

SUN COMMUNITIES INC
Form 10-Q
October 24, 2017

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

FORM 10-Q

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

For the quarterly period ended September 30, 2017.

or

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

Commission file number 1-12616

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

Maryland 38-2730780
(State of Incorporation) (I.R.S. Employer Identification No.)

27777 Franklin Rd.
Suite 200
Southfield, Michigan 48034
(Address of Principal Executive Offices) (Zip Code)

(248) 208-2500
(Registrant's telephone number, including area code)

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 to submit and post such files). Yes No

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

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

Edgar Filing: SUN COMMUNITIES INC - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section to Section 13(a) of the Exchange Act.

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

Number of shares of Common Stock, \$0.01 par value per share, outstanding as of October 17, 2017: 79,342,536

INDEX

PART I – FINANCIAL INFORMATION

<u>Item 1.</u>	Consolidated Financial Statements:	
	<u>Consolidated Balance Sheets as of</u> September 30, 2017 (Unaudited) and December 31, 2016	<u>3</u>
	<u>Consolidated Statements of Operations for the</u> Three and Nine Months Ended September 30, 2017 and 2016 (Unaudited)	<u>4</u>
	Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2017 and 2016 (Unaudited)	<u>5</u>
	<u>Consolidated Statement of Stockholders' Equity for the</u> Nine Months Ended September 30, 2017 (Unaudited)	<u>6</u>
	<u>Consolidated Statements of Cash Flows for the</u> Nine Months Ended September 30, 2017 and 2016 (Unaudited)	<u>7</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>50</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>50</u>

PART II – OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>50</u>
<u>Item</u>	<u>Risk Factors</u>	<u>50</u>
<u>1A.</u>		
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>52</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>53</u>
	<u>Signatures</u>	<u>54</u>
	Exhibit Index	<u>55</u>

PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

SUN COMMUNITIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited - dollars in thousands, except per share amounts)

	(unaudited) September 30, 2017	December 31, 2016
ASSETS		
Land	\$ 1,079,708	\$ 1,051,536
Land improvements and buildings	5,024,937	4,825,043
Rental homes and improvements	516,618	489,633
Furniture, fixtures and equipment	140,894	130,127
Investment property	6,762,157	6,496,339
Accumulated depreciation	(1,188,332)	(1,026,858)
Investment property, net (including \$50,655 and \$88,987 for consolidated variable interest entities at September 30, 2017 and December 31, 2016; see Note 6)	5,573,825	5,469,481
Cash and cash equivalents	137,448	8,164
Inventory of manufactured homes	25,741	21,632
Notes and other receivables, net	145,760	81,179
Collateralized receivables, net	134,015	143,870
Other assets, net (including \$1,638 and \$3,054 for consolidated variable interest entities at September 30, 2017 and December 31, 2016; see Note 6)	141,047	146,450
TOTAL ASSETS	\$6,157,836	\$ 5,870,776
LIABILITIES		
Mortgage loans payable (including \$42,177 and \$62,111 for consolidated variable interest entities at September 30, 2017 and December 31, 2016; see Note 6)	\$2,822,640	\$ 2,819,567
Secured borrowings on collateralized receivables	134,884	144,477
Preferred OP units - mandatorily redeemable	45,903	45,903
Lines of credit	—	100,095
Distributions payable	56,520	51,896
Other liabilities (including \$1,258 and \$1,998 for consolidated variable interest entities at September 30, 2017 and December 31, 2016; see Note 6)	291,074	279,667
TOTAL LIABILITIES	3,351,021	3,441,605
Commitments and contingencies		
Series A-4 preferred stock, \$0.01 par value. Issued and outstanding: 1,085 shares at September 30, 2017 and 1,681 shares at December 31, 2016	32,414	50,227
Series A-4 preferred OP units	10,832	16,717
STOCKHOLDERS' EQUITY		
Series A preferred stock, \$0.01 par value. Issued and outstanding: 3,400 shares at September 30, 2017 and December 31, 2016	34	34
Common stock, \$0.01 par value. Authorized: 180,000 shares; Issued and outstanding: 79,341 shares at September 30, 2017 and 73,206 shares at December 31, 2016	793	732
Additional paid-in capital	3,810,930	3,321,441
Accumulated other comprehensive income (loss)	1,531	(3,181)
Distributions in excess of accumulated earnings	(1,117,228)	(1,023,415)

Edgar Filing: SUN COMMUNITIES INC - Form 10-Q

Total Sun Communities, Inc. stockholders' equity	2,696,060	2,295,611
Noncontrolling interests:		
Common and preferred OP units	63,668	69,598
Consolidated variable interest entities	3,841	(2,982)
Total noncontrolling interests	67,509	66,616
TOTAL STOCKHOLDERS' EQUITY	2,763,569	2,362,227
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$6,157,836	\$5,870,776
See accompanying Notes to Consolidated Financial Statements.		

3

SUN COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited - dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUES				
Income from real property	\$ 198,263	\$ 184,324	\$ 560,778	\$ 453,560
Revenue from home sales	33,197	31,211	91,319	81,987
Rental home revenue	12,757	12,031	37,774	35,696
Ancillary revenues	17,017	16,446	32,086	28,442
Interest	5,920	4,705	15,609	13,322
Brokerage commissions and other revenues, net	1,091	984	2,978	2,137
Total revenues	268,245	249,701	740,544	615,144
EXPENSES				
Property operating and maintenance	59,249	57,089	159,861	125,357
Real estate taxes	13,053	12,384	39,322	32,122
Cost of home sales	25,094	21,935	67,999	58,803
Rental home operating and maintenance	6,775	6,350	16,821	17,637
Ancillary expenses	9,993	9,449	21,719	18,697
Home selling expenses	3,290	2,643	9,391	7,240
General and administrative	18,267	16,575	56,188	46,910
Transaction costs	2,167	4,191	6,990	27,891
Depreciation and amortization	64,232	61,483	189,719	159,565
Extinguishment of debt	—	—	759	—
Interest	32,085	33,800	95,765	88,522
Interest on mandatorily redeemable preferred OP units	790	789	2,361	2,363
Total expenses	234,995	226,688	666,895	585,107
Income before other items	33,250	23,013	73,649	30,037
Catastrophic weather related charges	(7,756)	—	(8,124)	—
Other income, net	3,345	—	5,340	—
Current tax benefit / (expense)	38	(283)	(133)	(567)
Deferred tax benefit	81	—	745	—
Income from affiliate transactions	—	500	—	500
Net income	28,958	23,230	71,477	29,970
Less: Preferred return to preferred OP units	(1,112)	(1,257)	(3,482)	(3,793)
Less: Amounts attributable to noncontrolling interests	(1,776)	(879)	(4,179)	(460)
Net income attributable to Sun Communities, Inc.	26,070	21,094	63,816	25,717
Less: Preferred stock distributions	(1,955)	(2,197)	(6,233)	(6,748)
Net income attributable to Sun Communities, Inc. common stockholders	\$ 24,115	\$ 18,897	\$ 57,583	\$ 18,969
Weighted average common shares outstanding:				
Basic	78,369	68,655	75,234	63,716
Diluted	78,808	69,069	75,846	64,146
Earnings per share (See Note 12):				
Basic	\$ 0.31	\$ 0.27	\$ 0.76	\$ 0.30
Diluted	\$ 0.31	\$ 0.27	\$ 0.76	\$ 0.30

See accompanying Notes to Consolidated Financial Statements.

SUN COMMUNITIES, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited - dollars in thousands)

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2017	2016	2017	2016
Net income	\$28,958	\$23,230	\$71,477	\$29,970
Foreign currency translation adjustment	2,648	(5,227)	4,977	(5,226)
Total comprehensive income	31,606	18,003	76,454	24,744
Less: Comprehensive income attributable to noncontrolling interests	1,912	553	4,444	110
Comprehensive income attributable to Sun Communities, Inc.	\$29,694	\$17,450	\$72,010	\$24,634

See accompanying Notes to Consolidated Financial Statements.

SUN COMMUNITIES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
(Unaudited - dollars in thousands)

	7.125% Series A Cumulative Redeemable Preferred Stock	Common Stock	Additional Paid-in Capital	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive Income / (Loss)	Non-controlling Interests	Total Stockholders' Equity
Balance at December 31, 2016	\$ 34	\$ 732	\$3,321,441	\$(1,023,415)	\$ (3,181)	\$ 66,616	\$ 2,362,227
Issuance of common stock and common OP units, net	—	59	484,499	—	—	2,001	486,559
Conversion of OP units	—	1	3,240	—	—	(3,008)	233
Conversion of Series A-4 preferred stock	—	1	4,719	—	—	—	4,720
Redemption of Series A-4 preferred stock	—	—	(3,867)	—	—	—	(3,867)
Redemption of Series A-4 OP units	—	—	(2,571)	—	—	—	(2,571)
Share-based compensation - amortization and forfeitures	—	—	9,670	223	—	—	9,893
Acquisition of noncontrolling interests	—	—	(6,201)	—	—	6,101	(100)
Foreign currency exchange	—	—	—	—	4,712	265	4,977
Net income	—	—	—	67,298	—	3,991	71,289
Distributions	—	—	—	(161,334)	—	(8,457)	(169,791)
Balance at September 30, 2017	\$ 34	\$ 793	\$3,810,930	\$(1,117,228)	\$ 1,531	\$ 67,509	\$ 2,763,569

See accompanying Notes to Consolidated Financial Statements.

SUN COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - dollars in thousands)

	Nine Months Ended September 30,	
	2017	2016
OPERATING ACTIVITIES:		
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$223,348	\$190,279
INVESTING ACTIVITIES:		
Investment in properties	(203,233)	(159,923)
Acquisitions of properties, net of cash acquired	(70,328)	(1,473,368)
Proceeds from affiliate transactions	—	500
Proceeds from dispositions of assets and depreciated homes, net	6,592	3,755
Proceeds from disposition of properties	—	88,696
Issuance of notes and other receivables	(2,480)	(1,411)
Repayments of notes and other receivables	1,764	852
NET CASH USED FOR INVESTING ACTIVITIES	(267,685)	(1,540,899)
FINANCING ACTIVITIES:		
Issuance and associated costs of common stock, OP units, and preferred OP units, net	457,638	748,959
Net proceeds from stock option exercise	—	149
Borrowings on lines of credit	575,351	474,738
Payments on lines of credit	(675,695)	(441,738)
Proceeds from issuance of other debt	85,081	900,781
Payments on other debt	(72,024)	(141,490)
Prepayment penalty on debt	(759)	—
Redemption of Series A-4 preferred stock and OP units	(24,698)	—
Distributions to stockholders, OP unit holders, and preferred OP unit holders	(165,937)	(141,018)
Payments for deferred financing costs	(5,589)	(24,911)
NET CASH PROVIDED BY FINANCING ACTIVITIES	173,368	1,375,470
Effect of exchange rate changes on cash and cash equivalents	253	(107)
Net change in cash and cash equivalents	129,284	24,743
Cash and cash equivalents, beginning of period	8,164	45,086
Cash and cash equivalents, end of period	\$137,448	\$69,829

	Nine Months Ended September 30,	
	2017	2016
SUPPLEMENTAL INFORMATION:		
Cash paid for interest (net of capitalized interest of \$1,981 and \$378 respectively)	\$92,362	\$91,346
Cash paid for interest on mandatorily redeemable debt	\$2,361	\$2,363
Cash (refunds) paid for income taxes	\$(53)	\$612
Noncash investing and financing activities:		
Reduction in secured borrowing balance	\$17,674	\$14,718
Change in distributions declared and outstanding	\$4,527	\$9,527
Conversion of common and preferred OP units	\$3,240	\$2,033
Conversion of Series A-4 preferred stock	\$4,720	\$11,503
Noncash investing and financing activities at the date of acquisition:		
Acquisitions - Common stock and OP units issued	\$28,410	\$225,000

Edgar Filing: SUN COMMUNITIES INC - Form 10-Q

Acquisitions - debt assumed	\$4,592	\$—
Acquisitions - receivable due from seller	\$5,000	\$—
Acquisitions - contingent consideration liability	\$—	\$9,830

See accompanying Notes to Consolidated Financial Statements.

7

SUN COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Sun Communities, Inc., a Maryland corporation, and all wholly-owned or majority-owned and controlled subsidiaries, including Sun Communities Operating Limited Partnership (the “Operating Partnership”) and Sun Home Services, Inc. (“SHS”) are referred to herein as the “Company,” “us,” “we,” and “our.”

We follow accounting standards set by the Financial Accounting Standards Board (“FASB”). FASB sets generally accepted accounting principles (“GAAP”), which we follow to ensure that we consistently report our financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (“ASC”).

These unaudited Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information and in accordance with GAAP. Pursuant to the SEC rules and regulations we present interim disclosures and certain information and footnote disclosures as required. Accordingly, the unaudited Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying unaudited Consolidated Financial Statements reflect, in the opinion of management, all adjustments, including adjustments of a normal and recurring nature, necessary for a fair presentation of the interim financial statements. All intercompany transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period financial statements in order to conform to current period presentation.

The results of operations for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. These unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the SEC on February 23, 2017 (the “2016 Annual Report”). These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our 2016 Annual Report.

2. Real Estate Acquisitions

2017 Acquisitions

In September 2017, we acquired three age-restricted manufactured home (“MH”) communities: Lazy J Ranch, with 220 sites in Arcata, California; Ocean West, with 130 sites in McKinleyville, California; and Caliente Sands, with 118 sites in Cathedral City, California.

In July 2017, we acquired Pismo Dunes RV Resort (“Pismo Dunes”), an age-restricted recreational vehicle (“RV”) community with 331 sites located in Pismo Beach, California.

In June 2017, we acquired Arbor Woods (“Arbor Woods”), a MH community with 458 sites located in Superior Township, Michigan.

In May 2017, we acquired Sunset Lakes RV Resort (“Sunset Lakes”), a RV resort with 498 sites located in Hillsdale, Illinois.

In March 2017, we acquired Far Horizons 49er Village RV Resort Inc. (“49er Village”), a RV resort with 328 sites located in Plymouth, California.

8

SUN COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table summarizes the amounts of assets acquired net of liabilities assumed at the acquisition date and the consideration paid for the acquisitions completed in 2017 (in thousands):

At Acquisition Date	Lazy J Ranch (1)	Ocean West (1)	Caliente Sands (1)	Pismo Dunes (1)	Arbor Woods (1)	Sunset Lakes (1)	49er Village (1)	Total
Investment in property	\$ 14,300	\$ 9,673	\$ 8,850	\$ 21,260	\$ 15,725	\$ 7,835	\$ 12,890	\$ 90,533
Notes receivable	—	—	—	—	23	—	—	23
Inventory of manufactured homes	—	—	21	—	465	—	—	486
In-place leases	—	—	—	660	730	210	110	1,710
Total identifiable assets acquired net of liabilities assumed	\$ 14,300	\$ 9,673	\$ 8,871	\$ 21,920	\$ 16,943	\$ 8,045	\$ 13,000	\$ 92,752