EQUITY LIFESTYLE PROPERTIES INC
Form 10-Q
November 10, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2008

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

For the transition period from ____________ to _______________

Commission file number: 1-11718

EQUITY LIFESTYLE PROPERTIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	**36-3857664**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
Two North Riverside Plaza, Suite 800, Chicago, Illinois	**60606**
(Address of Principal Executive Offices)	(Zip Code)

(312) 279-1400
(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

24,855,831 shares of Common Stock as of November 4, 2008.

Equity LifeStyle Properties, Inc.
Table of Contents
Part I Financial Information

Item 1. Financial Statements
Index To Financial Statements

Part II Other Information

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Balance Sheets
As of September 30, 2008 and December 31, 2007
(amounts in thousands, except share and per share data)

	September 30, 2008 (unaudited)	December 31, 2007
Assets		
Investment in real estate:		
Land	$ 541,979	$ 541,000
Land improvements	1,720,561	1,700,888
Buildings and other depreciable property	201,519	154,227
	2,464,059	2,396,115
Accumulated depreciation	(543,923)	(494,211)
Net investment in real estate	1,920,136	1,901,904
Cash and cash equivalents	52,745	5,785
Notes receivable, net	31,676	10,954
Investment in joint ventures	9,705	4,569
Rent and other customer receivables, net	1,078	1,156
Deferred financing costs, net	11,735	12,142
Inventory	31,092	62,807
Deferred commission expense	1,598	
Escrow deposits and other assets	46,378	33,659
Total Assets	$ 2,106,143	$ 2,032,976
Liabilities and Stockholders Equity		
Liabilities:		
Mortgage notes payable	$ 1,552,041	$ 1,556,392
Unsecured lines of credit	115,700	103,000
Accrued payroll and other operating expenses	67,464	33,898
Deferred revenue sale of right-to-use contracts	4,940	
Accrued interest payable	8,418	9,164
Rents and other customer payments received in advance and security deposits	50,272	37,274
Distributions payable	6,097	4,531
Total Liabilities	1,804,932	1,744,259
Commitments and contingencies		
Minority interest Common OP Units and other	19,141	17,776
Minority interest Perpetual Preferred OP Units	200,000	200,000

Stockholders Equity:		
Preferred stock, $.01 par value 10,000,000 shares authorized; none issued		
Common stock, $.01 par value 100,000,000 shares authorized; 24,845,630 and 24,348,517 shares issued and outstanding for September 30, 2008 and December 31, 2007, respectively	238	236
Paid-in capital	318,415	310,803
Distributions in excess of accumulated earnings	(236,583)	(240,098)
Total Stockholders Equity	82,070	70,941
Total Liabilities and Stockholders Equity	$ 2,106,143	$ 2,032,976

The accompanying notes are an integral part of the financial statements.

3

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Operations
For the Quarters and Nine Months Ended September 30, 2008 and 2007
(amounts in thousands, except share and per share data)
(unaudited)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Property Operations:				
Community base rental income	$ 61,554	$ 59,366	$ 184,018	$ 177,190
Resort base rental income	29,343	25,557	86,973	79,336
Right-to-use annual payments	6,746		6,746	
Right-to-use contracts current period, gross	5,003		5,003	
Right-to-use contracts, deferred, net of prior period amortization	(4,940)		(4,940)	
Utility and other income	10,572	9,273	31,222	28,551
Property operating revenues	108,278	94,196	309,022	285,077
Property operating and maintenance	42,148	33,252	109,847	95,681
Real estate taxes	7,794	7,037	22,712	21,646
Sales and marketing, gross	3,098		3,098	
Sales and marketing, deferred commissions, net	(1,598)		(1,598)	
Property management	6,446	4,576	16,983	13,940
Property operating expenses (exclusive of depreciation shown separately below)	57,888	44,865	151,042	131,267
Income from property operations	50,390	49,331	157,980	153,810
Home Sales Operations:				
Gross revenues from inventory home sales	5,260	8,483	18,254	26,767
Cost of inventory home sales	(5,365)	(8,117)	(18,974)	(24,364)
Gross (Loss) profit from inventory home sales	(105)	366	(720)	2,403
Brokered resale revenues, net	237	305	905	1,248
Home selling expenses	(1,482)	(1,845)	(4,630)	(5,845)
Ancillary services revenues, net	607	799	1,728	2,223
(Loss) Income from home sales operations and other	(743)	(375)	(2,717)	29
Other Income (Expenses):				
Interest income	885	496	1,566	1,458
Income from other investments, net	2,783	5,323	16,398	15,407
General and administrative	(5,315)	(3,795)	(15,548)	(11,146)
Rent control initiatives	(102)	(722)	(1,967)	(2,157)

Interest and related amortization	(24,930)	(25,942)	(74,604)	(77,420)
Depreciation on corporate assets	(84)	(116)	(266)	(337)
Depreciation on real estate assets	(17,132)	(15,901)	(49,664)	(47,232)
Total other expenses, net	(43,895)	(40,657)	(124,085)	(121,427)
Income before minority interests, equity in income of unconsolidated joint ventures and discontinued operations	5,752	8,299	31,178	32,412
Income allocated to Common OP units	(326)	(966)	(4,282)	(4,333)
Income allocated to Perpetual OP units	(4,032)	(4,031)	(12,104)	(12,101)
Equity in income of unconsolidated joint ventures	62	738	3,445	2,048
Income from continuing operations	1,456	4,040	18,237	18,026
Discontinued Operations:				
Discontinued operations	32	96	177	234
Gain (Loss) on sale from discontinued real estate		6,858	(80)	11,444
Income allocated to Common OP units from discontinued operations	(6)	(1,342)	(18)	(2,259)
Income from discontinued operations	26	5,612	79	9,419
Net income available for Common Shares	$ 1,482	$ 9,652	$ 18,316	$ 27,445

The accompanying notes are an integral part of the financial statements.

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Operations (Continued)
For the Quarters and Nine Months Ended September 30, 2008 and 2007
(amounts in thousands, except share and per share data)
(unaudited)

	Quarters Ended September 30, 2008	Quarters Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Earnings per Common Share Basic:				
Income from continuing operations	$ 0.06	$ 0.17	$ 0.75	$ 0.75
Income from discontinued operations	0.00	0.23	0.00	0.39
Net income available for Common Shares	$ 0.06	$ 0.40	$ 0.75	$ 1.14
Earnings per Common Share Fully Diluted:				
Income from continuing operations	$ 0.06	$ 0.16	$ 0.74	$ 0.74
Income from discontinued operations	0.00	0.23	0.00	0.38
Net income available for Common Shares	$ 0.06	$ 0.39	$ 0.74	$ 1.12
Distributions declared per Common Share outstanding	$ 0.20	$ 0.15	$ 0.60	$ 0.45
Weighted average Common Shares outstanding basic	24,527	24,148	24,366	24,065
Weighted average Common Shares outstanding fully diluted	30,572	30,418	30,504	30,402

The accompanying notes are an integral part of the financial statements.

5

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2008 and 2007
(amounts in thousands)
(unaudited)

	September 30, 2008	September 30, 2007
Cash Flows From Operating Activities:		
Net income	$ 18,316	$ 27,445
Adjustments to reconcile net income to Cash provided by operating activities:		
Income allocated to minority interests	16,354	18,693
Loss (Gain) on sale of discontinued real estate	79	(11,444)
Depreciation expense	51,062	48,658
Amortization expense	2,133	2,199
Debt premium amortization	(632)	(1,219)
Equity in income of unconsolidated joint ventures	(4,794)	(3,137)
Distributions from unconsolidated joint ventures	3,381	3,800
Amortization of stock-related compensation	3,975	3,195
Revenue from right-to-use contract sales	(63)	
Commission expense related to right-to-use contract sales	21	
Accrued long term incentive plan compensation	823	311
Increase in provision for uncollectible rents receivable	283	70
Increase in provision for inventory reserve	63	123
Changes in assets and liabilities:		
Rent and other customer receivables, net	(204)	(63)
Inventory	(3,130)	2,447
Deferred commissions expense	(1,619)	
Escrow deposits and other assets	(2,833)	(4,249)
Accrued payroll and other operating expenses	17,553	11,270
Deferred revenue sales of right-to-use contracts	5,003	
Rents and other customer payments received in advance and security deposits	(8,328)	(6,272)
Net cash provided by operating activities	97,443	91,827
Cash Flows From Investing Activities:		
Acquisition of real estate	(3,484)	(19,108)
Acquisition of Privileged Access	1,267	
Disposition of real estate		20,536
Net tax-deferred exchange withdrawal (deposit)	2,124	(6,376)
Joint Ventures:		
Investments in	(5,545)	(3,117)
Distributions from	524	114
Net repayment (borrowings) of notes receivable	(1,152)	10,699
Improvements:		
Corporate	(196)	(511)

Rental properties		(10,516)		(12,282)
Site development costs		(9,139)		(9,093)
Net cash used in investing activities		(26,117)		(19,138)
Cash Flows From Financing Activities:				
Net proceeds from stock options and employee stock purchase plan		4,157		3,387
Distributions to Common Stockholders, Common OP Unitholders, and Perpetual Preferred OP Unitholders		(28,741)		(23,425)
Lines of credit:				
Proceeds		177,100		81,100
Repayments		(164,400)		(114,400)
Principal repayments on disposition				(1,992)
Principal repayments and mortgage debt payoff		(151,031)		(14,951)
New financing proceeds		140,275		
Debt issuance costs		(1,726)		(310)
Net cash used in financing activities		(24,366)		(70,591)
Net increase in cash and cash equivalents		46,960		2,098
Cash and cash equivalents, beginning of period		5,785		1,605
Cash and cash equivalents, end of period	$	52,745	$	3,703

The accompanying notes are an integral part of the financial statements.

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows (continued)
For the Nine Months Ended September 30, 2008 and 2007
(amounts in thousands)
(unaudited)

	September 30, 2008	September 30, 2007
Supplemental Information:		
Cash paid during the period for interest	$ 72,418	$ 76,134
Non-cash activities:		
Real estate acquisition and disposition		
Mortgage debt assumed and financed on acquisition of real estate	$	$ 7,437
Mezzanine and joint venture investments applied to real estate acquisition	$	$ 182
Other assets and liabilities, net, acquired on acquisition of real estate	$ 36	$ 170
Proceeds from loan to pay insurance premiums	$	$ 4,300
Inventory reclassified to Buildings and other depreciable property	$ 36,635	$
Acquisition of operations of Privileged Access		
Assumption of assets and liabilities:		
Inventory	$ 2,106	$
Escrow deposits and other assets	$ 12,050	$
Accrued payroll and other operating expenses	$ 13,644	$
Rents and other customer payments received in advance and security deposits	$ 21,304	$
Notes receivable	$ 19,571	$
Investment in real estate	$ 6,991	
Debt assumed and financed on acquisition	$ 7,037	$

The accompanying notes are an integral part of the financial statements.

Table of Contents

Definition of Terms:

Equity LifeStyle Properties, Inc., a Maryland corporation, together with MHC Operating Limited Partnership (the Operating Partnership) and other consolidated subsidiaries (Subsidiaries), are referred to herein as the Company, EL we, us, and our. Capitalized terms used but not defined herein are as defined in the Company s Annual Report on For 10-K (2007 Form 10-K) for the year ended December 31, 2007.

Presentation:

These unaudited Consolidated Financial Statements have been prepared pursuant to the Securities and Exchange Commission (SEC) rules and regulations and should be read in conjunction with the financial statements and notes thereto included in the 2007 Form 10-K. The following Notes to Consolidated Financial Statements highlight significant changes to the Notes included in the 2007 Form 10-K and present interim disclosures as required by the SEC. The accompanying Consolidated Financial Statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature. Revenues are subject to seasonal fluctuations and as such quarterly interim results may not be indicative of full year results.

Note 1 Summary of Significant Accounting Policies

(a) Basis of Consolidation

The Company consolidates its majority-owned subsidiaries in which it has the ability to control the operations of the subsidiaries and all variable interest entities with respect to which the Company is the primary beneficiary. The Company also consolidates entities in which it has a controlling direct or indirect voting interest. All inter-company transactions have been eliminated in consolidation. The Company s acquisitions were all accounted for as purchases in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141).

The Company has applied the Financial Accounting Standards Board (FASB) issued Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R) an interpretation of ARB 51. The objective of FIN 46R is to provide guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, non-controlling interests, and results of operations of a VIE need to be included in a company s consolidated financial statements. A company that holds variable interests in an entity will need to consolidate such entity if the company absorbs a majority of the entity s expected losses or receives a majority of the entity s expected residual returns if they occur, or both (i.e., the primary beneficiary). The Company has also applied Emerging Issues Task Force 04-5 Accounting for investments in limited partnerships when the investor is the sole general partner and the limited partners have certain rights (EITF 04-5) which determines whether a general partner or the general partners as a group controls a limited partnership or similar entity and therefore should consolidate the entity. The Company will apply FIN 46R and EITF 04-5 to all types of entity ownership (general and limited partnerships and corporate interests).

The Company applies the equity method of accounting to entities in which the Company (i) does not have a controlling direct or indirect voting interest or (ii) is not considered the primary beneficiary, but can exercise influence over the entity with respect to its operations and major decisions. The cost method is applied when (i) the investment is minimal (typically less than 5%) and (ii) the Company s investment is passive.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(c) Markets

The Company manages all of its operations on a property-by-property basis. Since each Property has similar economic and operational characteristics, the Company has one reportable segment, which is the operation of land lease Properties. The distribution of the Properties throughout the United States reflects our belief that geographic diversification helps insulate the portfolio from regional economic influences. The Company intends to target new acquisitions in or near markets where the Properties are located and will also consider acquisitions of Properties outside such markets.

(d) Inventory

Inventory primarily consists of new and used Site Set homes and is stated, net of manufacturer rebates, at the lower of cost or market after consideration of the N.A.D.A. (National Automobile Dealers Association) Manufactured Housing Appraisal Guide and the current market value of each home included in the home inventory. Inventory sales revenues and resale revenues are recognized when the home sale is closed. The expense for the inventory reserve is included in the cost of home sales in our Consolidated Statements of Operations.

(e) Real Estate

In accordance with SFAS No. 141, we allocate the purchase price of Properties we acquire to net tangible and identified intangible assets acquired based on their fair values. In making es