

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1996

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

COMMISSION FILE NUMBER: 1-11718

MANUFACTURED HOME COMMUNITIES, INC.
(Exact name of registrant as specified in its Charter)

MARYLAND
(State or other jurisdiction of incorporation or organization)

36-3857664
(I.R.S. Employer Identification No.)

TWO NORTH RIVERSIDE PLAZA, SUITE 800, CHICAGO, ILLINOIS
(Address of principal executive offices)

60606
(Zip Code)

(312) 474-1122
(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 (X) No ()

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

24,692,308 SHARES OF COMMON STOCK AS OF APRIL 30, 1996.

MANUFACTURED HOME COMMUNITIES, INC.

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MANUFACTURED HOME COMMUNITIES, INC.
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 1996 AND DECEMBER 31, 1995
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	1996	1995
	-----	-----
ASSETS		
Investment in rental property:		
Land.....	\$132,483	\$127,229
Land improvements.....	345,677	328,667
Buildings and other depreciable property.....	87,380	87,059
	-----	-----
Accumulated depreciation.....	565,540	542,955
	(60,036)	(56,403)
	-----	-----
Net investment in rental property.....	505,504	486,552
Cash and cash equivalents.....	712	760
Short-term investments (at cost, which approximates market).....	4,092	1,682
Notes receivable.....	15,105	15,010
Investment in and advances to affiliates.....	11,245	10,987
Rents receivable.....	871	935
Deferred financing costs, net.....	3,000	3,268
Prepaid expenses and other assets.....	3,245	3,430
Due from affiliates.....	441	501
	-----	-----
Total assets.....	\$544,215	\$523,125
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable.....	\$198,541	\$199,066
Line of credit.....	31,000	12,900
Accounts payable and accrued expenses.....	10,904	8,759
Accrued interest payable.....	1,264	1,258
Rents received in advance and security deposits.....	4,658	1,792
Distributions payable.....	8,350	7,998
Due to affiliates.....	409	547
	-----	-----
Total liabilities.....	255,126	232,320
	-----	-----
Commitments and contingencies		
Minority interests.....	29,104	29,305
	-----	-----
Stockholders' equity:		
Preferred stock, \$.01 par value		
10,000,000 shares authorized; none issued.....	---	---
Common stock, \$.01 par value		
50,000,000 shares authorized; 24,778,016 and		
24,502,877 shares issued and 24,668,288 and 24,393,149 shares		
outstanding for 1996 and 1995, respectively.....	247	244
Paid-in capital.....	293,304	288,533
Treasury stock, 109,728 shares of common stock.....	(1,987)	(1,987)
Employee notes.....	(6,237)	(1,565)
Distributions in excess of accumulated earnings.....	(25,342)	(23,725)
	-----	-----
Total stockholders' equity.....	259,985	261,500
	-----	-----
Total liabilities and stockholders' equity.....	\$544,215	\$523,125
	=====	=====

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

MANUFACTURED HOME COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE QUARTERS ENDED MARCH 31, 1996 AND 1995
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	1996	1995
	-----	-----
REVENUES		
Base rental income.....	\$22,465	\$21,163
Utility and other income.....	2,299	2,219
Equity in income of affiliates.....	105	167
Interest income.....	600	579
	-----	-----
Total revenues.....	25,469	24,128
	-----	-----
EXPENSES		
Property operating and maintenance.....	6,897	6,918
Real estate taxes.....	2,010	1,917
Property management.....	1,184	1,297
Corporate expenses.....	971	1,322
Interest:		
Interest incurred.....	3,926	4,272
Amortization of deferred financing cost.....	268	814
Depreciation.....	3,656	3,590
	-----	-----
Total expenses.....	18,912	20,130
	-----	-----
Income before allocation to minority interests...	6,557	3,998
	-----	-----
(Income) allocated to minority interests.....	(650)	(400)
	-----	-----
Net income.....	\$ 5,907	\$ 3,598
	=====	=====
Net income per weighted average common share		
outstanding.....	\$.24	\$.15
	=====	=====
Distributions declared		
per common share outstanding.....	\$.305	\$.295
	=====	=====
Weighted average common shares outstanding.....	24,664	24,331
	=====	=====

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

MANUFACTURED HOME COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED MARCH 31, 1996 AND 1995
(AMOUNTS IN THOUSANDS)
(UNAUDITED)

	1996	1995
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 5,907	\$ 3,598
Adjustments to reconcile net income to cash provided by operating activities:		
Income allocated to minority interests.....	650	400
Depreciation and amortization expense.....	3,924	4,404
Equity in income of affiliates.....	(105)	(167)
Decrease in rents receivable.....	64	293
Decrease (increase) in prepaid expenses and other assets.....	104	(177)
Increase in accounts payable and accrued expenses.....	2,013	2,347
Increase in rents received in advance and security deposits...	2,866	2,950
	-----	-----
Net cash provided by operating activities.....	15,423	13,648
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short-term investments, net.....	(2,410)	(4,986)
(Contributions to) distributions from affiliates.....	(153)	10
Collection of principal payments on notes receivable.....	46	1,552
Acquisition of rental properties.....	(21,456)	(600)
Improvements:		
Improvements - corporate.....	---	(354)
Improvements - rental properties.....	(646)	(774)
Site development costs.....	(506)	(499)
	-----	-----
Net cash used in investing activities.....	(25,125)	(5,651)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options.....	39	71
Distributions to common stockholders and minority interests.....	(8,000)	(8,007)
Treasury stock acquired.....	---	(1,987)
Collection of principal payments on employee notes.....	20	2,021
Proceeds from line of credit.....	18,600	---
Repayments on mortgage notes payable and line of credit.....	(1,025)	(328)
Debt issuance costs and other.....	20	(19)
	-----	-----
Net cash provided by (used in) financing activities.....	9,654	(8,249)
	-----	-----
Net (decrease) in cash and cash equivalents.....	(48)	(252)
Cash and cash equivalents, beginning of period.....	760	1,924
	-----	-----
Cash and cash equivalents, end of period.....	\$ 712	\$ 1,672
	=====	=====
SUPPLEMENTAL INFORMATION:		
Cash paid during the period for interest.....	\$ 3,920	\$ 4,211
	=====	=====

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

MANUFACTURED HOME COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PRESENTATION:

These unaudited Consolidated Financial Statements of Manufactured Home Communities, Inc., a Maryland corporation, and its subsidiaries (collectively, the "Company"), 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 Company's 1995 Annual Report on Form 10-K. The following Notes to Consolidated Financial Statements highlight significant changes to the Notes included in the 1995 Annual Report on 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. Certain reclassifications have been made to the prior periods' financial statements in order to conform with current period presentation.

NOTE 1 - COMMON STOCK AND RELATED TRANSACTIONS

On April 12, 1996, the Company paid a \$.305 per share distribution for the quarter ended March 31, 1996 to stockholders of record on March 29, 1996.

On January 2, 1996, certain members of management of the Company each entered into subscription agreements with the Company to acquire 270,000 shares of the Company's common stock at \$17.375 per share. The Company allowed these individuals to tender notes (the "1996 Employee Notes") in exchange for their shares. The 1996 Employee Notes accrue interest at 5.91%, mature on January 2, 2005, and are recourse against the employees in the event the pledged shares are insufficient to repay the obligations.

NOTE 2 - RENTAL PROPERTY

On February 28, 1996, the Company acquired Waterford, located near Wilmington, Delaware, for a purchase price of approximately \$21 million. The acquisition was funded with an \$18.6 million borrowing under the Company's line of credit with a bank and approximately \$2.4 million of working capital. Waterford consists of 621 developed sites and 110 expansion sites; the cost of completing the expansion sites will be paid by the seller.

As of April 30, 1996, the Company had contracts outstanding to acquire certain manufactured housing communities which are subject to satisfactory completion of the Company's due diligence review. The Company is actively seeking to acquire additional communities and currently is engaged in negotiations relating to the possible acquisition of a number of communities.

Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets To Be Disposed Of" ("SFAS No. 121") is effective for fiscal years beginning after December 15, 1995. The Company evaluates rental properties for impairment when conditions exist which may indicate that it is probable that the sum of expected future cash flows (undiscounted) from a rental property are less than its carrying value. Upon determination that a permanent impairment has occurred, rental properties are reduced to fair value. For the quarter ended March 31, 1996, permanent impairment conditions did not exist at any of the Company's properties.

MANUFACTURED HOME COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - NOTES RECEIVABLE

At March 31, 1996 and December 31, 1995, notes receivable consisted of the following (amounts in thousands):

	1996	1995
	-----	-----
\$2.0 million note receivable with monthly principal and interest payments at 9.0%, maturing on 6/10/2003.....	\$ 1,726	\$ 1,768
\$1.2 million purchase money notes with monthly principal and interest payments at 7%, maturing on 4/30/2001.....	1,170	1,174
\$10 million leasehold mortgage loan with interest accruing at a stated rate of 12.5% with a pay rate of 8.25%, maturing on 9/1/2013.....	10,676	10,558
\$1.9 million note receivable with monthly interest payments at prime plus 1.6%, maturing on 4/15/2000.....	1,533	1,510
	-----	-----
Total notes receivable.....	\$15,105	\$15,010
	=====	=====

NOTE 4 - LONG-TERM BORROWINGS

At March 31, 1996 and December 31, 1995, long-term borrowings consisted of the following (amounts in thousands):

	1996	1995
	-----	-----
\$100.0 million mortgage note payable with monthly interest only payments at LIBOR plus 1.05%, maturing on 3/3/98 (a).....	\$100,000	\$100,000
First mortgage loan with monthly principal and interest payments at 7.40%, maturing on 3/1/2004.....	8,731	8,767
Purchase money note with structured principal and interest payments at an imputed rate of 7.38%, maturing on 7/13/2004.....	1,334	1,516
First mortgage loan with monthly principal and interest payments at a rate of 7.48%, maturing on 8/1/2004.....	24,780	24,859
\$65.0 million first mortgage loan with monthly principal and interest payments at 8%, maturing on 8/18/2001.....	63,696	63,924
	-----	-----
Total collateralized borrowings.....	198,541	199,066
\$50.0 million line of credit at LIBOR plus 2% (b).....	31,000	12,900
	-----	-----
Total long-term borrowings.....	\$229,541	\$211,966
	=====	=====

MANUFACTURED HOME COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - LONG-TERM BORROWINGS (CONTINUED)

(a) In December 1995, the Company entered into an agreement fixing the London Interbank Offered Rate ("LIBOR") on the \$100.0 million mortgage note payable (the "Mortgage Debt") at 5.24% effective January 10, 1996 through January 10, 1997. The value of this agreement is impacted by changes in the market rate of interest. Had the agreement been entered into on March 31, 1996, the applicable LIBOR swap rate would have been 5.39%. Each 0.01% increase or decrease in the applicable swap rate for this agreement increases or decreases the value of the agreement entered into by the Company versus its current value by approximately \$9,000.

The Company has an interest rate cap for the term of the Mortgage Debt which eliminates exposure to increases in LIBOR over 6%, plus 1.05%. In connection with the agreement effective January 10, 1996, discussed above, the Company sold a portion of the interest rate cap related to 1996 and recorded a non-cash loss of approximately \$650,000 in the fourth quarter of 1995. As of March 31, 1996, the fair market value of the interest rate cap was approximately \$705,000 as compared to book value of \$762,000.

In July 1995 the Company entered into an interest rate swap agreement (the "Swap") beginning at the maturity of the Mortgage Debt fixing LIBOR on the refinancing of the Mortgage Debt at 6.4% for the period 1998 through 2003. The cost of the Swap consisted only of legal costs which were deemed immaterial. In the event that the Company does not refinance the Mortgage Debt, the risk associated with the Swap is that the Company would be obligated to perform its obligations under the terms of the Swap or would have to pay to terminate the Swap. In either event, the impact of such transaction would be reflected in the Company's statement of operations. The value of the Swap is impacted by changes in the market rate of interest. Had the Swap been entered into on March 31, 1996, the applicable LIBOR swap rate would have been 6.69%. Each 0.01% increase or decrease in the applicable swap rate for the Swap increases or decreases the value of the Swap entered into by the Company versus its current value by approximately \$38,000.

(b) On May 7, 1996, the Company amended the credit agreement increasing the \$50.0 million line of credit to \$100.0 million at LIBOR plus 1.375% and extended the maturity date to August 17, 1998. In addition, the fee on the average unused amount was reduced to .15% of such amount from .25%. The Company paid a \$200,000 loan fee which is being amortized over the remaining period of the amended agreement.

As of March 31, 1996, the carrying value of the property collateralizing the long-term borrowings was approximately \$458 million.

MANUFACTURED HOME COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - STOCK OPTIONS

Pursuant to the Amended and Restated 1992 Stock Option and Stock Award Plan (the "Plan") as discussed in Note 12 to the 1995 Annual Report on Form 10-K, certain officers, directors, key employees and consultants have been offered the opportunity to acquire shares of common stock of the Company through stock options ("Options"). During the quarter ended March 31, 1996, Options for 3,000 shares of common stock were exercised.

In 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Under the provisions of SFAS No. 123, companies can elect to account for stock-based compensation plans using a fair-value-based method or continue measuring compensation expense for those plans using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS No. 123 requires that companies electing to continue using the intrinsic value method must make pro-forma disclosures of net income and earnings per share as if the fair-value-based method of accounting had been applied.

The Company elected to continue to account for stock-based compensation using the intrinsic value method. As such, SFAS No. 123 did not have an impact on the Company's first quarter results of operations or financial position. The pro-forma information required by SFAS No. 123 will be included in the footnotes to the Company's 1996 year-end consolidated financial statements.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

There have been no new or significant developments related to the commitments and contingencies that were discussed in the 1995 Annual Report on Form 10-K.

NOTE 7 - SUBSEQUENT EVENTS

On May 9, 1996, the Company funded a recourse real estate loan for \$6,050,000 to the partnership which owns Candlelight Village, located in Columbus, Indiana. The loan has an interest rate of 9.5%, 9.75% and 10% for the first, second and third years of the loan, respectively, which interest is payable monthly. Interest and principal are guaranteed by the general partner of the partnership which owns Candlelight. The loan matures May 8, 1999 at which time the Company has the option to purchase Candlelight Village. Candlelight Village consists of 512 sites and 73 expansion sites. For financial accounting purposes, the Company expects to account for the loan as an investment in real estate.

MANUFACTURED HOME COMMUNITIES, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following is a discussion of the interim results of operations, financial condition and liquidity and capital resources of the Company for the three months ended March 31, 1996 compared to the corresponding period in 1995. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto included herein and the 1995 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MARCH 31, 1996 TO THREE MONTHS ENDED MARCH 31, 1995

Since March 31, 1995, the gross investment in rental property has increased from \$543 million to \$566 million as of March 31, 1996 due to the acquisition of Waterford on February 28, 1996, partially offset by the sale of two properties in 1995. The total number of sites has increased from 25,839 as of March 31, 1995 to 26,284 as of March 31, 1996.

The following table summarizes certain weighted average occupancy statistics for the quarters ended March 31, 1996 and 1995. "Core Portfolio" represents an analysis of properties owned during both periods of comparison.

	Core Portfolio		Total Portfolio	
	1996	1995	1996	1995
Total sites	25,553	25,352	25,797	25,839
Occupied sites	24,008	23,651	24,208	24,004
Occupancy %	94.0%	93.3%	93.3%	92.9%
Monthly base rent per site	\$309.29	\$294.65	\$309.34	\$296.65

Base rental income (\$22.5 million) increased \$1.3 million or 6.1%. For the Core Portfolio, base rental income increased approximately \$1.4 million or 6.6%, reflecting a 5.0% increase in base rental rates and a 1.6% increase related to occupancy. Base rental income at Waterford was approximately \$189,000 for the quarter ended March 31, 1996. Partially offsetting this increase was a \$257,000 decrease in base rental income resulting from the sale of two properties in 1995.

The increase in monthly base rent per site reflected annual rent increases which went into effect in the first quarter of 1996 at approximately 72% of the properties, as well as annual rent increases that occurred in the last nine months of 1995. The 0.8% increase in occupied sites for the total portfolio was due to improved occupancy in the Southeastern Region's expansion communities and increased occupancy in the Rocky Mountain Region at a majority of the properties, partially offset by a decrease in occupied sites in the Western Region as a result of the sale in 1995 of Catalina.

MANUFACTURED HOME COMMUNITIES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

RESULTS OF OPERATIONS (CONTINUED)

Utility and other income (\$2.3 million) increased \$80,000 or 3.6% primarily due to increased other income at a majority of the properties.

Interest income (\$600,000) increased \$21,000 or 3.6%, primarily due to interest earned on the \$1.9 million of notes receivable funded by the Company in April 1995 and the 1996 Employee Notes granted on January 2, 1996, partially offset by a decrease in interest earned on short-term investments. Short-term investments had average balances for the quarters ended March 31, 1996 and 1995 of approximately \$3.4 million and \$7.8 million, respectively, which earned interest income at an effective rate of 5.4% and 4.4% per annum, respectively. As of March 31, 1996, the Company had cash and cash equivalents and short-term investments of \$4.8 million.

Property operating and maintenance expenses (\$6.9 million) decreased \$21,000 or 0.3%. The decrease was primarily due to a decrease in property payroll of approximately \$335,000, partially offset by an increase in utility expense of approximately \$191,000 and an increase in insurance and other expenses of approximately \$154,000. Property operating and maintenance expenses represented 27.1% of total revenues in 1996 and 28.7% in 1995.

Real estate taxes (\$2 million) increased \$93,000 or 4.9% due to the expected increase in assessed values at certain properties in 1996. Real estate taxes represented 7.9% of total revenues in both 1996 and 1995.

Property management expenses (\$1.2 million) decreased \$113,000 or 8.7%. The decrease was primarily due to a decrease in management company payroll of approximately \$462,000. In late March 1995, the Company closed certain of its regional offices and reduced staffing at others which decreased management company payroll. Partially offsetting this decrease was the one-time receipt in 1995 of a \$281,000 termination fee related to certain fee-managed contracts and a \$68,000 decrease in other property management company expenses. Property management expenses represented 4.6% of total revenues in 1996 and 4.7% in 1995.

Corporate expenses (\$971,000) decreased \$351,000 or 26.6%. The decrease was due to: (i) decreased professional fees of approximately \$137,000 resulting from the write-off in the first quarter of 1995 of legal due diligence and related costs associated with acquisitions which did not materialize, and (ii) decreased public company costs. Corporate expenses represented 3.8% of total revenues in 1996 and 4.4% in 1995.

Interest expense (\$3.9 million) decreased by \$346,000 or 8.1%. The decrease was due to lower weighted average outstanding debt balances during the period, as well as a decrease in the effective interest rate. The weighted average outstanding debt balances for the quarters ended March 31, 1996 and 1995 were \$218.0 million and \$226.6 million, respectively. The effective interest rates were 7.2% and 7.54%, respectively. Interest expense represented 15.4% of total revenues in 1996 and 17.7% in 1995.

MANUFACTURED HOME COMMUNITIES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

RESULTS OF OPERATIONS (CONTINUED)

In December 1995, the Company entered into an agreement fixing the LIBOR rate on the Mortgage Debt at 5.24% effective January 10, 1996 through January 10, 1997. The value of this agreement is impacted by changes in the market rate of interest. Had the agreement been entered into on March 31, 1996, the applicable LIBOR swap rate would have been 5.39%. Each 0.01% increase or decrease in the applicable swap rate for this agreement increases or decreases the value of the agreement entered into by the Company versus its current value by approximately \$9,000.

The Company has an interest rate cap for the term of the Mortgage Debt which eliminates exposure to increases in LIBOR over 6%, plus 1.05%. In connection with the agreement effective January 10, 1996, discussed above, the Company sold a portion of the interest rate cap related to 1996 and recorded a non-cash loss of approximately \$650,000 in the fourth quarter of 1995. As of March 31, 1996, the fair market value of the interest rate cap was approximately \$705,000 as compared to book value of \$762,000.

In July 1995 the Company entered into the Swap beginning at the maturity of the Mortgage Debt fixing LIBOR on the refinancing of the Mortgage Debt at 6.4% for the period 1998 through 2003. The cost of the Swap consisted only of legal costs which were deemed immaterial. In the event that the Company does not refinance the Mortgage Debt, the risk associated with the Swap is that the Company would be obligated to perform its obligations under the terms of the Swap or would have to pay to terminate the Swap. In either event, the impact of such transaction would be reflected in the Company's statement of operations. The value of the Swap is impacted by changes in the market rate of interest. Had the Swap been entered into on March 31, 1996, the applicable LIBOR swap rate would have been 6.69%. Each 0.01% increase or decrease in the applicable swap rate for the Swap increases or decreases the value of the Swap entered into by the Company versus its current value by approximately \$38,000.

On May 7, 1996, the Company amended its credit agreement on the \$50.0 million line of credit ("Credit Facility") increasing the Credit Facility to \$100.0 million at LIBOR plus 1.375% and extended the maturity date to August 17, 1998. In addition, the fee on the average unused amount was reduced to .15% of such amount. The Company borrowed an additional \$2.0 million and \$5.0 million under the Credit Facility in April and May 1996, respectively.

Amortization of deferred financing costs (\$268,000) decreased \$546,000 or 67% primarily due to the write-off in 1995 of approximately \$385,000 of loan costs related to the \$50 million line of credit with General Electric Credit Corp. which expired in March 1995. Amortization of deferred financing costs represented 1.1% of total revenues in 1996 and 3.4% in 1995.

Depreciation expense (\$3.7 million) increased \$66,000 or 1.8%. Depreciation expense on corporate assets was approximately \$96,000 and \$83,000 for the quarters ended December 31, 1995 and 1994, respectively. Depreciation expense represented 14.4% of total revenues in 1996 and 14.9% in 1995.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by \$48,000 when compared to December 31, 1995. The major components of this decrease were the acquisition of Waterford, payment of distributions, purchase of short-term investments, and improvements to rental properties, partially offset by the \$18.6 million borrowing under the line of credit and increased cash provided by operating activities.

MANUFACTURED HOME COMMUNITIES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Net cash provided by operating activities increased \$1.8 million from \$13.6 million for the quarter ended March 31, 1995 compared to \$15.4 million for the same period in 1996. This increase reflected a \$2.2 million increase in Funds From Operations ("FFO"), as discussed below, and decreased accounts payable accruals.

FFO was defined by the National Association of Real Estate Investment Trusts ("NAREIT") in March 1995 as net income (computed in accordance with generally accepted accounting principles ["GAAP"]), before allocation to minority interests, plus real estate depreciation and after adjustments for significant non-recurring items, if any. In the first quarter of 1996, the Company adopted this new definition of FFO which is effective for periods ending after December 31, 1995. Prior to this adoption, FFO was defined as income before allocation to minority interests plus certain non-cash items, primarily depreciation and amortization. Funds available for distribution ("FAD") is defined as FFO less non-revenue producing capital expenditures and amortization payments on mortgage loan principal. The Company believes that FFO and FAD are useful to investors as a measure of the performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, they provide investors an understanding of the ability of the Company to incur and service debt and to make capital expenditures. FFO and FAD in and of themselves do not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net income as an indication of the Company's performance or to net cash flows from operating activities as determined by GAAP as a measure of liquidity and are not necessarily indicative of cash available to fund cash needs.

The following table presents a calculation of FFO and FAD for the quarters ended March 31, 1996 and 1995:

	March 31,		
	1996	1995	
	-----	-----	
Computation of funds from operations:			
Income before allocation to minority interests.....	\$ 6,557	\$ 3,998	
Depreciation on real estate assets.....	3,560	3,507	
Amortization of non-recurring items.....	---	385	
	-----	-----	
Funds from operations.....	\$10,117	\$ 7,890	(a)
	=====	=====	
Computation of funds available for distribution:			
Funds from operations.....	\$10,117	\$ 7,890	(a)
Non-revenue producing improvements - rental properties.....	(646)	(774)	
	-----	-----	
Funds available for distribution.....	\$ 9,471	\$ 7,116	
	=====	=====	

(a) FFO for the quarter ended March 31, 1995 has been restated pursuant to the new definition of FFO adopted by the Company for periods ending after December 31, 1995.

MANUFACTURED HOME COMMUNITIES, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Net cash used in investing activities increased \$19.5 million from \$5.7 million for the quarter ended March 31, 1995 to \$25.1 million for the quarter ended March 31, 1996 due to the acquisition of Waterford, partially offset by a decrease in the purchase of short-term investments. On February 28, 1996, the Company acquired Waterford, located near Wilmington, Delaware, for a purchase price of approximately \$21 million. The acquisition was funded with an \$18.6 million borrowing under the Company's line of credit and approximately \$2.4 million of working capital. Waterford consists of 621 developed sites and 110 expansion sites; the cost of developing the expansion sites will be paid by the seller.

Capital expenditures for improvements were approximately \$1.2 million for the quarter ended March 31, 1996 compared to \$1.6 million for the quarter ended March 31, 1995. Of the \$1.2 million, approximately \$646,000 represented improvements to existing sites. The Company anticipates spending approximately \$2.6 million on improvements to existing sites during the remainder of 1996. The Company believes these improvements are necessary in order to increase and/or maintain occupancy levels and maximize rental rates charged to new and renewing residents. The remaining \$506,000 represented costs to develop expansion sites at certain of the Company's properties. The Company is currently developing an additional 105 sites which should be available for occupancy in 1996.

Net cash provided by (used in) financing activities increased \$17.9 million from \$(8.2) million for the quarter ended March 31, 1995 to \$9.7 million for the quarter ended March 31, 1996 primarily due to the \$18.6 million borrowing under the line of credit for the acquisition of Waterford.

Distributions to common stockholders and minority interests remained relatively stable at \$8 million for the quarters ended March 31, 1996 and 1995. On January 12, 1996, the Company paid a \$0.295 per share distribution for the fourth quarter of 1995 to stockholders of record on December 29, 1995. On April 12, 1996, the Company paid a \$0.305 per share distribution for the first quarter of 1996 to stockholders of record on March 29, 1996. Return of capital on a GAAP basis was \$0.065 for the first quarter of 1996.

On January 2, 1996, certain members of management of the Company each entered into subscription agreements with the Company to acquire 270,000 shares of the Company's common stock at \$17.375 per share. The Company allowed these individuals to tender notes (the "1996 Employee Notes") in exchange for their shares. The 1996 Employee Notes accrue interest at 5.91%, mature on January 2, 2005, and are recourse against the employees in the event the pledged shares are insufficient to repay the obligations.

The Company expects to meet its short-term liquidity requirements, including its distributions, generally through its working capital, net cash provided by operating activities and availability under the existing line of credit. The Company expects to meet certain long-term liquidity requirements such as scheduled debt maturities, property acquisitions and capital improvements by long-term collateralized and uncollateralized borrowings including its existing line of credit and the issuance of debt securities or additional equity securities in the Company, in addition to working capital.

MANUFACTURED HOME COMMUNITIES, INC.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The discussion in Note 6 of Notes to Consolidated Financial Statements is incorporated herein by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

- 10.1 Amendment No. 2 to MHC Operating Limited Partnership Amended and Restated Partnership Agreement dated February 15, 1996
- 10.2 Form of Subscription Agreement between the Company and certain members of management of the Company
- 10.3 Form of Secured Promissory Note payable to the Company by certain members of management of the Company
- 10.4 Form of Pledge Agreement between the Company and certain members of management of the Company
- 27 Financial Data Schedule

(b) Reports on Form 8-K:

Form 8-K dated February 28, 1996, filed March 15, 1996, relating to Item 5 - "Other Events - Acquisition or Disposition Assets" on the acquisition of Waterford.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

MANUFACTURED HOME COMMUNITIES, INC.

BY: \s\ Thomas P. Heneghan

Thomas P. Heneghan
Vice President and Chief Financial Officer
(a duly authorized officer and Chief
Accounting Officer of the Company)

DATE: May 9, 1996

AMENDMENT NO. 2
TO
MHC OPERATING LIMITED PARTNERSHIP
AMENDED AND RESTATED PARTNERSHIP AGREEMENT

This Amendment No. 2 (the "Amendment") to Amended and Restated MHC Operating Limited Partnership Amended and Restated Partnership Agreement (the "Agreement") is made as of February 15, 1996 by Manufactured Home Communities, Inc., a Maryland corporation and the general partner (the "General Partner") of MHC Operating Limited Partnership, an Illinois limited partnership (the "Partnership").

R E C I T A L S

A. The Partners (as defined in the Agreement) executed the Agreement as of March 3, 1993 and Amendment No. 1 to the Agreement dated as of August 18, 1994.

B. Pursuant to the power of attorney granted under Section 16 of the Agreement, the General Partner desires to amend the Agreement to reflect the amendment set forth herein.

CLAUSES

In consideration of the preceding, as well as the mutual covenants and provisions set forth below, the General Partner on behalf of all Partners, amends the Agreement as follows:

1. Section 3.3(b): Section 3.3(b) of the Agreement is hereby deleted in its entirety and replaced with the following Section 3.3(b):

"The net proceeds of any and all funds raised by or through the Company through the issuance of additional shares of stock of the Company (whether common or preferred) (i) shall be contributed to the Partnership as additional Capital Contributions, and in such event the Company shall be issued additional OP Units pursuant to Section 3.2(B) above or (ii) in the case of preferred stock, may, at the option of the Company, be advanced by the Company in consideration of the issuance of a promissory note having substantially the same terms and conditions, rights and preferences as the preferred stock."

2. Reaffirmation of other Terms. The General Partner reaffirms all other terms contained in the Agreement.

3. Defined Terms. All capitalized terms used herein and not defined shall have the meanings given such terms in the Agreement.

GENERAL PARTNER:

MANUFACTURED HOME COMMUNITIES, INC., a
Maryland corporation

By: \s\ David A. Helfand

Name: David A. Helfand

Title: President

FORM OF SUBSCRIPTION AGREEMENT

This Subscription Agreement, dated as of January 2, 1996 (the "Agreement"), is entered into by and between Manufactured Home Communities, Inc., a corporation organized under the laws of the State of Maryland (the "Corporation"), and _____ (the "Subscriber").

The Subscriber desiring to subscribe for and acquire shares of the common stock, \$.01 par value per share, of the Corporation (the "Common Stock"), and the Corporation, desiring to issue such shares of Common Stock to the Subscriber agree as follows:

1. Subscription for and Issuance of Shares. For the consideration stated in this Section 1, the Subscriber subscribes for and agrees to acquire, and the Corporation accepts such subscription and agrees to issue to the Subscriber, _____ shares of Common Stock (the "Shares") at the closing price per share on January 2, 1996 (the "Purchase Price") for a total subscription price equal to the number of Shares multiplied by the Purchase Price (the "Subscription Price"). Payment of the Subscription Price shall be made by delivery by the Subscriber to the Corporation, of a note (the "Note") which Note shall be secured by the pledge by Subscriber of certificates representing the Shares purchased by such Subscriber pursuant to the terms of a pledge agreement (the "Pledge Agreement"). The Corporation shall acknowledge receipt from the Subscriber of the Subscription Price tendered by the delivery of the Note and the Pledge Agreement to the Corporation and, at such time, the Subscriber shall acknowledge receipt of the certificate or certificates evidencing the Shares issuable to the Subscriber, registered in the name of the Subscriber.
2. Representations and Warranties of the Corporation. The Corporation hereby represents and warrants to the Subscriber as follows:
 - (a) Organization. The Corporation is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland, with full power to own its properties and carry on its business as presently conducted and to enter into and perform this Agreement.
 - (b) Authorization. All corporate action necessary to authorize the Corporation to enter into this Agreement and to perform the covenants and agreements has been duly and validly taken. Neither the execution of this Agreement nor the performance by the Corporation of its covenants and agreements hereunder violates or will violate any provisions of the Articles of Incorporation, as amended, or By-Laws of the Corporation or of any agreement, document or instrument to which it is a party or by which it is bound.
3. Subscriber's Representations, Warranties, Acknowledgements and Covenants. The Subscriber acknowledges, represents and warrants to the Corporation as follows:

- (a) Subscriber's Suitability. The Subscriber (i) has been given an opportunity to ask, and to the extent the Subscriber has considered necessary, has asked questions of, and has received answers from, representatives of the Corporation concerning the terms of this investment and the affairs of the Corporation, and all such questions have been answered to the full satisfaction of the Subscriber; and (ii) has been given or afforded access to all documents, records, books and additional information which the Subscriber has requested regarding such matters. In making this investment, the Subscriber is not relying on any oral information furnished by or oral representation made by the Corporation or any one acting on behalf of the Corporation.
- (b) Subscriber's Awareness.
- (i) The Subscriber understands that the offering and sale of the Shares has not been registered under the Securities Act of 1933 Act, as amended (the "1933 Act"), or under certain state securities laws in reliance upon exemptions therefrom for nonpublic offerings. The Subscriber understands that the Shares must be held indefinitely unless the sale thereof is subsequently registered under the 1933 Act and under certain state securities laws or an exemption or exemptions from such registration is available and that except as provided herein, neither the Corporation nor any other person is required to register the Shares under the 1933 Act, or take any steps to perfect any exemption therefrom for any resale of the Shares pursuant to Rule 144 under the 1933 Act, or otherwise transfer the Shares unless such Shares are registered under the 1933 Act and under any applicable state securities laws, or an exemption or exemptions from such registration is available;
- (ii) The Shares are being purchased by the Subscriber solely for the Subscriber's own account for investment, and not with a view to, or for resale in connection with, any distribution. The Subscriber acknowledges that, with the exception of the Corporation, no other person has a direct or indirect beneficial interest in such Shares, and that no other person has furnished, directly or indirectly, any part of the Subscription Price. The Subscriber does not intend to dispose of all or any part of such Shares and understands that such Shares are being offered and sold pursuant to a specific exemption under the provisions of the 1933 Act which exemption depends, among other things, upon the investment intent of the Subscriber; and

(iii) The Subscriber understands that no offering memorandum or sales literature has been filed with or reviewed by certain state securities administrators because of the representations made by the Corporation as to the private and limited nature of this offering. No federal or state agency has passed upon the Shares or made any finding or determination as to the merits of this investment.

(c) Authorization and Binding Obligation.

(i) The Subscriber has duly taken any and all action necessary to authorize such Subscriber's execution and performance of this Agreement in accordance with its terms;

(ii) This Agreement constitutes the valid and binding obligation of the Subscriber, enforceable in accordance with its terms; and

(iii) Neither the execution nor the performance of this Agreement violates or will violate the terms of any agreement, document or instrument to which the Subscriber is a party or by which the Subscriber may be bound.

4. Registration Rights. The Subscriber and Corporation agree that if the Corporation proposes to register any of its securities under the 1933 Act and the form to be used may be used for the registration of Shares, the Corporation will give prompt written notice ("Piggyback Notice") to the Subscriber of its intention to effect such registration and the Corporation will include in such registration, at the Corporation's expense, the Shares with respect to which the Corporation has received written requests for inclusion therein within ten (10) days after the date of sending the Piggyback Notice. Nothing herein shall affect the right of the Corporation to withdraw such registration in its sole discretion or require the Corporation to include the Shares in such registration if the Corporation deems, in its sole discretion, that the inclusion of the Shares would adversely interfere with such registration, adversely affect the Corporation's securities in the public market or otherwise adversely affect the Corporation.

If the Corporation determines that only a portion of the Shares may be included without adversely affecting the Corporation, then the Corporation will include in such registration (i) first, the securities the Corporation proposes to register and (ii) any other securities requested to be included in such registration pro-rata on the basis of the number of shares requested for inclusion in such registration by each such holder.

5. Notices. Any notices or other communications shall be in writing and shall be given if sent by certified or registered mail, return receipt requested, postage prepaid:

- (a) if to the Corporation, to its then principal office;
 - (b) if to the Subscriber, to the Subscriber's then last known principal residence address; or to such other persons or at such other addresses as shall be furnished by any party by like notice to the others, and such notice or communication shall be deemed to have been given or made as of the date so delivered or mailed.
6. REIT Election. The Subscriber acknowledges that the Corporation has made an election to be treated as "REIT" within the meaning of Section 856(c) of the Internal Revenue Code of 1986, as amended. The Subscriber consents to such election and agrees that he shall not, through any action or failure to act, cause the termination of the Corporation's REIT election, unless there is a unanimous, written resolution or consent of all stockholders of the Corporation which requires them to so act or fail to act.
 7. Binding Agreement. This Agreement shall bind and inure to the benefit of the respective parties hereto, their successors and assigns.
 8. Headings. The headings and descriptive titles contained in this Agreement are for convenience of reference only and do not modify, limit or in any way define the interpretation or construction of the provisions of this Agreement.
 9. Entire Agreement. This Agreement embodies the entire agreement and understanding between the Corporation and the Subscriber and supersedes all prior agreement or understandings relating to the subject matter hereof.
 10. Governing Law. This Agreement is made in the State of Illinois and shall be governed by, and construed in accordance with, the internal laws of said State without reference to any principles of conflicts of laws.
 11. Amendments. This Agreement may not be altered or amended except by a writing executed by any party against whom such alteration or amendment is sought to be enforced.
 12. Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed to be an original, but both of which together shall constitute one and the same instrument.
 13. Severability. Should any one or more of the provisions of this Agreement be determined to be illegal, invalid or unenforceable, all of the other provisions of this Agreement shall be given effect separately from such provision or provisions and shall not be affected by any such determination.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

MANUFACTURED HOME COMMUNITIES, INC.

By: _____

Name: _____

Title: _____

SUBSCRIBER:

FORM OF SECURED PROMISSORY NOTE

\$ _____

January 2, 1996
Chicago, Illinois

FOR VALUE RECEIVED, the undersigned, _____, ("Maker") promises to pay to the order of Manufactured Home Communities, Inc., a Maryland corporation ("Payee", which term shall mean the holder, from time to time, of this Note), with an office at Two North Riverside Plaza, Suite 800, Chicago, Illinois 60606, or at such other place as the holder hereof may from time to time designate, the principal sum of \$_____ with interest on the unpaid principal balance from time to time outstanding, at the rate set forth below, with payment of principal and interest to be made in lawful money of the United States which shall be legal tender for public and private debts at the time of payment, as follows:

(a) Interest shall be computed on the basis of a three hundred sixty five (365) day year but for the actual number of days outstanding, at a rate per annum equal to five and ninety-one/100 percent (5.91%). Interest shall be payable quarterly in arrears, commencing on April 15, 1996 and on the fifteenth day of each July, October, January and April thereafter until the Maturity Date (as such term is hereinafter defined) out of Net Dividends as hereinafter provided. The total unpaid principal balance and all accrued but unpaid interest shall be due and payable on the Maturity Date. All payments of principal or interest shall be made to the holder of this Note not later than 1:00 p.m. on the date and at the place of payment designated by the holder hereof as aforesaid, and any payment received on such date but after such hour shall be deemed to have been paid to and received by the holder hereof on the next succeeding business day. If the date on which any payment is required to be made pursuant to this Note is not a business day, then such payment shall be due and payable on the next succeeding date which is not a Saturday, Sunday or legal holiday in the City of Chicago, State of Illinois.

(b) As used in this Note, the term "Maturity Date" shall mean the date which is the first to occur of (i) January 2, 2005, or (ii) the date on which the Maker is no longer employed, for any reason whatsoever other than death or disability (as hereinafter defined), by the Payee or an affiliate thereof, or (iii) the date on which right to accelerate payment of this Note accrues to the holder hereof as otherwise provided in this Note or as provided in that certain Pledge Agreement of even date herewith (the "Pledge Agreement") given by Maker to Payee to secure the payment of this Note. For purposes hereof, disability shall mean Maker's inability to perform his usual and customary employment obligation for ninety (90) consecutive days.

All such payments shall be made without reduction, and shall not be subject to any claim or offset of any kind or nature whatsoever.

1. Permissible Prepayments.

Provided Maker is not in default under this Note, or the Pledge Agreement or any other document relating to this Note (collectively, the "Loan Documents"), the principal amount of this Note or any interest accrued thereon may at any time and from time to time be prepaid in whole or in part, together with interest accrued thereon to the date of such prepayment, without premium, upon not less than ten (10) days' prior written notice to the Payee at the place of payment designated above.

2. Required Prepayments.

Maker shall be required to pay to Payee all Net Dividends (as hereinafter defined) within thirty (30) days of receipt thereof by Maker to be credited against accrued and unpaid interest and the remainder, if any, to principal. "Net Dividends" shall mean any and all payments made by Payee and received by Maker solely in his capacity as a stockholder of Payee less that amount which results from multiplying the maximum rate of federal and state income taxes then payable by Maker with respect to receipt of such payments.

3. Default.

At the option of Payee, this Note shall become immediately due and payable, without notice or demand, upon the occurrence at any time of any of the following:

(a) failure to pay when due any payment of principal or interest due hereunder; or

(b) the commencement of any proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law or statute is filed by or against Maker or the Maker makes an assignment for the benefit of creditors; or

(c) the occurrence of any other default by Maker under this Note;
or

(d) the occurrence of any other Event of Default as defined in and pursuant to the Pledge Agreement.

4. Remedies.

If this Note is not paid when due, whether at maturity or by acceleration, Maker promises to pay all costs of collection, including without limitation attorneys' fees, and all expenses in connection with the protection or realization of the collateral securing this Note whether or not suit is filed hereon; such costs and expenses shall include without limitation all costs, attorneys' fees and expenses incurred by the holder hereof in connection with any insolvency, bankruptcy, reorganization, arrangement or other similar proceedings involving the undersigned, vvhich in any way affects the exercise by the holder of its rights and remedies under this Note or under the Pledge

Agreement or other agreement securing this Note. Should interest not be paid when due, it shall thereafter bear like interest as the principal. Additionally, in the event of any default under this Note, the interest rate provided for herein shall immediately without notice, increase to three percent (3%) over the interest rate described in paragraph (a) on page one hereof (the "Default Interest Rate").

5. Miscellaneous.

A. Presentment, demand, protest, notices of protest, dishonor and non-payment of this Note and all notices of every kind are hereby waived. To the extent permitted by applicable law, the defense of the statute of limitations is hereby waived by the undersigned.

B. No single or partial exercise of any power hereunder or the Pledge Agreement shall preclude other or further exercise thereof or the exercise of any other power. The holder hereof shall at all times have the right to proceed against any portion of the security held herefor in such order and in such manner as the holder may deem fit, without waiving any rights with respect to any other security. No delay or omission on the part of the holder hereof in exercising any right hereunder shall operate as a waiver of such right or of any other right under this Note.

C. This Note is secured by the Pledge Agreement which contains provisions for the acceleration of the Maturity Date hereof upon the happening of certain stated events.

D. Maker warrants and represents to Payee that the indebtedness evidenced by this Note is with respect to an exempt transaction under the Truth-In-Lending Act, 15 U.S.C. 1601 et seq. This Note has been executed and delivered in, and shall be governed by and construed under the laws of, the State of Illinois, and as such is exempt from the limitation upon interest that may be charged pursuant to the provisions of Chapter 17, Section 6404 of the Illinois Revised Statutes. Maker hereby submits to personal jurisdiction in said State for the enforcement of Maker's obligations hereunder, and waives any and all personal rights under the law of any other state to object to jurisdiction within such State for the purposes of litigation to enforce such obligations of Maker. In the event such litigation is commenced, Maker agrees that service of process may be made and personal jurisdiction over Maker obtained, by service of a copy of the summons, complaint and other pleadings required to commence such litigation upon Maker's appointed Agent for Service of Process in such State, which Agent Maker designates to be:

Sheli Z. Rosenberg
Equity Group Investments, Inc.
Two North Riverside Plaza
Chicago, Illinois 60606

Maker may designate a substitute attorney as agent, or change the address to which said copies shall be sent, by notice to Payee at the place and in the manner more fully provided in the Stock Pledge Agreement.

E. It is the intention of the parties to conform strictly to the usury laws, whether state or federal, that are applicable to this Note. All agreements between Maker and Payee, whether now existing or hereafter arising and whether oral or written, are hereby expressly limited so that in no contingency or event whatsoever, shall the amount paid or agreed to be paid to Payee or the holder hereof, or collected by Payee or such holder, for the use, forbearance or detention of the money loaned or to be loaned hereunder or otherwise, or for the payment or performance of any covenant or obligation contained herein or in the Loan Documents exceed the maximum amount permissible under applicable federal or state usury laws. If under any circumstances whatsoever fulfillment of any provision hereof or of the Loan Documents, shall involve exceeding the limit of validity prescribed by law, then the obligation to be fulfilled shall be reduced to the limit of such validity; and if under any circumstances Payee or any other holder hereof shall ever receive an amount deemed interest by applicable law, which would exceed the highest lawful rate, such amount that would be excessive interest under applicable usury laws shall be applied to the reduction of the principal amount owing hereunder or to other indebtedness secured by the Loan Documents and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of principal and such other indebtedness, the excess shall be deemed to have been a payment made by mistake and shall be refunded to Maker or to any other person making such payment on Maker's behalf. All sums paid or agreed to be paid to the holder hereof for the use, forbearance or detention of the indebtedness of Maker evidenced hereby outstanding from time to time shall, to the extent permitted by applicable law, and to the extent necessary to preclude exceeding the limit of validity prescribed by law, be amortized, prorated, allocated and spread from the date of disbursement of the proceeds of this Note until payment in full of the loan evidenced hereby so that the actual rate of interest on account of such indebtedness is uniform throughout the term hereof. The terms and provisions of this paragraph shall control and supersede every other provision of all agreements between Maker and Payee.

F. Time is of the essence with respect to the performance of the obligations of Maker under this Note, the Pledge Agreement and each other document securing this Note.

G. This Note consists of four (4) pages.

MAKER:

FORM OF PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT, is made as of this 2nd day of January, 1996 ("Agreement"), by and between _____, having a residence at 1 East Delaware, 18-G, Chicago, Illinois 60611 ("Pledgor"), and MANUFACTURED HOME COMMUNITIES, INC., a Maryland corporation ("Pledgee").

RECITALS

A. Pursuant to the terms of that certain Secured Promissory Note dated as of the date hereof (the "Note") by and between Pledgor and Pledgee, Pledgee made a loan in the total of \$_____ to Pledgor pursuant to the Note.

B. Pledgor owns _____ shares of the issued and outstanding capital stock of Pledgee.

C. Pledgor wishes to grant security and assurances to Pledgee in order to secure the payment and performance of its liabilities under the Note and to that effect to pledge all of the _____ shares of capital stock of Pledgee owned by the Pledgor (the "Pledged Shares").

D. It is a condition to the making of the loan by the Pledgee that this Pledge Agreement be delivered by Pledgor to Pledgee.

E. In consideration of the premises and in order to induce Pledgee to make the loan, and for other good and valuable consideration, the receipt of which is hereby acknowledged, Pledgor hereby agrees with Pledgee as follows:

1. Pledges. Pledgor hereby pledges, assigns, hypothecates, transfers and delivers to Pledgee and grants to Pledgee, a lien on and security interest in all of the Pledged Shares presently owned and in all proceeds thereof, as collateral security for the prompt and complete payment when due (whether at the stated maturity, by acceleration or otherwise) of all obligations and liabilities under, arising out of or in connection with the Note, this Pledge Agreement and the financing agreements executed by Pledgor (all of the foregoing being referred to hereinafter as the "Liabilities"). All of the capital stock of the Pledgee owned by the Pledgor is presently represented by the stock certificates described on Exhibit A, which stock certificates, with undated stock powers duly executed by Pledgor, are being delivered to Pledgee or Pledgee's agent simultaneously herewith. For the duration of this Agreement, the Pledgee or its agent shall maintain possession and custody of the certificates representing the Pledged Shares, which certificate shall bear a legend noted conspicuously on the face or back of such certificate stating that future payments are required to be made in payment of such Pledged Shares.

2. Inducing Representations of Pledgor. Pledgor represents and warrants to Pledgee that:

(a) Pledgor is the record and beneficial owner of, and has good and marketable title to, the Pledged Shares, and such shares are and will remain free and clear of all pledges, liens, security interests and other encumbrances and restrictions whatsoever, except the lien and security interest created by this Pledge Agreement;

(b) Pledgor has full power, authority and legal right to execute this Pledge Agreement and to pledge the Pledged Shares;

(c) This Pledge Agreement has been duly executed and delivered by Pledgor and constitutes a legal, valid and binding obligation of Pledgor enforceable in accordance with its terms;

(d) There are no outstanding options, warrants or agreements with respect to the Pledged Shares;

(e) To the knowledge of Pledgor, the Pledged Shares have been duly and validly issued by the Company and are fully paid and nonassessable;

(f) Exhibit A sets forth a true and complete description of the Pledged Shares;

(g) No consent, approval or authorization of or designation or filing with any authority on the part of Pledgor is required in connection with the pledge and security interest granted under this Agreement; and

(h) The pledge, assignment and delivery of the Pledged Shares pursuant to this Pledge Agreement creates a valid lien on and a perfected security interest in such Pledged Shares and the proceeds thereof in favor of Pledgee, subject to no prior pledge, lien, hypothecation, security interest, charge, option or encumbrance or to any agreement purporting to grant to any third party a security interest in the property or assets of Pledgor which would include such Pledged Shares. Pledgor covenants and agrees that it will defend Pledgee's right, title and security interest in and to such Pledged Shares and the proceeds thereof against the claims and demands of all persons whomsoever.

3. Stock Dividends, Distributions, etc. If, while this Pledge Agreement is in effect, Pledgor shall become entitled to receive or shall receive any stock certificate (including, without limitation, any certificate representing a stock dividend or a stock distribution in connection with any reclassification, increase or reduction of capital, or issued in connection with any reorganization) option or rights, whether as an addition to, in substitution for, or in exchange for any of the Pledged Shares, or otherwise relating to the Pledged Shares, Pledgor agrees to accept the same as Pledgee's agent and to hold the same in trust for Pledgee and to deliver the same forthwith to Pledgee or its agent in the exact form received, with the endorsement of Pledgor and, when necessary or appropriate, undated stock powers duly executed in blank, to be held by Pledgee or its agent, subject to the terms hereof, as additional collateral security for the Liabilities and any such additional certificates shall constitute and be considered Pledged Shares. In case any distribution of capital stock shall be made on or in respect of any of the Pledged Shares or any property shall be distributed upon or with respect to any of the Pledged Shares pursuant to the recapitalization or reclassification of the capital of the issuer thereof or pursuant to the reorganization thereof, the property so distributed shall be delivered to Pledgee or its agent by Pledgor to be held by Pledgee or its agent as additional collateral security for the Liabilities.

4. Administration of Security. The following provisions shall govern the administration of the Pledged Shares:

(a) So long as no "Event of Default" (which for purposes of this Agreement shall mean an event of default under the Note or this Pledge Agreement) has occurred, Pledgor shall be entitled to vote or consent with respect to the Pledged Shares owned by Pledgor in any manner not inconsistent with this Agreement, or the Note, or any other document or instrument delivered or to be delivered pursuant to or in connection with the Note

or this Pledge Agreement. Pledgor hereby grants to Pledgee an irrevocable proxy to vote the Pledged Shares owned by Pledgor, which proxy shall be effective immediately upon the occurrence of an Event of Default. After the occurrence of an Event of Default and upon request of Pledgee, Pledgor agrees to deliver to Pledgee such further evidence of such irrevocable proxy or such further irrevocable proxies to vote the Pledged Shares owned by Pledgor as Pledgee may request.

(b) Upon the occurrence an Event of Default and at any time thereafter, in the event that Pledgor, as record and beneficial owner of the Pledged Shares owned by Pledgor, shall have received or shall have become entitled to receive, any cash dividends or other distributions, Pledgor shall deliver to Pledgee and Pledgee shall be entitled to receive and retain all such cash or other distributions as additional security for the Liabilities.

(c) Subject to any sale or other disposition by Pledgee of the Pledged Shares or other property upon the occurrence of and at time after an Event of Default hereunder pursuant to this Pledge Agreement, the Pledged Shares owned by Pledgor and any other property then held as part of such Pledged Shares in accordance with the provisions of this Pledge Agreement shall be returned to Pledgor upon full payment, satisfaction and termination of all of the Liabilities and the termination of the lien and security interest hereby granted pursuant to paragraph 10 hereof.

5. Rights of Pledgee. Pledgee shall not be liable for failure to collect or realize upon the Liabilities, or any part thereof, or for any delay in so doing, nor shall it be under any obligation to take any action whatsoever with regard thereto. Any or all of the Pledged Shares held by Pledgee or its agent hereunder may, if an Event of Default has occurred, without notice, be registered in the name of Pledgee or its nominee, and Pledgee or its nominee may thereafter without notice exercise all voting and corporate rights and exercise any and all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any of the Pledged Shares as if it were the absolute owner thereof, including, without limitation, the right to exchange at its discretion, any and all of the Pledged Shares upon the merger, consolidation, reorganization, recapitalization or other readjustment or upon the exercise by Pledgee of any right, privilege or option pertaining to any of the Pledged Shares, and in connection therewith, to deposit and deliver any and all of the Pledged Shares with any committee, depository, transfer agent, registrar or to another designated agency upon such terms and conditions as Pledgee may determine, all without liability except to account for property actually received by Pledgee, but Pledgee shall have no duty to exercise any of the aforesaid rights, privileges or options and shall not be responsible for any failure to do so or delay in so doing.

6. Remedies. In the event that all or any portion of the Liabilities have been declared due and payable, Pledgee, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon Pledgor or any other person (all and each of which demands, advertisements and/or notices are hereby expressly waived), may forthwith collect, receive, appropriate and realize upon the Pledged Shares, or any part thereof, and/or may forthwith sell, assign, give option or options to purchase, contract to sell or otherwise dispose of and deliver said Pledged Shares, or any part thereof, in one or more portions at public or private sale or sales or dispositions, at any exchange, broker's board or at any of Pledgee's offices or elsewhere upon such terms and conditions as Pledgee may deem advisable and at such prices as Pledgee may deem best, for any combination of cash or on credit or for future delivery without assumption of any credit risk, with the right to Pledgee upon any such sale or sales or dispositions, public or private, to purchase the whole or any part of said Pledged Shares so sold, free of any right or equity of redemption in any Pledgor, which right or equity

is hereby expressly waived or released. Pledgee shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all costs and expenses of every kind incurred therein or incidental to the safekeeping or otherwise of any and all of the Pledged Shares or in any way relating to the rights of Pledgee hereunder, including attorney's fees and legal expenses, to the payment, in whole or in part, of the Liabilities pursuant to this Pledge Agreement in such order as Pledgee may elect, and only after so paying over such net proceeds and after the payment by Pledgee of any other amount required by any provision of law, including, without limitation, Section 9-504(1)(c) of the Uniform Commercial Code, need Pledgee account for the surplus, if any, to Pledgor. Pledgor agrees that Pledgee need not give more than ten days' notice of the time and place of any public sale or of the time after which a private sale or other intended disposition is to take place and that such notice is reasonable notification of such matters. No notification need be given to Pledgor if Pledgor, after default, has signed a statement renouncing or modifying any right to notification of sale or other intended disposition. In addition to the rights and remedies granted to Pledgee in this Agreement and in any other instrument or agreement securing, evidencing or relating to any of the Liabilities, Pledgee shall have all the rights and remedies of a secured party under the Uniform Commercial Code of the State of Illinois. Pledgor further agrees to waive and agrees not to assert any rights or privileges which Pledgor may acquire under Section 9-112 of the Uniform Commercial Code. Pledgor shall remain liable for the deficiency if the proceeds of any sale or other disposition of the Pledged Shares are insufficient to pay all amounts to which Pledgee is entitled.

7. No Disposition, etc. Without the prior written consent of Pledgee, Pledgor agrees that Pledgor will not sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Pledged Shares, nor will Pledgor create, incur or permit to exist any pledge, lien, mortgage, hypothecation, security interest, charge, option or any other encumbrance with respect to any of the Pledged Shares, or any interest therein, or any proceeds thereof, except for the lien and security interest provided for by this Pledge Agreement. Without the prior written consent of Pledgee, Pledgor agrees that Pledgor will not vote to enable the Pledgee to, and will not otherwise permit the Pledgee to, issue any stock or other securities of any nature in addition to or in exchange or substitution for any of the Pledged Shares.

8. Sale of Pledged Shares.

(a) Pledgor recognizes that Pledgee may be unable to effect a public sale or disposition of any or all the Pledged Shares by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the "Act"), and applicable state securities laws, (Pledgee agreeing that to the extent a public market exists it will use reasonable efforts to cause a public sale of the Pledged Shares) but may be compelled to resort to one or more private sales or dispositions thereof to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Pledgor acknowledges and agrees that any such private sale or disposition may result in prices and other terms (including the terms of any securities or other property received in connection therewith) less favorable to the seller than if such sale or disposition were a public sale or disposition and, notwithstanding such circumstances, agrees that any such private sale or disposition shall be deemed to have been made in a commercially reasonable manner. Pledgee shall be under no obligation to delay a sale or disposition of any of the Pledged Shares to permit the registration of such securities (or trust certificates representing such securities) for public sale under the Act, or under applicable state securities laws, even if the Company would agree to do so.

(b) Pledgor further agrees to do or cause to be done all such other acts and things as may be necessary to make such sale or sales or dispositions of any portion or all of the Pledged Shares valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales or dispositions, all at Pledgor's expense. Pledgor further agrees that a breach of any of the covenants contained in this paragraph 8 will cause irreparable injury to Pledgee, that Pledgee has no adequate remedy at law in respect of such breach and, as a consequence, agrees that each and every covenant contained in this paragraph shall be specifically enforceable against Pledgor, and Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred hereunder.

9. Further Assurances. Pledgor agrees that at any time and from time to time upon the written request of Pledgee, Pledgor will execute and deliver such further documents and do such further acts and things as Pledgee may reasonably request consistent with the provisions hereof in order to effect the purposes of this Agreement.

10. Termination. This Pledge Agreement and the lien and security interest granted hereunder shall terminate upon full and complete performance and satisfaction of the Liabilities.

11. Pledgee's Duty of Care. Pledgee shall have no duty with respect to the Pledged Shares other than the duty to use reasonable care in the safe custody of the Pledged Shares in Pledgee's possession. Without limiting the generality of the foregoing, Pledgee shall be under no obligation to take any steps necessary to preserve rights in any of the Pledged Shares against any other parties but may do so at Pledgee's option. Pledgor will indemnify and hold Pledgee harmless from all costs and expenses incurred by Pledgee in connection with the Pledged Shares and this Agreement.

12. Miscellaneous.

(a) Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(b) No Waiver. Pledgee shall not by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder and no waiver by Pledgee shall be valid unless in writing, signed by Pledgee, and then only to the extent therein set forth. A waiver by Pledgee of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Pledgee would otherwise have on any further occasion. No failure to exercise, nor any delay in exercising on the part of Pledgee any right, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(c) Cumulative Remedies. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law.

(d) Successors. This Agreement and all obligations of Pledgor hereunder shall be binding upon the successors and assigns of Pledgor, and shall, together with the rights and remedies of Pledgee hereunder inure to the benefit of Pledgee and its successors and assigns.

(e) Governing Law. This Agreement shall be governed by, and be construed and interpreted in accordance with, the internal laws (as opposed to conflicts of law provisions) of the State of Illinois.

(f) Notices. Any notices, request or other communication required or desired to be served, given or delivered under this Agreement shall be in writing and shall be deemed to have been validly served, given or delivered three (3) days after deposit in the United States mails, registered or certified mail, with proper postage prepaid and addressed to the party to be notified as follows:

IF TO PLEDGOR:

WITH A COPY TO:
 Ellen Kelleher
 Senior Vice President and General Counsel
 Manufactured Home Communities
 Two North Riverside Plaza
 Suite 800
 Chicago, Illinois 60606

IF TO PLEDGEE:
 Manufactured Home Communities, Inc.
 Two North Riverside Plaza
 Suite 800
 Chicago, Illinois 60606
 Attention: Chairman and Chief Executive Officer

WITH A COPY TO:
 Rosenberg & Liebenritt, P.C.
 Two North Riverside Plaza
 Suite 1601
 Chicago, Illinois 60606
 Attention: Sheli Z. Rosenberg, Esq.

Or to such other address as either party may hereafter designate for itself by written notice to the other party in the manner herein prescribed.

(g) Section Headings. The section headings in this Agreement are for convenience of reference only, and shall not affect in any way the interpretation of any of the provisions of this Agreement.

(h) Counterparts. This Agreement may be executed in counterparts, all of which together shall constitute one Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered on the date first above written.

PLEDGOR:

PLEDGEE:
MANUFACTURED HOME COMMUNITIES, INC.,
A MARYLAND CORPORATION

By: _____

Its: _____

EXHIBIT A
TO FORM OF PLEDGE AGREEMENT
DESCRIPTION OF PLEDGED SHARES

Pledgor	Class of Pledged Shares	Number of Pledged Shares	Certificate Numbers	Date of Issuance
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This schedule contains summary financial information extracted from the consolidated balance sheets and statements of operations and is qualified in its entirety by reference to such financial statements.

0000895417

MANUFACTURED HOME COMMUNITIES, INC.

3-MOS	
DEC-31-1996	
JAN-01-1996	
MAR-31-1996	
	4,804
	0
	871
	0
	0
38,711	565,540
(60,036)	
544,215	
25,585	229,541
0	0
	247
544,215	259,738
	24,764
25,469	0
	10,091
	971
	0
4,194	
6,557	
	0
5,907	
	0
	0
	0
	5,907
	.24
	.24