FORM 10-Q

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

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

[ ] 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	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 (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:

21,480,025 shares of Common Stock as of October 31, 2001.

MANUFACTURED HOME COMMUNITIES, INC.

TABLE OF CONTENTS

PART I - FINANCIAL STATEMENTS

ITEM 1. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

MANUFACTURED HOME COMMUNITIES, INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2001 AND DECEMBER 31, 2000
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	SEPTEMBER 30, 2001 (UNAUDITED)	DECEMBER 31, 2000
ASSETS		
Investment in real estate:		
Land	$ 273,559	$ 271,822
Land improvements	853,064	839,725
Buildings and other depreciable property	110,754	106,629
	1,237,377	1,218,176
Accumulated depreciation	(203,710)	(181,580)
Net investment in real estate	1,033,667	1,036,596
Cash and cash equivalents	5,065	2,847
Notes receivable	1,506	4,984
Investment in and advances to affiliates	28,001	21,215
Investment in joint ventures	12,006	13,267
Rents receivable	1,647	1,440
Deferred financing costs, net	6,104	6,344
Prepaid expenses and other assets	20,917	17,611
Total assets	$ 1,108,913	$ 1,104,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable	$ 591,334	$ 556,578
Unsecured term loan	100,000	100,000
Unsecured line of credit	19,250	59,900
Other notes payable	2,236	3,206
Accounts payable and accrued expenses	28,329	23,822
Accrued interest payable	4,363	5,116
Rents received in advance and security deposits	7,296	5,184
Distributions payable	11,997	11,100
Due to affiliates	32	32
Total liabilities	764,837	764,938
Commitments and contingencies		
Minority interest - Common OP Units and other	46,153	46,271
Minority interest - Perpetual Preferred OP Units	125,000	125,000
Stockholders' equity:		
Preferred stock, $.01 par value 10,000,000 shares authorized; none issued	---	---
Common stock, $.01 par value 50,000,000 shares authorized; 21,414,103 and 21,064,785 shares issued and outstanding for 2001 and 2000, respectively	213	210
Paid-in capital	242,090	235,681
Deferred compensation	(4,394)	(5,969)
Employee notes	(3,890)	(4,205)
Distributions in excess of accumulated earnings	(61,096)	(57,622)
Total stockholders' equity	172,923	168,095
Total liabilities and stockholders' equity	$ 1,108,913	$ 1,104,304

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

MANUFACTURED HOME COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	QUARTERS ENDED		NINE MONTHS ENDED	
	SEPT. 30, 2001	SEPT. 30, 2000	SEPT. 30, 2001	SEPT. 30, 2000
REVENUES				
Base rental income	$ 48,992	$ 47,218	$ 146,776	$ 141,776
RV base rental income	722	560	3,207	5,435
Utility and other income	4,976	4,973	17,392	15,701
Equity in income of affiliates	682	857	1,359	1,649
Interest income	164	267	552	731
Total revenues	55,536	53,875	169,286	165,292
EXPENSES				
Property operating and maintenance	15,434	14,653	46,778	44,471
Real estate taxes	4,185	4,119	13,216	12,807
Property management	2,221	2,072	6,735	6,631
General and administrative	1,557	1,346	5,070	5,006
Interest and related amortization	12,610	13,169	38,920	39,654
Depreciation on corporate assets	332	291	945	839
Depreciation on real estate assets and other costs	8,729	8,510	25,996	25,934
Total expenses	45,068	44,160	137,660	135,342
Income from operations	10,468	9,715	31,626	29,950
Gain on sale of Properties and other	---	---	8,093	12,053
Income before allocation to Minority Interests and extraordinary loss	10,468	9,715	39,719	42,003
(Income) allocated to Common OP Units	(1,558)	(1,451)	(6,404)	(6,822)
(Income) allocated to Perpetual Preferred OP Units	(2,813)	(2,813)	(8,439)	(8,439)
Income before extraordinary loss on early extinguishment of debt	6,097	5,451	24,876	26,742
Extraordinary loss on early extinguishment of debt (net of $264 allocated to minority interests)	---	---	---	1,041
NET INCOME	$ 6,097	$ 5,451	$ 24,876	$ 25,701
Income per share before extraordinary loss - basic	$ .29	$ .26	$ 1.19	$ 1.23
Income per share before extraordinary loss - diluted	$ .28	$ .25	$ 1.16	$ 1.21
Net income per Common Share - basic	$ .29	$ .26	$ 1.19	$ 1.18
Net income per Common Share - diluted	$ .28	$ .25	$ 1.16	$ 1.16
Distributions declared per Common Share	$ 0.4450	$ 0.4150	$ 1.335	$ 1.245
Weighted average Common Shares outstanding - basic	21,108	21,166	20,958	21,775
Weighted average Common Shares outstanding - diluted (see Note 2)	27,071	27,077	26,914	27,706

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

MANUFACTURED HOME COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(AMOUNTS IN THOUSANDS)
(UNAUDITED)

	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 24,876	$ 25,701
Adjustments to reconcile net income to cash provided by operating activities:		
Income allocated to Minority Interests	14,843	14,997
Gain on sale of Properties and other	(8,093)	(12,053)
Depreciation and amortization expense	27,764	26,894
Equity in income of affiliates and joint ventures	(2,216)	(2,037)
Amortization of deferred compensation and other	1,575	1,657
(Increase) decrease in rents receivable	(207)	268
Increase in prepaid expenses and other assets	(3,306)	(3,298)
Increase in accounts payable and accrued expenses	3,753	7,275
Increase in rents received in advance and security deposits	2,113	185
Net cash provided by operating activities	61,102	59,589
CASH FLOWS FROM INVESTING ACTIVITIES:		
Contributions to affiliates	(5,526)	(5,174)
Collection of notes receivable	3,478	987
Investment in joint ventures net of distributions received	1,589	(177)
Proceeds from disposition of rental Properties and other assets	16,864	44,329
Collection of escrow proceeds, net	---	10,500
Acquisition of rental Properties	(16,879)	(3,481)
Improvements:		
Improvements - corporate	(635)	(357)
Improvements - rental Properties	(8,526)	(5,366)
Site development costs	(6,114)	(4,250)
Net cash (used in) provided by investing activities	(15,749)	37,011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from stock options and employee stock purchase plan	7,339	2,501
Distributions to Common Stockholders, Common OP Unitholders and Perpetual Preferred OP Unitholders	(43,309)	(42,503)
Repurchase of Common Stock and OP Units	(33)	(50,711)
Collection of principal payments on employee notes	315	174
Line of credit:		
Proceeds	46,000	76,300
Repayments	(86,650)	(143,300)
Refinancing - net proceeds	37,870	67,352
Principal payments	(4,084)	(4,555)
Debt issuance costs	(583)	(2,257)
Net cash used in financing activities	(43,135)	(96,999)
Net increase (decrease) in cash and cash equivalents	2,218	(399)
Cash and cash equivalents, beginning of period	2,847	6,676
Cash and cash equivalents, end of period	$ 5,065	$ 6,277
SUPPLEMENTAL INFORMATION:		
Cash paid during the period for interest	$ 39,011	$ 39,739

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

DEFINITION OF TERMS:

Capitalized terms used but not defined herein are as defined in the Company's Annual Report on Form 10-K (the "2000 Form 10-K") for the year ended December 31, 2000.

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 2000 Form 10-K. The following Notes to Consolidated Financial Statements highlight significant changes to the Notes included in the 2000 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 - SIGNIFICANT ACCOUNTING POLICIES

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.

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131") requires certain disclosures of selected information about operating segments in the annual financial statements and related disclosures about products and services, geographic areas, and major customers. The adoption of SFAS No. 131, in June 1998, did not affect the results of operations or financial position of the Company. The Company manages 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 manufactured home communities.

NOTE 2 - EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of common shares outstanding during each period. Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128") defines the calculation of basic and fully diluted earnings per share. Basic and fully diluted earnings per share are based on the weighted average shares outstanding during each period and basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. The conversion of OP Units has been excluded from the basic earnings per share calculation. The conversion of an OP Unit to a share of common stock has no material effect on earnings per common share.

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

NOTE 2 - EARNINGS PER COMMON SHARE (CONTINUED)

The following table sets forth the computation of basic and diluted earnings per share for the quarters and nine months ended September 30, 2001 and 2000 (amounts in thousands):

	QUARTERS ENDED		NINE MONTHS ENDED	
	SEPT. 30, 2001	SEPT. 30, 2000	SEPT. 30, 2001	SEPT. 30, 2000
NUMERATOR:				
Numerator for basic earnings per share - Net income	$ 6,097	$ 5,451	$24,876	$25,701
Effect of dilutive securities:				
Income allocated to Common OP Units (net of extraordinary loss of $264 in 2000)	1,558	1,451	6,404	6,558
Numerator for diluted earnings per share - income available to common shareholders after assumed conversions	$ 7,655	$ 6,902	$31,280	$32,259
DENOMINATOR:				
Denominator for basic earnings per share - Weighted average Common Stock outstanding ..	21,108	21,166	20,958	21,775
Effect of dilutive securities:				
Weighted average Common OP Units	5,440	5,583	5,475	5,606
Employee stock options	523	328	481	325
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	27,071	27,077	26,914	27,706

NOTE 3 - COMMON STOCK AND RELATED TRANSACTIONS

On April 13, 2001, July 13, 2001, and October 12, 2001, the Company paid a $.445 per share distribution for the quarters ended March 31, 2001, June 30, 2001 and September 30, 2001, to stockholders of record on March 30, 2001, June 29, 2001, and September 28, 2001 respectively.

NOTE 4 - REAL ESTATE

On January 3, 2001, the Company acquired two Florida communities, totaling 730 sites, for an aggregate purchase price of approximately $16.3 million. Golden Lakes is a 422-site community in Plant City, near Tampa, Florida and includes approximately 23 acres for expansion. Chain O' Lakes is a 308-site community in Grand Island, near Orlando, Florida, and includes a marina with 50 boat docks. The acquisition was funded with a borrowing under the Company's line of credit.

On February 13, 2001, the Company completed the disposition of the following seven communities, totaling 1,281 sites, in Kansas, Missouri and Oklahoma, for a total sale price of approximately $19.1 million:

Dellwood Estates.........136 sites
Briarwood................166 sites
Bonner Springs...........211 sites
Carriage Park............143 sites
North Star...............219 sites
Quivira Hills............142 sites
Rockwood.................264 sites

NOTE 4 - REAL ESTATE (CONTINUED)

Included in the sales price are proceeds from the sale by Realty Systems, Inc., an affiliate of the Company, of inventory and notes receivable totaling $1.7 million. The Company recorded a gain of $8.1 million on the sale of these Properties. Proceeds from the sale were used to reduce the amounts outstanding on the Company's line of credit.

Certain costs, including legal costs, relative to efforts by the Company to effectively change the use and operations of several Properties are currently recorded in other assets. These costs, to the extent these efforts are successful, are capitalized to the extent of the established value of the revised project and included in the net investment in real estate for the appropriate Properties. To the extent these efforts are not successful, these costs will be expensed.

Effective June 30, 2001, the Company terminated its lease to a third-party operator for the campground and RV resort facilities at the Property known as Bulow Plantation in Flagler Beach, Florida, and assumed operation of these facilities directly. Beginning July 1, 2001, the Company no longer records lease income from Bulow RV Resort, however, the results of operations for the Bulow RV Resort are included in the Company's results of operations.

The Company is actively seeking to acquire additional manufactured home communities and currently is engaged in negotiations relating to the possible acquisition of a number of properties. At any time these negotiations are at varying stages which may include contracts outstanding to acquire certain manufactured home communities which are subject to satisfactory completion of the Company's due diligence review.

NOTE 5 - NOTES RECEIVABLE

As of September 30, 2001 and December 31, 2000, the Company held approximately $1.5 million and $5.0 million in notes receivable, respectively. The Company has $167,000 in loans maturing on June 1, 2003, which bear interest at the rate of approximately 6.0%, per annum and are collateralized by the property known as Trails West. The Company holds approximately $1.3 million in notes which bear interest at a rate of prime plus 0.5% and mature on December 31, 2011. The notes are collateralized with a combination of Common OP Units and partnership interests in the Voyager joint venture and other joint ventures.

NOTE 6 - LONG-TERM BORROWINGS

As of September 30, 2001 and December 31, 2000, the Company had outstanding mortgage indebtedness of approximately $591.3 million and $556.6 million, respectively, encumbering 77 and 73 of the Company's Properties, respectively. As of September 30, 2001 and December 31, 2000, the carrying value of such Properties was approximately $672 million and $631 million, respectively.

The outstanding mortgage indebtedness consists of:

- A $265.0 million mortgage note (the "$265 Million Mortgage") collateralized by 29 Properties beneficially owned by MHC Financing Limited Partnership. The $265 Million Mortgage has a maturity date of January 2, 2028 and bears interest at a rate of 7.015% per annum. There is no principal amortization until February 1, 2008, after which principal and interest are to be paid from available cash flow and the interest rate will be reset at a rate equal to the then 10-year U.S. Treasury obligations plus 2.0%. The $265 Million Mortgage is recorded net of a hedge of $3.0 million which is being amortized into interest expense over the life of the loan.

NOTE 6 - LONG-TERM BORROWINGS (CONTINUED)

- A $66.0 million mortgage note (the "College Heights Mortgage") collateralized by 18 Properties owned in a joint venture formed by the Company and Wolverine Investors, LLC. The College Heights Mortgage bears interest at a rate of 7.19% per annum, amortizes beginning July 1, 1999 over 30 years and matures July 1, 2008.

- A $93.3 million mortgage note (the "DeAnza Mortgage") collateralized by 6 Properties beneficially owned by MHC-DeAnza Financing Limited Partnership. The DeAnza Mortgage bears interest at a rate of 7.82% per annum, amortizes beginning August 1, 2000 over 30 years and matures July 1, 2010.

- A $22.6 million mortgage note (the "Bay Indies Mortgage") collateralized by one Property beneficially owned by MHC-Bay Indies Financing Limited Partnership. The Bay Indies Mortgage bears interest at a rate of 7.48% per annum, amortizes beginning August 1, 1994 over 27.5 years and matures July 1, 2004.

- A $15.6 million mortgage note (the "Date Palm Mortgage") collateralized by one Property beneficially owned by MHC Date Palm, L.L.C. The Date Palm Mortgage bears interest at a rate of 7.96%, amortizes beginning August 1, 2000 over 30 years and matures July 1, 2010.

- A $50.0 million mortgage note (the "Stagecoach Mortgage") collateralized by 7 Properties beneficially owned by MHC Stagecoach, L.L.C. The Stagecoach Mortgage bears interest at a rate of 6.98% per annum, amortizes beginning October 1, 2001 over 10 years and matures August 31, 2011.

- Approximately $78.8 million of mortgage debt on 15 other various Properties, which was recorded at fair market value with the related discount or premium being amortized over the life of the loan using the effective interest rate. Scheduled maturities for the outstanding indebtedness are at various dates through November 30, 2020, and fixed interest rates range from 7.21% to 8.87% per annum. In addition, the Company has a $2.4 million loan recorded to account for a direct financing lease entered into in May 1997.

The Company has a $150 million unsecured line of credit with a group of banks (the "Credit Agreement") bearing interest at the London Interbank Offered Rate ("LIBOR") plus 1.125%, maturing on August 9, 2003. The Company pays a quarterly fee on the average unused amount of such credit equal to 0.15% of such amount. As of September 30, 2001 and December 31, 2000, the Company had $19.3 million and $59.9 million, respectively, outstanding under the Credit Agreement.

The Company has a $100 million unsecured term loan (the "Term Loan") with a group of banks with interest only payable monthly at a rate of LIBOR plus 1.0%. The Term Loan matures on April 3, 2002.

The Company has approximately $2.2 million of installment notes payable, secured by a letter of credit, each with an interest rate of 6.5% per annum, maturing September 1, 2002. Approximately $900,000 of the notes pay principal annually and interest quarterly and the remaining $1.3 million of the notes pay interest only quarterly.

NOTE 7 - STOCK OPTIONS

Pursuant to the Stock Option Plan as discussed in Note 14 to the 2000 Form 10-K, certain officers, directors, employees and consultants have been offered the opportunity to acquire shares of common stock of the Company through stock options ("Options"). During the nine months ended September 30, 2001, Options for 291,064 shares of common stock were exercised.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The residents of DeAnza Santa Cruz Mobile Estates, a Property located in Santa Cruz, California (the "City"), previously brought several actions opposing certain fees and charges in connection with water service at the Property. The trial of the ongoing utility charge dispute with the residents of this Property concluded on January 22, 1999. This summary provides the history and reasoning underlying the Company's defense of the residents' claims and explains the Company's decision to continue to defend its position, which the Company believes is fair and accurate.

DeAnza Santa Cruz Mobile Estates is a 198-site community overlooking the Pacific Ocean. It is subject to the City's rent control ordinance which limits annual rent increases to 75% of CPI. The Company purchased this Property in August 1994 from certain unaffiliated DeAnza entities ("DeAnza"). Prior to the Company's purchase in 1994, DeAnza made the decision to submeter and separately bill tenants at the Property for both water and sewer in 1993 in the face of the City's rapidly rising utility costs.

Under California Civil Code Section 798.41, DeAnza was required to reduce rent by an amount equal to the average cost of usage over the preceding 12 months. This was done. With respect to water, not looking to submit to jurisdiction of the California Public Utility Commission ("CPUC"), DeAnza relied on California Public Utilities Code Section 2705.5 ("CPUC Section 2705.5") to determine what rates would be charged for water on an ongoing basis without becoming a public utility. DeAnza and the Company interpreted the statute as providing that in a submetered mobile home park, the property owner is not subject to regulation and control of the CPUC so long as the users are charged what they would be charged by the utility company if users received their water directly from the utility company. In Santa Cruz, customers receiving their water directly from the City's water utility were charged a certain lifeline rate for the first 400 ccfs of water and a greater rate for usage over 400 ccfs of water, a readiness to serve charge of $7.80 per month and tax on the total. In reliance on CPUC Section 2705.5, DeAnza implemented its billings on this schedule notwithstanding that it did not receive the discount for the first 400 ccfs of water because it was a commercial and not a residential customer.

A dispute with the residents ensued over the readiness to serve charge and tax thereon. The residents argued that California Civil Code Section 798.41 required that the Property owner could only pass through its actual costs of water (and that the excess charges over the amount of the rent rollback were an improper rent increase) and that CPUC Section 2705.5 was not applicable. DeAnza unbundled the utility charges from rent consistent with California Civil Code Section 798.41 and it has generally been undisputed that the rent rollback was accurately calculated.

In August 1994, when the Company acquired the Property, the Company reviewed the respective legal positions of the Santa Cruz Homeowners Association ("HOA") and DeAnza and concurred with DeAnza. Their reliance on CPUC Section 2705.5 made both legal and practical sense in that residents paid only what they would pay if they lived in a residential neighborhood within the City and permitted DeAnza to recoup part of the expenses of operating a submetered system through the readiness to serve charge.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Over a period of 18 months from 1993 into May of 1995, a series of complaints were filed by the HOA and Herbert Rossman, a resident, against DeAnza, and later, the Company. DeAnza and the Company demurred to each of these complaints on the grounds that the CPUC had exclusive jurisdiction over the setting of water rates and that residents under rent control had to first exhaust their administrative remedies before proceeding in a civil action. At one point, the case was dismissed (with leave to amend) on the basis that jurisdiction was with the CPUC and, at another point, Mr. Rossman was dismissed from the case because he had not exhausted his administrative remedies.

On June 29, 1995, a hearing was held before a City rent control officer on billing and submetering issues related to both water and sewer. The Company and DeAnza prevailed on all issues related to sewer and the rent rollback related to water, but the hearing officer determined that the Company could only pass through its actual cost of water, i.e., a prorated readiness to serve charge and tax thereon. The hearing officer did not deal with the subsidy being given to residents through the quantity charge and ordered a rebate in a fixed amount per resident. The Company and DeAnza requested reconsideration on this issue, among others, which reconsideration was denied by the hearing officer.

The Company then took a writ of mandate (an appeal from an administrative order) to the Superior Court and, pending this appeal, the residents, the Company and the City agreed to stay the effect of the hearing officer's decision until the Superior Court rendered judgment.

In July 1996, the Superior Court affirmed the hearing officer's decision without addressing concerns about the failure to take the subsidy on the quantity charge into account.

The Company requested that the City and the HOA agree to a further stay pending appeal to the court of appeal, but they refused and the appeal court denied the Company's request for a stay in late November 1996. Therefore, on January 1, 1997, the Company reduced its water charges at this Property to reflect a pass-through of only the readiness to serve charge and tax at the master meter (approximately $0.73) and to eliminate the subsidy on the water charges. On their March 1, 1997 rent billings, residents were credited for amounts previously "overcharged" for readiness to serve charge and tax. The amount of the rebate given by the Company and DeAnza was $36,400. In calculating the rebate, the Company and DeAnza took into account the previous subsidy on water usage although this issue had not yet been decided by the court of appeal. The Company and DeAnza felt legally safe in so doing based on language in the hearing officer's decision that actual costs could be passed through.

On March 12, 1997, the Company also filed an application with the CPUC to dedicate the water system at this Property to public use and have the CPUC set cost-based rates for water usage. The Company believed it was obligated to take this action because of its consistent reliance on CPUC Section 2705.5 as a safe harbor from CPUC jurisdiction. That is, when the Company could no longer charge for water as the local serving utility would charge, it was no longer exempt from the CPUC's jurisdiction and control under CPUC Section 2705.5.

On March 20, 1997, the court of appeal issued the writ of mandate requested by the Company on the grounds that the hearing officer had improperly calculated the amount of the rebate (meaning the Company had correctly calculated the rent credits), but also ruling that the hearing officer was correct when he found that the readiness to serve charge and tax thereon as charged by DeAnza and the Company were an inappropriate rent increase. The court of appeal further agreed with the Company that the City's hearing officer did not have the authority under California Civil Code Section 798.41 to establish rates that could be charged in the future.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Following this decision, the CPUC granted the Company its certificate of convenience and necessity on December 17, 1998 and approved cost-based rates and charges for water that exceed what residents were paying under the Company's reliance on CPUC Section 2705.5. Concurrently, the CPUC also issued an Order Instituting Investigation ("OII") confirming its exclusive jurisdiction over the issue of water rates in a submetered system and commencing an investigation into the confusion and turmoil over billings in submetered properties. Specifically, the OII states: "The Commission has exclusive and primary jurisdiction over the establishment of rates for water and sewer services provided by private entities."

Specifically, the CPUC ruling regarding the Company's application stated: "The ultimate question of what fees and charges may or may not be assessed, beyond external supplier pass-through charges, for in-park facilities when a mobile home park does not adhere to the provisions of CPUC Section 2705.5, must be decided by the Commission."

After the court of appeal decision, the HOA brought all of its members back into the underlying civil action for the purpose of determining damages, including punitive damages, against the Company. The trial was continued from July 1998 to January 1999 to give the CPUC time to act on the Company's application. Notwithstanding the action taken by the CPUC in issuing the OII in December 1998, the trial court denied the Company's motion to dismiss on jurisdictional grounds and trial commenced before a jury on January 11, 1999.

Not only did the trial court not consider the Company's motion to dismiss, the trial court refused to allow evidence of the OII or the Company's CPUC approval to go before the jury. Notwithstanding the Company's strenuous objections, the judge also allowed evidence of the Company's and DeAnza's litigation tactics to be used as evidence of bad faith and oppressive actions (including evidence of the application to the CPUC requesting a $22.00 readiness to serve charge). The Company's motion for a mistrial based upon these evidentiary rulings was denied. On January 22, 1999, the jury returned a verdict awarding $6.0 million of punitive damages against the Company and DeAnza. The Company had previously agreed to indemnify DeAnza on the matter.

The Company has bonded the judgment pending appeal in accordance with California procedural rules, which require a bond equal to 150% of the amount of the judgment. Post-judgment interest will accrue at the statutory rate of 10.0% per annum.

On April 19, 1999, the trial court denied all of the Company's and DeAnza's post-trial motions for judgement notwithstanding the verdict, new trial and remittitur. The trial court also awarded $700,000 of attorneys' fees to plaintiffs. The Company has appealed the jury verdict and attorneys' fees award (which also accrues interest at the statutory rate of 10.0% per annum) and the appeal has been fully briefed by both parties. The Company is awaiting scheduling of oral argument on the appeal.

In two related appeals, the Company had argued that the trial court's ability to enter an award of attorneys' fees in favor of the HOA and to take certain other actions was preempted by the exercise of exclusive jurisdiction by the CPUC over the issue of how to set rates for water in a submetered mobile home park. During 2000, the California court of appeal rejected the Company's preemption argument with respect to these prior rulings in favor of plaintiffs, one of which had awarded plaintiffs approximately $100,000 of attorneys' fees. The California Supreme Court declined to accept the case for review and the Company paid the judgment, including post-judgment interest thereon, and settled the matter for approximately $200,000 late in 2000.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The jury verdict appeal also raises a similar jurisdictional argument as well as several other arguments for reversal or reduction of the punitive damage award or for a new trial. An important distinction between the appellate ruling in 2000 and the preemption issue as it is presented on appeal in the jury verdict case is that the preemption argument rejected was "retroactive" while the preemption issue remaining on appeal is prospective. One of the other arguments raised by the Company in the jury verdict appeal is that punitive damages are not available in a case brought under Section 798.41 of the California Mobilehome Residency Law ("MRL") since the MRL contains its own penalty provisions. Although no assurances can be given, the Company believes the appeal will be successful.

Subsequently, in December 2000 the HOA and certain individual residents of the Property filed a complaint in the Superior Court of California, County of Santa Cruz (No. CV 139825) against the Company, certain affiliates of the Company and certain employees of the Company. The new lawsuit seeks damages, including punitive damages, for intentional infliction of emotional distress, unfair business practices, and unlawful retaliation purportedly arising from allegedly retaliatory rent increases which were noticed by the Company to certain residents in September 2000. The Company believes that the residents who received rent increase notices with respect to rent increases above those permitted by the local rent control ordinance were not covered by the ordinance either because they did not comply with the provisions of the ordinance or because they are exempted by state law. On December 29, 2000, the Superior Court of California, County of Santa Cruz enjoined such rent increases. The Company intends to vigorously defend the matter, which is scheduled to go to trial in January 2002.

Ellenburg Communities

The Company and certain other parties entered into a settlement agreement, which was approved by the court in April 2000. The settlement resolved substantially all of the litigation and appeals involving the Ellenburg Properties, and transactions arising out of the settlement closed on May 22, 2000.

In connection with the Ellenburg Acquisition, on September 8, 1999, Ellenburg Fund 20 ("Fund 20") filed a cross complaint in the Ellenburg dissolution proceeding against the Company and certain of its affiliates alleging causes of action for fraud and other claims in connection with the Ellenburg acquisition. The Company subsequently successfully had the cross complaint against the Company and its affiliates dismissed with prejudice by the California Superior Court. However, Fund 20 has appealed. This appeal was not resolved by the Settlement. The Company believes Fund 20's allegations are without merit and will vigorously defend itself.

Candlelight Properties, L.L.C

On September 20, 2001, the parties entered into a Settlement Agreement providing a cash payment of $10.8 million to the Lending Partnership and dismissal with prejudice of all litigation among the parties and their affiliates, among other terms. The closing under the Settlement Agreement occurred on October 5, 2001. The Company will reflect the Settlement Agreement as a disposition of property.

Other

The Company is involved in various other legal proceedings arising in the ordinary course of business. Management believes that all proceedings herein described or referred to, taken together, are not expected to have a material adverse impact on the Company.

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

NOTE 9- SUBSEQUENT EVENTS

On October 29, 2001, the Company entered into an interest rate swap agreement, fixing LIBOR on $100 million of the Company's floating rate debt at approximately 3.6% for the period 2001 through 2004. The terms of the swap require monthly settlement payments on the same rates interest payments are due on the debt. In accordance with FAS 133, the interest rate swap and the related debt will be reflected at market value. The Company believes the swap is a perfectly effective hedge and there will be no effect on the net income as a result of the mark-to-market adjustment.

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

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 quarter and nine months ended September 30, 2001 compared to the corresponding periods in 2000. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto included herein and the 2000 Form 10-K. The following discussion may contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect management's current views with respect to future events and financial performance. Such forward-looking statements are subject to certain risks and uncertainties, including, but not limited to, the effects of future events on the Company's financial performance, the adverse impact of external factors such as inflation and consumer confidence, and the risks associated with real estate ownership.

RESULTS OF OPERATIONS

PROPERTY ACQUISITIONS, JOINT VENTURES AND DISPOSITIONS

The following chart lists the Properties acquired or sold since January 1, 2000. The Company defines its core manufactured home community portfolio ("Core Portfolio") as manufactured home Properties owned throughout both periods of comparison. Excluded from the Core Portfolio are any Properties acquired or sold during the period and also any recreational vehicle ("RV") Properties which, together, are referred to as the "Non-Core" Properties.

PROPERTY	TRANSACTION DATE	SITES
TOTAL SITES AS OF JANUARY 1, 2001		54,002
ACQUISITIONS:		
Golden Lakes	January 3, 2001	421
Chain O'Lakes	January 3, 2001	309
Bulow RV Resort	July 1, 2001	352
EXPANSION SITE DEVELOPMENT:		
Sites added in 2000		108
Sites added in 2001		129
DISPOSITIONS:		
FFEC-Six (water and wastewater service company)....	February 29, 2000	---
Mesa Regal RV Resort	May 22, 2000	(2,005)
Naples Estates	May 22, 2000	(484)
Mon Dak	May 22, 2000	(219)
Dellwood Estates	February 13, 2001	(136)
Briarwood	February 13, 2001	(166)
Bonner Springs	February 13, 2001	(211)
Carriage Park	February 13, 2001	(143)
North Star	February 13, 2001	(219)
Quivira Hills	February 13, 2001	(142)
Rockwood	February 13, 2001	(264)
TOTAL SITES AS OF SEPTEMBER 30, 2001		51,332

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

RESULTS OF OPERATIONS (CONTINUED)

COMPARISON OF THE QUARTER ENDED SEPTEMBER 30, 2001 TO THE QUARTER ENDED SEPTEMBER 30, 2000

Since December 31, 1999, the gross investment in real estate has decreased from $1,264 million to $1,237 million as of September 30, 2001. The total number of sites owned or controlled has decreased from 54,002 as of December 31, 1999 to 51,332 as of September 30, 2001.

The following table summarizes certain financial and statistical data for the Core Portfolio and the Total Portfolio for the quarters ended September 30, 2001 and 2000.

	CORE PORTFOLIO				TOTAL PORTFOLIO			
(dollars in thousands)	2001	2000	INCREASE/ (DECREASE)	% CHANGE	2001	2000	INCREASE/ (DECREASE)	% CHANGE
Base rental income	$48,488	$46,443	$ 2,045	4.4%	$48,992	$47,218	$ 1,774	3.8%
Utility and other income	4,850	4,821	29	0.6%	5,698	5,533	165	(3.0%)
Equity in income of affiliates	---	---	---	---	682	857	(175)	(20.4%)
Interest income	---	---	---	---	164	267	(103)	(38.6%)
Total revenues	53,338	51,264	2,074	4.0%	55,536	53,875	1,661	3.1%
Property operating and maintenance	14,540	13,989	551	3.9%	15,434	14,653	781	5.3%
Real estate taxes	4,078	4,011	67	1.7%	4,185	4,119	66	1.6%
Property management	2,172	2,018	154	7.6%	2,221	2,072	149	7.2%
General and administrative	---	---	---	---	1,557	1,346	211	15.7%
Total operating expenses	20,790	20,018	772	3.9%	23,397	22,190	1,207	5.4%
Income from operations before interest, depreciation and amortization expenses	32,548	31,246	1,302	4.2%	32,139	31,685	454	1.4%
Interest and related amortization	---	---	---	---	12,610	13,169	(559)	(4.2%)
Depreciation on corporate assets	---	---	---	---	332	291	41	14.1%
Property depreciation and other	8,069	8,009	60	0.7%	8,729	8,510	219	2.6%
income from operations (1)	24,479	23,237	1,242	5.3%	10,468	9,715	753	7.8%
Site and Occupancy Information (2):								
Average total sites	45,581	45,437	144	0.3%	46,313	46,718	(405)	(0.9%)
Average occupied sites	42,909	42,927	(18)	(0.0%)	43,563	44,094	(531)	(1.2%)
Occupancy %	94.1%	94.5%	(0.4%)	(0.4%)	94.1%	94.4%	(0.3%)	(0.3%)
Monthly base rent per site	$376.67	$360.64	$ 16.03	4.4%	$374.87	$356.95	$ 17.92	5.0%
Total sites as of September 30,	45,581	45,565	16	0.0%	46,313	46,297	16	0.0%
Total occupied sites as of September 30,	42,909	42,943	(34)	(0.1%)	43,563	43,605	(42)	(0.1%)

(1) Income from operations for the Core Portfolio does not include an allocation of income from affiliates, interest income, corporate general and administrative expense, interest expense and related amortization or depreciation on corporate assets.

(2) Site and occupancy information does not include RV sites or the manufactured housing sites at the five Properties owned through joint ventures.

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

RESULTS OF OPERATIONS (CONTINUED)

Revenues

The 4.4% increase in base rental income for the Core Portfolio reflects a 4.4% increase in monthly base rent per site coupled with no change in average occupied sites. The 3.8% increase in base rental income for the Total Portfolio reflects the increase for the Core Portfolio and the acquisition and disposition of Non-Core Properties. The increase in utility and other income for the Core Portfolio is due primarily to increases in pass through items such as utilities and real estate taxes - which resulted from higher expenses for these items. The increase in utility and other income for the Total Portfolio reflects the increase for the Core Portfolio and the acquisition and disposition of Non-Core Properties.

Interest income decreased due to lower notes receivable balances and lower weighted average interest rates during the period. Short-term investments had average balances for the quarters ended September 30, 2001 and 2000 of approximately $2.2 million and $1.2 million, respectively, which earned interest income at an effective rate of 3.5% and 6.8% per annum, respectively.

Operating Expenses

The increase in property operating and maintenance expense for the Core Portfolio is due primarily to increases in utility expenses generally passed through and included in utility income. Expenses for the Core Portfolio also reflect increases in repairs and maintenance expense, payroll and insurance expenses and other expenses. The increase in Total Portfolio property operating and maintenance expense and real estate taxes is also impacted by acquisition and disposition of Non-Core Properties. The increase in property management expense for the Core Portfolio, which reflects costs of managing the Properties and is estimated based on a percentage of Property revenues, is due primarily to management staffing changes.

General and administrative expenses increased primarily due to the timing of payments for certain public company costs.

Interest and related amortization decreased due to lower weighted average interest rates during the period. The weighted average outstanding debt balances for the quarters ended September 30, 2001 and 2000 were $703.3 million and $690.3 million, respectively. The effective interest rate was 6.7% and 7.5% per annum for the quarters ended September 30, 2001 and 2000, respectively.

Depreciation on corporate assets increased slightly due to fixed asset additions related to information and communication systems. Depreciation on real estate assets and other costs increased due primarily to the acquisition of Non-Core Properties.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2001 TO THE NINE MONTHS ENDED SEPTEMBER 30, 2000

The following table summarizes certain financial and statistical data for the Core Portfolio and the Total Portfolio for the nine months ended September 30, 2001 and 2000.

	CORE PORTFOLIO				TOTAL PORTFOLIO			
(dollars in thousands)	2001	2000	INCREASE/ (DECREASE)	% CHANGE	2001	2000	INCREASE/ (DECREASE)	% CHANGE
Base rental income	$144,869	$138,488	$ 6,381	4.6%	$146,776	$141,776	$ 5,000	3.5%
Utility and other income	15,779	14,006	1,773	12.7%	20,599	21,136	(537)	(2.5%)
Equity in income of affiliates	---	---	---	---	1,359	1,649	(290)	(17.6%)
Interest income	---	---	---	---	552	731	(179)	(24.5%)
Total revenues	160,648	152,494	8,154	5.3%	169,286	165,292	3,994	2.4%
Property operating and maintenance	43,889	40,736	3,153	7.7%	46,778	44,471	2,307	5.2%
Real estate taxes	12,768	12,362	406	3.3%	13,216	12,807	409	3.2%
Property management	6,514	6,227	287	4.6%	6,735	6,631	104	1.6%
General and administrative	---	---	---	---	5,070	5,006	64	1.3%
Total operating expenses	63,171	59,325	3,846	6.5%	71,799	68,915	2,884	4.2%
Income from operations before interest, depreciation and amortization expenses	97,477	93,169	4,308	4.6%	97,487	96,377	1,110	1.2%
Interest and related amortization .	---	---	---	---	38,920	39,654	(734)	(1.9%)
Depreciation on corporate assets ..	---	---	---	---	945	839	106	12.6%
Property depreciation and other ...	24,071	23,906	165	0.7%	25,996	25,934	62	0.2%
income from operations (1) ...	73,406	69,263	4,143	6.0%	31,626	29,950	1,676	5.6%
Site and Occupancy Information (2):								
Average total sites	45,538	45,403	135	0.3%	46,412	47,043	(631)	(1.3%)
Average occupied sites	43,001	42,855	146	0.3%	43,795	44,362	(567)	(1.3%)
Occupancy %	94.4%	94.4%	0.0%	0.0%	94.4%	94.3%	0.1%	0.1%
Monthly base rent per site	$ 374.33	$ 359.06	$ 15.27	4.3%	$ 372.38	$ 355.10	$ 17.28	4.9%

(1) Income from operations for the Core Portfolio does not include an allocation of income from affiliates, interest income, corporate general and administrative expense, interest expense and related amortization or depreciation on corporate assets.

(2) Site and occupancy information does not include RV sites or the manufactured housing sites at the five Properties owned through joint ventures.

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

RESULTS OF OPERATIONS (CONTINUED)

Revenues

The 4.6% increase in base rental income for the Core Portfolio reflects a 4.3% increase in monthly base rent per site coupled with a 0.3% increase in average occupied sites. The 3.5% increase in base rental income for the Total Portfolio reflects the increase for the Core Portfolio and the acquisition and disposition of Non-Core Properties. The increase in utility and other income for the Core Portfolio is due primarily to increases in pass through items such as utilities and real estate taxes - which resulted from higher expenses for these items. The decrease in utility and other income for the Total Portfolio reflects the disposition of Non-Core Properties partially offset by the increase for the Core Portfolio.

Interest income decreased due to lower weighted average interest rates. Short-term investments had average balances for the nine months ended September 30, 2001 and 2000 of approximately $2.0 million and $1.5 million, respectively, which earned interest income at an effective rate of 4.3% and 5.9% per annum, respectively.

Operating Expenses

The increase in property operating and maintenance expense for the Core Portfolio is due primarily to increases in utility expenses generally passed through and included in utility income. Expenses for the Core Portfolio also reflect increases in repairs and maintenance expense, payroll and insurance expenses and other expenses. The increase in Core Portfolio real estate taxes is due to higher property assessments on certain Properties. The increase in Total Portfolio property operating and maintenance expense and real estate taxes is also impacted by acquisition and disposition of Non-Core Properties. Property management expense for the Core Portfolio, which reflects costs of managing the Properties and is estimated based on a percentage of Property revenues, increased. The increase is due primarily to management payroll and staffing changes.

General and administrative expenses increased primarily due to timing of certain public company related costs.

Interest and related amortization decreased due to lower weighted average interest rates during the period and lower weighted average outstanding debt balances. The weighted average outstanding debt balances for the nine months ended September 30, 2001 and 2000 were $714.5 million and $720.0 million, respectively. The effective interest rate was 7.1% and 7.2% per annum for the nine months ended September 30, 2001 and 2000, respectively.

Depreciation on corporate assets increased slightly due to fixed asset additions related to information and communication systems. Depreciation on real estate assets and other costs increased due primarily to the acquisition of Non-Core Properties.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

As of September 30, 2001, the Company had $5.1 million in cash and cash equivalents and $130.8 million available on its line of credit. 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 borrowings under its existing line of credit and the issuance of debt securities or additional equity securities in the Company, in addition to working capital.

On April 13, 2001, July 13, 2001, and October 12, 2001, the Company paid a $.445 per share distribution for the quarters ended March 31, 2001, June 30, 2001, and September 30, 2001, to stockholders of record on March 30, 2001, June 29, 2001, and September 28, 2001, respectively. The Operating Partnership paid distributions of 9.0% per annum on the $125 million of Series D Cumulative Redeemable Perpetual Preferred Units ("Preferred Units"). Distributions on the Preferred Units were paid on March 30, 2001, June 29, 2001, and September 28, 2001.

MORTGAGES AND CREDIT FACILITIES

During the nine months ended September 30, 2001 the Company borrowed $46.0 million on its line of credit and paid down $86.7 million on the line of credit. The line of credit bears interest at a rate of LIBOR plus 1.125%.

In July of 2001, the Company paid off three maturing mortgages in the amount of $12.1 million. The payoffs were funded with borrowings on the line of credit.

On August 3, 2001, the Company entered into a $50.0 million mortgage note (the "Stagecoach Mortgage") collateralized by 7 Properties beneficially owned by MHC Stagecoach, L.L.C. The Stagecoach Mortgage bears interest at a rate of 6.98% per annum, amortizes beginning October 1, 2001 over 10 years and matures August 31, 2011. Proceeds from the financing were used to reduce borrowings on the line of credit by $37.9 million.

Certain of the Company's mortgage and credit agreements contain covenants and restrictions, including restrictions as to the ratio of secured or unsecured debt versus encumbered or unencumbered assets, the ratio of fixed charges-to-earnings before interest, taxes, depreciation and amortization, limitations on certain holdings and other restrictions.

ACQUISITIONS, DISPOSITIONS AND INVESTMENTS

On January 3, 2001, the Company acquired two Florida Properties, totaling 730 sites, for an aggregate purchase price of approximately $16.3 million. Golden Lakes is a 422-site community in Plant City, near Tampa, Florida, and includes approximately 23 acres for expansion. Chain O' Lakes is a 308-site community in Grand Island, near Orlando, Florida, and includes a marina with 50 boat docks. The acquisition was funded with a borrowing under the Company's line of credit.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

On February 13, 2001, the Company completed the disposition of seven Properties, totaling 1,281 sites, in Kansas, Missouri and Oklahoma, for a total sale price of approximately $19.1 million. A gain of $8.1 million was recorded in other income on the accompanying consolidated statements of operations. Included in the sales price are proceeds from the sale by Realty Systems, Inc., an affiliate of the Company, of inventory and notes receivable totaling $1.7 million. Proceeds from the sale were used to reduce the amount outstanding on the Company's line of credit.

CAPITAL IMPROVEMENTS

Capital expenditures for improvements are identified by the Company as recurring capital expenditures ("Recurring CapEx"), site development costs and corporate headquarters costs. Recurring CapEx was approximately $8.5 million for the nine months ended September 30, 2001. Site development costs were approximately $6.1 million for the nine months ended September 30, 2001, and represent costs to develop expansion sites at certain of the Company's Properties.

INFLATION

Substantially all of the leases at the Properties allow for monthly or annual rent increases which provide the Company with the opportunity to achieve increases, where justified by the market, as each lease matures. Such types of leases generally minimize the risk of inflation to the Company.

FUNDS FROM OPERATIONS

Funds from operations ("FFO") was redefined by the National Association of Real Estate Investment Trusts ("NAREIT") in October 1999, effective January 1, 2000, as net income (computed in accordance with GAAP), before allocation to minority interests, excluding gains (or losses) from sales of property, plus real estate depreciation and after adjustments for unconsolidated partnerships and joint ventures.

The Company computes FFO in accordance with the NAREIT definition, which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REIT's computations. 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 and nine months ended September 30, 2001 and 2000 (amounts in thousands):

	QUARTERS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
COMPUTATION OF FUNDS FROM OPERATIONS:				
Income before extraordinary loss on early extinguishment of debt	$ 6,097	$ 5,451	$ 24,876	$ 26,742
Income allocated to Common OP Units	1,558	1,451	6,404	6,822
Depreciation on real estate assets and other costs	8,729	8,510	25,996	25,934
Gain on sale of property and other	---	---	(8,093)	(12,053)
Funds from operations	$ 16,384	$ 15,412	$ 49,183	$ 47,445
Weighted average Common Stock outstanding - diluted	27,071	27,077	26,914	27,706
COMPUTATION OF FUNDS AVAILABLE FOR DISTRIBUTION:				
Funds from operations	$ 16,384	$ 15,412	$ 49,183	$ 47,445
Non-revenue producing improvements to real estate	(4,240)	(2,470)	(8,526)	(5,366)
Funds available for distribution	$ 12,144	$ 12,942	$ 40,657	$ 42,079
Weighted average Common Stock outstanding - diluted	27,071	27,077	26,914	27,706

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's earnings are affected by changes in interest rates, as a portion of the Company's outstanding indebtedness is at variable rates based on LIBOR. The Company's $150 million line of credit ($19.3 million outstanding at September 30, 2001) bears interest at LIBOR plus 1.125% and the Company's $100 million Term Loan bears interest at LIBOR plus 1.0%. If LIBOR increased/decreased by 1.0% during the quarter ended September 30, 2001, interest expense for the quarter would have increased/decreased by approximately $343,000 based on the combined average balance outstanding under the Company's line of credit and Term Loan during the period.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. In June 1999, the FASB issued Statement No. 137 which deferred the effective date of SFAS No. 133 to all fiscal quarters for fiscal years beginning after June 15, 2000. The Company adopted SFAS No. 133 effective January 1, 2001. SFAS No. 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company has determined that SFAS No. 133 currently has no significant effect on the earnings and financial position of the Company.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

(see Note 8 of the Consolidated Financial Statements contained herein)

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

(a) Exhibits:

None.

(b) Reports on Form 8-K:

None.

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

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/ John M. Zoeller

John M. Zoeller
Vice President, Treasurer and
Chief Financial Officer

BY: /s/ Mark Howell

Mark Howell
Principal Accounting Officer and
Assistant Treasurer

DATE: November 13, 2001

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