 1,374 were located on site as property managers, support staff, or maintenance personnel.

Our community managers are overseen by John B. McLaren, our President and Chief Operating Officer, who has been in the manufactured housing industry since 1995, two Senior Vice Presidents of Operations and Sales, six Division Vice Presidents and 23 Regional Vice Presidents. The Regional Vice Presidents are responsible for semi-annual market surveys of competitive communities, interaction with local manufactured home dealers, regular property inspections and oversight of property operations and sales functions for eight to twelve properties.

Each district or community manager performs regular inspections in order to continually monitor the Property's physical condition and to effectively address tenant concerns. In addition to a district or community manager, each

district or property has on-site maintenance personnel and management support staff. We hold mandatory training sessions for all new property management personnel to ensure that management policies and procedures are executed effectively and professionally. All of our property management personnel participate in on-going training to ensure that changes to management policies and procedures are implemented consistently. We offer nearly 400 courses for our team members through our Sun University, which has led to increased knowledge and accountability for daily operations and policies and procedures.

HOME SALES AND RENTALS

SHS is engaged in the marketing, selling and leasing of new and pre-owned homes to current and future residents in our communities. Since tenants often purchase a home already on-site within a community, such services enhance occupancy and property performance. Additionally, because many of the homes on the Properties are sold through SHS, better control of home quality in our communities can be maintained than if sales services were conducted solely through third-party brokers. SHS also leases

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homes to prospective tenants. At December 31, 2014, SHS had 10,973 occupied leased homes in its portfolio. Homes for this rental program (the "Rental Program") are purchased at discounted rates from finance companies that hold pre-owned and repossessed homes within our communities. New homes are also purchased for the Rental Program. Leases associated with the Rental Program generally have a term of one year. The Rental Program requires intensive management of costs associated with repair and refurbishment of these homes as the tenants vacate and the homes are re-leased, similar to apartment rentals. We received approximately 34,000 applications during 2014 to live in our Properties, providing a significant "resident boarding" system allowing us to market purchasing a home to the best applicants and to rent to the remainder of approved applicants. Through the Rental Program we are able to demonstrate our product and lifestyle to the renters, while monitoring their payment history and converting qualified renters to owners.

REGULATIONS AND INSURANCE

General

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

Insurance

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

SITE LEASES OR USAGE RIGHTS

The typical lease we enter into with a tenant for the rental of a manufactured home site is month to month or year to year, renewable upon the consent of both parties, or, in some instances, as provided by statute. Certain of our leases, mainly Florida properties, are tied to consumer price index or other indices as it relates to rent increase. Generally, market rate adjustments are made on an annual basis. These leases are cancelable for non payment of rent, violation of community rules and regulations or other specified defaults. During the five calendar years ended December 31, 2014, on average 2.5% of the homes in our communities have been removed by their owners and 4.9% of the homes have been sold by their owners to a new owner who then assumes rental obligations as a community resident. The cost to move a home is approximately \$4,000 to \$10,000. The average resident remains in our communities for approximately 13 years, while the average home, which gives rise to the rental stream, remains in our communities for approximately 40 years.

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements included or incorporated by reference into this filing, whether as a result of new information, future events, changes in our expectations or otherwise, except as required by law.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements.

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ITEM 1A. RISK FACTORS

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

REAL ESTATE RISKS

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

The market and economic conditions in our current markets generally, and specifically in metropolitan areas of our current markets, may significantly affect manufactured home occupancy or rental rates. Occupancy and rental rates, in turn, may significantly affect our revenues, and if our communities do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay or refinance our debt obligations could be adversely affected. We derive significant amounts of our rental income from properties located in Michigan, Florida, Indiana, and Texas. As of December 31, 2014, 70 of our 217 Properties, representing approximately 31% of developed sites, are located in Michigan; 29 Properties, representing approximately 17% of developed sites, are located in Florida; 17 Properties, representing approximately 8% of developed sites, are located in Indiana; and 18 Properties, representing approximately 8% of developed sites, are located in Texas. As a result of the geographic concentration of our Properties in Michigan, Florida, Indiana, and Texas, we are exposed to the risks of downturns in the local economy or other local real estate market conditions which could adversely affect occupancy rates, rental rates, and property values of properties in these markets.

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

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

- the national and local economic climate which may be adversely impacted by, among other factors, plant closings, and industry slowdowns;

- local real estate market conditions such as the oversupply of MH and RV sites or a reduction in demand for MH and RV sites in an area;

- the number of repossessed homes in a particular market;

- the lack of an established dealer network;

- the rental market which may limit the extent to which rents may be increased to meet increased expenses without decreasing occupancy rates;

- the perceptions by prospective tenants of the safety, convenience and attractiveness of our Properties and the neighborhoods where they are located;

zoning or other regulatory restrictions;

competition from other available MH and RV communities and alternative forms of housing (such as apartment buildings and site built single family homes);

our ability to provide adequate management, maintenance and insurance;

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REAL ESTATE RISKS, CONTINUED

• increased operating costs, including insurance premiums, real estate taxes, and utilities; and

• the enactment of rent control laws or laws taxing the owners of manufactured homes.

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

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

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

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

• downturns in economic conditions which adversely impact the housing market;

• an oversupply of, or a reduced demand for, manufactured homes;

• the difficulty facing potential purchasers in obtaining affordable financing as a result of heightened lending criteria; and

• an increase or decrease in the rate of manufactured home repossessions which provide aggressively priced competition to new manufactured home sales.

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

The intended benefits of the Green Courte acquisition may not be realized.

Our recent acquisition of 59 Properties from Green Courte poses risks for our ongoing operations, including, among others:

• that senior management's attention may be diverted from the management of daily operations to the integration of the acquired Properties;

• costs and expenses associated with any undisclosed or potential liabilities;

• that the acquired Properties may not perform as well as anticipated; and

• that unforeseen difficulties may arise in integrating the acquired Properties into our portfolio.

As a result of the foregoing, we cannot assure you that the Green Courte acquisition will be accretive to us in the near term or at all. Furthermore, if we fail to realize the intended benefits of the acquired Properties, the market prices of our common stock and preferred stock could decline to the extent that the market price reflects those benefits.

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

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

- we may be unable to acquire a desired property because of competition from other well capitalized real estate investors, including both publicly traded real estate investment trusts and institutional investment funds;

• even if we enter into an acquisition agreement for a property, it is usually subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction, which may not be satisfied;

SUN COMMUNITIES, INC.

REAL ESTATE RISKS, CONTINUED

• even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price;

• we may be unable to finance acquisitions on favorable terms;

• acquired properties may fail to perform as expected;

• acquired properties may be located in new markets where we face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures; and

• we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations.

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

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

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

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

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

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

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

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

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

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

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

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

SUN COMMUNITIES, INC.

REAL ESTATE RISKS, CONTINUED

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

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

Rent control legislation may harm our ability to increase rents.

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

We may be subject to environmental liability.

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

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

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

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

FINANCING AND INVESTMENT RISKS

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

We have a significant amount of debt. As of December 31, 2014, we had approximately \$1.8 billion of total debt outstanding, consisting of approximately \$1.7 billion in debt that is collateralized by mortgage liens on 147 of the Properties, \$123.7 million that is secured by collateralized receivables, and \$45.9 million that is unsecured debt. If we fail to meet our obligations under our secured debt, the lenders would be entitled to foreclose on all or some of the collateral securing such debt which could have a material adverse effect on us and our ability to make expected distributions, and could threaten our continued viability.

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

SUN COMMUNITIES, INC.

FINANCING AND INVESTMENT RISKS, CONTINUED

our cash flow may be insufficient to meet required payments of principal and interest, or require us to dedicate a substantial portion of our cash flow to pay our debt and the interest associated with our debt rather than to other areas of our business;

- our existing indebtedness may limit our operating flexibility due to financial and other restrictive covenants, including restrictions on incurring additional debt;

it may be more difficult for us to obtain additional financing in the future for our operations, working capital requirements, capital expenditures, debt service or other general requirements;

we may be more vulnerable in the event of adverse economic and industry conditions or a downturn in our business;

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

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

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

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

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

TAX RISKS

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

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

If we fail to qualify as a REIT in any taxable year, we could be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Moreover, unless entitled to relief under certain statutory provisions,

we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. This treatment would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability to us for the years involved. In addition, distributions to stockholders would no longer be required to be made.

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

We believe that the Operating Partnership has been organized as a partnership and will qualify for treatment as such under the Code. However, if the Operating Partnership is deemed to be a “publicly traded partnership,” it will be treated as a corporation instead of a partnership for federal income tax purposes unless at least 90% of its income is qualifying income as defined in the Code. The income requirements applicable to REITs and the definition of “qualifying income” for purposes of this 90% test are similar in most respects. Qualifying income for the 90% test generally includes passive income, such as specified types of real property rents, dividends and interest. We believe that the Operating Partnership has and will continue to meet this 90% test, but we cannot guarantee that it has or will. If the Operating Partnership were to be taxed as a regular corporation, it would incur substantial tax liabilities, we would fail to qualify as a REIT for federal income tax purposes, and our ability to raise additional capital could be significantly impaired.

SUN COMMUNITIES, INC.

TAX RISKS, CONTINUED

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

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

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

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

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

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

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

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

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

Under Section 382 of the Code, if a corporation undergoes an “ownership change” (generally defined as a greater than 50% change (by value) in its equity ownership over a rolling three-year period), the corporation’s ability to use its pre-ownership-change net operating loss carryforwards to offset its post-ownership-change income may be limited. We may experience ownership changes

BUSINESS RISKS

in the future. If an ownership change were to occur, we would be limited in the portion of net operating loss carryforwards that we could use in the future to offset taxable income for U.S. federal income tax purposes.

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

Ownership of Origen. We own 5,000,000 shares of Origen Financial, Inc. (“Origen”) common stock and Shiffman Origen LLC (which is owned by the Milton M. Shiffman Spouse’s Marital Trust, Gary A. Shiffman (our Chief Executive Officer), and members of Mr. Shiffman’s family) owns 1,025,000 shares of Origen common stock. Gary A. Shiffman is a member of the Board of Directors of Origen, and one of our directors, Arthur A. Weiss, is a trustee of the Milton M. Shiffman Spouse’s Marital Trust. Ronald A. Klein, one of our directors, is the Chief Executive Officer and a director of Origen. Mr. Klein, Mr. Weiss and Brian M. Hermelin, another of our directors, beneficially own approximately 570,000, 10,000, and 200,000 shares of Origen common stock,

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

respectively. Accordingly, in all transactions involving Origen, Mr. Shiffman, Mr. Weiss, Mr. Hermelin or Mr. Klein may have a conflict of interest with respect to their respective obligations as our officer and/or director.

Lease of Executive Offices. Gary A. Shiffman, together with certain of his family members, indirectly owns a 21% equity interest in American Center LLC, the entity from which we lease office space for our principal executive offices. Each of Arthur A. Weiss and Ronald A. Klein owns a less than one percent indirect interest in American Center LLC. Under this lease agreement, we lease approximately 62,900 rentable square feet. The term of the lease is until October 31, 2026, and the base rent through October 31, 2015 is \$16.45 per square foot (gross). From November 1, 2015 to October 31, 2016, the base rent will be \$16.95 per square foot (gross) and from November 1, 2016 to October 31, 2017, the base rent will be \$17.45 per square foot (gross). We also have a temporary lease for approximately 10,500 rentable square feet with base rent equal to \$12.71 per square foot (gross). This temporary lease is currently operating on a month to month basis. Each of Mr. Shiffman, Mr. Weiss and Mr. Klein may have a conflict of interest with respect to his obligations as our officer and/or director and his ownership interest in American Center LLC.

Legal Counsel. During 2014, Jaffe, Raitt, Heuer, & Weiss, Professional Corporation acted as our general counsel and represented us in various matters. Arthur A. Weiss, one of our directors, is the Chairman of the Board of Directors and a shareholder of such firm. We incurred legal fees and expenses owed to Jaffe, Raitt, Heuer, & Weiss of approximately \$7.5 million, \$3.2 million and \$3.4 million in the years ended December 31, 2014, 2013 and 2012, respectively.

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

We rely on key management.

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

Certain provisions in our governing documents may make it difficult for a third-party to acquire us.

9.8% Ownership Limit. In order to qualify and maintain our qualification as a REIT, not more than 50% of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals. Thus, ownership of more than 9.8%, in number of shares or value, of the issued and outstanding shares of our capital stock by any single stockholder has been restricted, with certain exceptions, for the purpose of maintaining our qualification as a REIT under the Code. Such restrictions in our charter do not apply to Milton M. Shiffman, Gary A. Shiffman, and Robert B. Bayer; trustees, personal representatives and agents to the extent acting for them or their respective estates; or certain of their respective relatives.

The 9.8% ownership limit, as well as our ability to issue additional shares of common stock or shares of other stock (which may have rights and preferences over the common stock), may discourage a change of control of the Company and may also: (1) deter tender offers for the common stock, which offers may be advantageous to stockholders; and (2) limit the opportunity for stockholders to receive a premium for their common stock that might otherwise exist if an

investor were attempting to assemble a block of common stock in excess of 9.8% of our outstanding shares or otherwise effect a change of control of the Company.

Preferred Stock. Our charter authorizes the Board of Directors to issue up to 10,000,000 shares of preferred stock and to establish the preferences and rights (including the right to vote and the right to convert into shares of common stock) of any shares issued.

In November 2012, we amended our charter to designate 3,450,000 shares of preferred stock as 7.125% Series A Cumulative Redeemable Preferred Stock, \$0.01 par value per share, and issued 3,400,000 of such shares of stock. In November 2014, we amended our charter to designate 6,330,551 shares of preferred stock as 6.50% Series A-4 Cumulative Convertible Preferred Stock, \$0.01 par value per share, and in November 2014 and January 2015 we issued in the aggregate 6,330,551 of such shares of stock. The power to issue preferred stock could have the effect of delaying or preventing a change in control of the Company even if a change in control were in the stockholders' interest.

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

Upon the occurrence of certain change of control events, the result of which is that shares of our common stock and the common securities of the acquiring or surviving entity (or ADRs representing such securities) are not listed on the New York Stock Exchange (“NYSE”), the NYSE MKT or NASDAQ or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE MKT or NASDAQ, holders of shares of Series A Preferred Stock will have the right, subject to certain limitations, to convert some or all of their shares of Series A Preferred Stock into shares of our common stock (or equivalent value of alternative consideration) and under these circumstances we will also have a special optional redemption right to redeem the shares of Series A Preferred Stock. Upon such a conversion, the holders of shares of Series A Preferred Stock will be limited to a maximum number of shares of our common stock. If our common stock price, as determined in accordance with our charter for these purposes, is less than \$20.97, subject to adjustment, the holders will receive a maximum of 1.1925 shares of our common stock per shares of Series A Preferred Stock, which may result in a holder receiving value that is less than the liquidation preference of the Series A Preferred Stock. Subject to certain limitations, upon written notice to us, each holder of shares of Series A-4 Preferred Stock at its option may convert each share of Series A-4 Preferred Stock held by it for that number of shares of our common stock equal to the quotient obtained by dividing \$25.00 by the then-applicable conversion price. The initial conversion price is \$56.25, so initially each share of Series A-4 Preferred Stock is convertible into approximately 0.4444 shares of common stock. At our option, instead of issuing the shares of common stock to the converting holder of Series A-4 Preferred Stock as described above, we may make a cash payment to the converting holder with respect to each share of Series A-4 Preferred Stock the holder desires to convert equal to the fair market value of one share of our common stock. If, at any time after November 26, 2019, the volume weighted average of the daily volume weighted average price of a share of our common stock on the NYSE equals or exceeds 115.5% of the then prevailing conversion price for at least 20 trading days in a period of 30 consecutive trading days, then, within 10 days thereafter, upon written notice to the holders thereof, we may convert each outstanding share of Series A-4 Preferred Stock into that number of shares of common stock equal to the quotient obtained by dividing \$25.00 by the then prevailing conversion price.

These features of the Series A Preferred Stock and Series A-4 Preferred Stock may have the effect of inhibiting a third party from making an acquisition proposal for Sun or of delaying, deferring or preventing a change of control of Sun under circumstances that otherwise could provide the holders of our common stock and preferred stock with the opportunity to realize a premium over the then-current market price or that stockholders may otherwise believe is in their best interests.

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

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

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

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

requirements on these combinations; and

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

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SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

The provisions of the MGCL relating to business combinations do not apply, however, to business combinations that are approved or exempted by our Board of Directors prior to the time that the interested stockholder becomes an interested stockholder. As permitted by the statute, our Board of Directors has by resolution exempted Milton M. Shiffman, Robert B. Bayer, and Gary A. Shiffman, their affiliates and all persons acting in concert or as a group with the foregoing, from the business combination provisions of the MGCL and, consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations between us and these persons. As a result, these persons may be able to enter into business combinations with us that may not be in the best interests of our stockholders without compliance by our company with the supermajority vote requirements and the other provisions of the statute.

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

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

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

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

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

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

Based on the applicable conversion ratios then in effect, as of February 18, 2015, in the future we may issue to the limited partners of the Operating Partnership, up to approximately 4.6 million shares of our common stock in exchange for their OP Units. The limited partners may sell such shares pursuant to registration rights, if available, or an available exemption from registration. As of February 18, 2015, options to purchase 29,500 shares of our common stock were outstanding under our equity incentive plans. We currently have the authority to issue restricted stock awards or options to purchase up to an additional 299,398 shares of our common stock pursuant to our equity incentive plans. In addition, we entered into an “at-the-market” Sales Agreement in May 2012 to issue and sell shares of common stock. As of February 18, 2015, our Board of Directors had authorized us to sell approximately an additional \$43.7 million of common stock under this agreement. No prediction can be made regarding the effect that future sales of shares of our common stock or our other securities will have on the market price of shares.

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

The issuance of the securities issued on January 6, 2015 in connection with the Green Courte acquisition is expected to be dilutive, which may adversely affect the market price of our common stock or preferred stock.

We expect that the issuance on January 6, 2015 of 4,527,073 shares of common stock, 5,847,234 shares of Series A-4 Preferred Stock and 200,000 Series A-4 preferred OP units in connection with the Green Courte acquisition and a related private placement will have a dilutive effect on our earnings per share and funds from operations per share for the year ending December 31, 2015. The actual amount of dilution cannot be determined at this time and will be based on numerous factors.

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

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

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

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

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

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

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

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

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

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

course of business or, unless paid from one of the permitted sources of net earnings as described above, our total assets would be less than the sum of our total liabilities plus, unless the terms of such class or series of stock provide otherwise, the amount that would be needed to satisfy the preferential rights upon dissolution of the holders of shares of any class or series of stock then outstanding, if any, with preferential rights upon dissolution senior to those of our common stock or currently outstanding preferred stock.

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

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

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

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

- issuances of other equity securities in the future, including new series or classes of preferred stock;
- our operating performance and the performance of other similar companies;
- our ability to maintain compliance with covenants contained in our debt facilities;
- actual or anticipated variations in our operating results, funds from operations, cash flows or liquidity;
- changes in expectations of future financial performance or changes in our earnings estimates or those of analysts;
- changes in our distribution policy;
- publication of research reports about us or the real estate industry generally;
- increases in market interest rates that lead purchasers of our common stock to demand a higher dividend yield;
- changes in market valuations of similar companies;
- increases in market interest rates that lend purchases of our common stock and preferred stock to demand a higher dividend yield;
- adverse market reaction to the amount of our debt outstanding at any time, the amount of our debt maturing in the near- and medium-term and our ability to refinance our debt, or our plans to incur additional debt in the future;
- additions or departures of key management personnel;
- speculation in the press or investment community;

• equity issuances by us, or share resales by our stockholders or the perception that such issuances or resales may occur;
• actions by institutional stockholders; and
• general market and economic conditions.

SUN COMMUNITIES, INC.

BUSINESS RISKS, CONTINUED

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

Our Series A Preferred Stock and Series A-4 Preferred Stock has not been rated.

We have not sought to obtain a rating for our Series A Preferred Stock or Series A-4 Preferred Stock. No assurance can be given, however, that one or more rating agencies might not independently determine to issue such a rating or that such a rating, if issued, would not adversely affect the market price of the Series A Preferred Stock or Series A-4 Preferred Stock. In addition, we may elect in the future to obtain a rating of the Series A Preferred Stock or Series A-4 Preferred Stock, which could adversely affect the market price of such preferred stock. Ratings only reflect the views of the rating agency or agencies issuing the ratings and such ratings could be revised downward, placed on a watch list or withdrawn entirely at the discretion of the issuing rating agency if in its judgment circumstances so warrant. Any such downward revision, placing on a watch list or withdrawal of a rating could have an adverse effect on the market price of the Series A Preferred Stock or Series A-4 Preferred Stock.

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

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

SUN COMMUNITIES, INC.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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SUN COMMUNITIES, INC.

ITEM 2. PROPERTIES

As of December 31, 2014, the Properties consisted of 183 MH communities, 25 RV communities, and 9 properties containing both MH and RV sites located in 29 states. As of December 31, 2014, the Properties contained an aggregate of 79,554 developed sites comprised of 61,231 developed manufactured home sites, 9,297 annual RV sites (inclusive of both annual and seasonal usage rights), 9,026 transient RV sites, and approximately 7,000 additional manufactured home sites suitable for development. Most of the Properties include amenities oriented toward family and retirement living. Of the 217 Properties, 93 have more than 300 developed manufactured home sites; with the largest having 1,080 developed manufactured home sites. See "Real Estate and Accumulated Depreciation, Schedule III" for detail on Properties that are encumbered.

As of December 31, 2014, the Properties had an occupancy rate of 92.6% excluding transient RV sites. Since January 1, 2014, the Properties have averaged an aggregate annual turnover of homes (where the home is moved out of the community) of approximately 2.6% and an average annual turnover of residents (where the resident-owned home is sold and remains within the community, typically without interruption of rental income) of approximately 5.0%. The average renewal rate for residents in our Rental Program was 59.4% for the year ended December 31, 2014.

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

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

The following tables set forth certain information relating to the properties owned as of December 31, 2014. The occupancy percentage includes MH sites and annual RV sites, and excludes transient RV sites.

Property	MH/RV	City	State	MH and Annual RV Sites as of 12/31/14	Transient RV Sites as of 12/31/14	Occupancy as of 12/31/14	Occupancy as of 12/31/13	Occupancy as of 12/31/12
MIDWEST								
Michigan								
Academy/West Pointe ⁽¹⁾	MH	Canton	MI	441	—	96 %	92 %	93 %
Allendale Meadows Mobile Village	MH	Allendale	MI	352	—	96 %	89 %	80 %
Alpine Meadows Mobile Village	MH	Grand Rapids	MI	403	—	99 %	98 %	91 %
Apple Carr Village	MH	Muskegon	MI	529	—	87 %	83 %	76 %
Brentwood Mobile Village	MH	Kentwood	MI	195	—	99 %	97 %	97 %
Brookside Village	MH	Kentwood	MI	196	—	99 %	100 %	97 %
Byron Center Mobile Village	MH	Byron Center	MI	143	—	99 %	94 %	89 %
Camelot Villa	MH	Macomb	MI	712	—	86 %	79 %	N/A
Candlewick Court	MH	Owosso	MI	211	—	64 %	66 %	70 %
Cider Mill Crossings	MH	Fenton	MI	262	—	91 %	72 %	51 %

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Cider Mill Village	MH	Middleville	MI	258	—	89	%	83	%	77	%
College Park Estates	MH	Canton	MI	230	—	85	%	84	%	77	%
Continental North	MH	Davison	MI	474	—	56	%	54	%	51	%
Country Acres Mobile Village	MH	Cadillac	MI	182	—	98	%	95	%	90	%
Country Hills Village	MH	Hudsonville	MI	239	—	100	%	98	%	93	%
Country Meadows Mobile Village	MH	Flat Rock	MI	577	—	97	%	97	%	95	%
Country Meadows Village	MH	Caledonia	MI	307	—	100	%	95	%	88	%
Creekwood Meadows	MH	Burton	MI	336	—	79	%	76	%	73	%

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Property	MH/RV	City	State	MH and Annual RV Sites as of 12/31/14	Transient RV Sites as of 12/31/14	Occupancy as of 12/31/14	Occupancy as of 12/31/13	Occupancy as of 12/31/12
Cutler Estates Mobile Village	MH	Grand Rapids	MI	259	—	95 %	95 %	96 %
Dutton Mill Village	MH	Caledonia	MI	307	—	99 %	98 %	98 %
East Village Estates	MH	Washington Twp.	MI	708	—	99 %	99 %	93 %
Egelcraft	MH	Muskegon	MI	458	—	95 %	N/A	N/A
Fisherman's Cove	MH	Flint	MI	162	—	96 %	94 %	91 %
Frenchtown Villa/Elizabeth Woods ⁽¹⁾	MH	Newport	MI	1,061	—	73 %	N/A	N/A
Grand Mobile Estates	MH	Grand Rapids	MI	230	—	84 %	76 %	72 %
Hamlin	MH	Webberville	MI	209	—	91 % ⁽³⁾	87 % ⁽³⁾	83 % ⁽³⁾
Hickory Hills Village	MH	Battle Creek	MI	283	—	98 %	98 %	94 %
Hidden Ridge RV Resort	RV	Hopkins	MI	116	160	100 % ⁽⁵⁾	100 % ⁽⁵⁾	N/A
Holiday West Village	MH	Holland	MI	341	—	99 %	99 %	99 %
Holly Village/Hawaiian Gardens ⁽¹⁾	MH	Holly	MI	425	—	93 %	96 %	96 %
Hunters Crossing	MH	Capac	MI	114	—	97 %	90 %	89 %
Hunters Glen	MH	Wayland	MI	280	—	87 % ⁽²⁾	79 % ⁽²⁾	69 % ⁽²⁾
Kensington Meadows	MH	Lansing	MI	290	—	97 %	98 %	96 %
Kings Court Mobile Village	MH	Traverse City	MI	639	—	100 %	99 %	100 %
Knollwood Estates	MH	Allendale	MI	161	—	96 %	94 %	89 %
Lafayette Place	MH	Warren	MI	254	—	74		