

Commitment to Excellence  
in Quality Communities

## COMPANY PROFILE

American Land Lease is a self-administered, self-managed real estate investment trust (REIT) with headquarters in Clearwater, Florida, that holds interests in residential land lease communities located primarily in Florida and Arizona. At December 31, 2002, American Land Lease owned 29 residential land lease communities with 6,090 leased home sites, 2,666 expansion sites, and 129 RV sites. Of these, 17 communities are in Florida, 10 in Arizona, one each in New Jersey and Pennsylvania. ■



Uncompromising  
Quality Lifestyle  
& Affordable  
Homeownership



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**FINANCIAL  
PERFORMANCE**  
(in thousands except per share data)

	2002	2001
<b>Operating Data:</b>		
Income from rental property operations after depreciation	\$12,143	\$8,567
Income (loss) from sales operations	342	(375)
Equity in (losses) income of unconsolidated real estate partnerships	(2)	65
General and administrative expenses	(1,954)	(1,728)
Interest expense	(4,751)	(4,286)
Interest and other income	927	1,504
Income from operations	6,705	3,747
Income taxes	--	(600)
Income before discontinued operations and minority interest in Operating Partnership	6,705	3,147
(Loss) income from discontinued operations	(35)	3,479
Minority interest in Operating Partnership	(820)	(496)
Net income	5,850	6,130
Net Income	5,850	6,130
Minority Interest in Operating Partnership	820	496
Real estate depreciation	2,522	5,192
Discontinued Operations:		
Real estate depreciation	15	31
Minority interest in operating partnership attributed to discontinued operations	10	7
Loss (gain) on sale of property, net of minority interest	106	(3,432)
Depreciation from unconsolidated real estate partnerships	110	0
Federal Income tax attributed to constructive sale of properties	0	600
Funds From Operations	9,433	9,024
Capital Replacements	(726)	(601)
Adjusted Funds From Operations	\$8,707	\$8,423
<b>Per Share Data:</b>		
Funds From Operations	\$1.21	\$1.14
Adjusted Funds From Operations	1.12	1.06
Dividends Paid to Common Stockholders	1.00	1.00
<b>Payout Ratio Per Common Share and OP Unit:</b>		
Gross Distribution Payout		
Funds from Operations	82.6%	87.7%
Adjusted Funds From Operations	89.3%	94.3%
Distribution payout net of DRIP reinvestment		
Funds from Operations	73.8%	87.7%
Adjusted Funds From Operations	79.8%	94.3%
Ratio of Free Cash Flow to Interest Expense	1.8:1.0	1.8:1.0
<b>Same Store Data</b>		
Revenues	7.9%	6.8%
Operating Expenses	4.8%	1.5%
Net Operating Income	9.3%	11.1%

## LETTER TO SHAREHOLDERS

Dear Fellow Shareholder:

2002 was a solid year for American Land Lease. Financial results per diluted share were:

Net income	\$0.86	Down 3.4%
FFO	\$1.21	Up 6.1%
AFFO	\$1.05	Up 6.7%

Total Return, considering the \$1.00 dividend and \$0.99 in share price appreciation, equaled 15.2% as compared to the REIT industry average of 3.6%. (FFO, AFFO, Total Return and other terms used with special meanings are defined on page 8.)

This good news for shareholders was welcome to Dusty and me: we are shareholders too, owning more than 10% of American Land Lease. We, and indeed all directors, are compensated wholly in American Land Lease equity.

The 2002 results were based on success in each of the four distinct activities in which American Land Lease is engaged: the ownership of land leases; land development; new home sales; and investment acquisition and disposition.

■ The ownership of land leases is the primary business objective of American Land Lease and all other activities are undertaken in its support. We are focused on the ownership of land, leased to homeowners, in residential subdivisions improved with such amenities as golf courses and marinas that provide an "active retirement" for residents with an average age greater than 62 years. Land lease rents are secured, at least to the extent of the cost of relocation of the home, by the value of the home sited on the land.

▲ One measure of this activity is expressed in terms of "same store" results, i.e., the increases from properties owned in both 2001 and 2002,:

● Property Revenue	Up 7.9%
● Property Expenses	Up 4.8%
● Net Operating Income	Up 9.3%

▲ The profitability of these increases are due about 5.2% to same site results, i.e., the increase in net operating income from sites leased in both 2001 and 2002, and about 4.1% from the 544 sites leased during the last two years.

■ Land development is our second activity. It involves improving raw land with such items as streets, residential lots, community facilities, golf courses, security systems, and in securing the governmental permits required for these improvements. Developed land provides an inventory of sites available to be leased as discussed above. During 2002, American Land Lease:



▲ Invested more than \$14 million in land development, including \$3.4 million in capitalized interest.

▲ Added 353 developed sites at year end 2002, for a year end portfolio of

● 6,090 Operational sites
1,123 Developed sites available for lease
<u>1,543</u> Land under development
<u>8,756</u> Total

▲ Opened "The Bluffs" phase of its Riverside community, "The Links" phase of Savanna Club, and completed a striking Clubhouse and Lifestyle Center at Savanna Club.

■ "New home sales" is our third activity. We sell new homes to be sited on land leased from American Land Lease in order to increase our portfolio of land leases. 2002 was a third consecutive year of significant growth in new home sales as shown below (in thousands):

▲ New home sales	\$23,427	Up 38.8%
▲ Cost of sales	17,748	Up 33.9%
▲ Gross margin	5,679	Up 57.1%
▲ Overhead	5,337	Up 33.7%
▲ Operating Income	342	(Loss in prior year)

▲ New homes sold	307	Up 29.5%
▲ Average selling price	\$74,000	Up 5.7%
▲ Gross margin	24.2%	Up 2.8%

It is noteworthy that New Home Sales reported an operating profit for the year. This is due largely to the increased volume, which in turn, is due to the higher quality of homes offered for sale and the improved American Land Lease sales team.

While this profit is most welcome, it bears mention that the origination of profitable land lease investments is our primary measure of the success of New Home Sales. The 307 new land leases originated in 2002 are expected to provide a 12% first year return on their total costs. Said differently, the estimated value of these leases to American Land Lease is \$11.6 million; \$4.1 million or 52% greater than their cost.

- American Land Lease's fourth activity is the acquisition and disposition of land lease communities. Here, our objective is to upgrade the American Land Lease portfolio by selling the weaker assets, generally those with home values less than \$25,000, to reinvest in land development and new home sales relating to better quality properties, generally with home values greater than \$50,000. In 2002 American Land Lease sold one community for \$1.0 million that was NAV neutral.

Other matters include:

- At the end of 2001, the company increased its tax basis in its real estate assets by \$30 million in a deemed sale for tax purposes. This gain was largely sheltered by the use of a portion of the \$94 million net operating loss ("NOL") carried forward from predecessor companies. This transaction increased the return of capital component of the 2002 dividend from 52% to 73%.
- In a year of corporate scandal, investor skepticism and increased government regulation, Bob Blatz, Shannon Smith and I were entirely comfortable with our certifications of the American Land Lease financial statements.

As Dusty and I look forward, we see great strengths in American Land Lease. Its portfolio of land lease communities produces a predictable rental stream. Even in the recession year of 2002, bad debt was only 0.65% of rents. This stability is due, in part, to the focus on senior communities and, in part, to the high average value of the homes located on American Land Lease sites. We are pleased by the increase in New Home Sales and consider further increases, especially at the older communities, a key business goal for 2003. We have concerns too: there is a healthy tension between the use of cash to pay dividends and reinvestment in accelerated land development.

In the larger picture, we remain concerned that the national economy continues to struggle and that the prospects for war and possible domestic terrorism increase the normal uncertainty. While the retirement market is somewhat insulated from the ups and downs of the business cycle, it is by no means unaffected by stresses in the broader economy.

The success enjoyed last year by American Land Lease owed a very great deal to the leadership of President Bob Blatz, ably assisted by Chief Financial Officer Shannon



Smith. It was aided too by the guidance of our three colleagues on the American Land Lease Board: Bruce Benson, Bruce Moore and Todd Sheets. Each of these is compensated solely in equity and approaches his work from the point of view of a shareholder.

We take seriously our responsibility for your and our mutual investments in American Land Lease and welcome your questions and comments. We look forward to seeing you at the Annual Meeting to be held May 28th in Denver, Colorado.

Sincerely,

Terry Considine  
Chairman/CEO

Thomas L. Rhodes  
Vice Chairman

2002 IN  
REVIEW

American Land Lease increased property Net Operating Income (NOI) 9.3% over the previous year for the Company's 27 manufactured home communities owned in both 2001 and 2002. This increase was driven by a 7.9% increase in property rental revenues offset by a 4.8% increase in operating expenses. The Company increased new home sales by 29.5% over the prior year, closing a total of 307 new home sales and bringing forward 95 contracts for closing in 2003.

**PROPERTY OPERATIONS HIGHLIGHTS**

American Land Lease invests in residential land lease communities and primarily serves the "active adults" who qualify to live in our age-restricted communities. The Company has a total of 29 properties, of which 14 are defined as developing communities where new homes are being sold to be situated on expansion home sites. These communities are located primarily in Florida and Arizona. Property operating highlights for 2002 include:

**Florida Properties**

In 2002, Net Operating Income was \$11,039,000 in Florida, up 11.7% over the prior year. Occupancy increased 5% to nearly 82%, as defined as a percentage of total developed home sites. Key operations projects in 2002 included:

- The golf course greens at the Company's Cypress Greens community, located in Lake Alfred, Florida, were rebuilt to improve the quality of the golfing experience in this developing community.
- In a joint project with the Florida Emergency Management Agency (FEMA), the clubhouse at the Company's Gulfstream Harbor property in Orlando, Florida was improved and now is listed as a qualified evacuation-safe facility in case of a state emergency.
- A February ribbon-cutting ceremony marked the opening of a new 40-slip marina at Sunlake

Estates in Grand Island, Florida improving the lifestyle at this developing community situated on the 4,000 acre Lake Yale.

**Arizona Properties**

In 2002, Net Operating Income was \$4,963,000, up 6.6% over the prior year and attributed to a stable occupancy rate of 90%, average rental increases of 4.3%, increases in pass through billings to tenants of 9%, and managing expense increases to 1.8%. Key operations projects in 2002 included:

- Continuing our program of upgrading communities through the introduction of new home sales into all Arizona Communities.
- Capital improvements including repaving roads at our Blue Star, Sun Valley and Brentwood West communities; upgrading and enhancing pool areas at Lost Dutchman, Desert Harbor and Rancho Mirage communities; and replacing the waste water infrastructure at our Fiesta Village community.
- The second phase of Americans with Disabilities Act (ADA) upgrades at Brentwood West, Mesa.

**People**

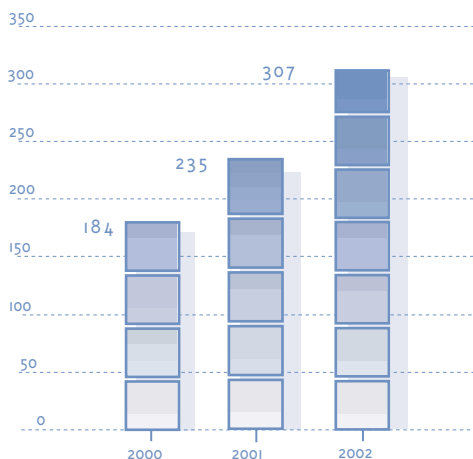
The success of American Land Lease is the result of the contributions of many outstanding individuals. We would like to recognize those who were distinguished among their peers for truly exceptional performances in 2002.

- Kelly Kirkham – Regional/Project Manager of the Year
- Todd Sakow - Financial/Accounting Manager of the Year
- Jim Raymond - Sales Manager of the Year at Savanna Club Golf & Tennis Resort
- Roger Frick - Community Manager of the Year for Florida at the Forestview community
- Kathy Novak & Paul Frangipane - Community Managers of the Year for Arizona, at the Lost Dutchman community
- Betty Wing - Most Improved Sales Operations at Brentwood Estates

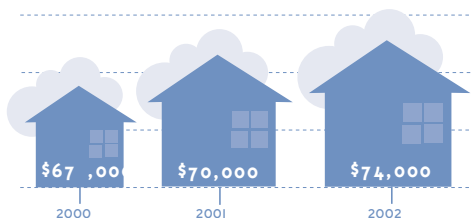
**SALES HIGHLIGHTS**

Sales increased 29.5% in 2002, from 237 to 307 new homes sold. The average price of a new home sold in an American Land Lease community was \$74,000. Our success in the home sales business continues to improve through the management of inventory and dedication to serving our customer’s changing tastes. Inventory control measures enabled the company to respond quickly to changes in customer preferences and meet the continuing demand for high quality homes. Relationships with manufacturers were strengthened to include better price negotiations, improved sales lead management, and introducing new lines of quality homes with new manufacturers.

**NEW HOME SALES  
Three Year Comparison**



**AVERAGE NEW HOME PRICES**



**CONSTRUCTION & DEVELOPMENT HIGHLIGHTS**

American Land Lease spent approximately \$10.6 million in 2002 to build new subdivisions in its developing communities and to improve and expand existing facilities. The following projects are reported

completed or in progress at the end of 2002:

**Savanna Club Golf & Tennis Resort  
Port St. Lucie, Florida**

At Savanna Club Golf & Tennis Resort, one of the premier communities in the American Land Lease portfolio, Phase V of VIII was completed, adding 228 new home sites to our inventory of developed home sites. The project included completion of a new 11,000 square foot clubhouse and lifestyle center and additional outdoor areas which feature:



- a thirty-five seat theater-style movie viewing area
- a fitness center with exercise equipment
- computer workstations providing high-speed internet access
- billiard and card tables
- large rooms for arts and crafts and a library
- a large swimming pool with spa, men’s and women’s separate private saunas, bath and locker rooms
- entertaining kitchen, an outdoor Tiki bar and grill area

**Riverside Club Golf & Boating Resort  
Ruskin, Florida**

Phase II of VI was completed at Riverside Club, a unique community offering waterfront and golf course views in the West Gulf Coast area of Florida thirty minutes outside of Tampa. This expansion effort added an additional 125 new home sites to our inventory of developed home sites. The development of this phase included:

- 18 premium waterfront lots along Hayes Bayou, a waterway linked to the Little Manatee River allowing boaters access to the Gulf of Mexico.
- a custom designed sales center and lobby area
- an enhanced site plan based upon subdivision designs that include two-car garages, sidewalks, and street lights.

### Future Development Plans — 2003 and Beyond

The development pipeline for American Land Lease provides for our future growth. We continue the site planning process on the balance of the undeveloped land in our portfolio with plans to move forward through the entitlement and permitting process to begin construction on several additional projects in 2003. Our development pipeline includes the following:



#### Savanna Club

**Port St. Lucie, Florida** — construction on Phases VI & VII adding 60 new home sites in 2003 and an additional 156 home sites to be ready for occupancy in early 2004.

#### Riverside Club,

**Ruskin, Florida** — commencement of Phase III to develop an additional 250 home sites, a marina expansion to include an additional 42 boat slips; and design of a new clubhouse facility.

#### Royal Palm Village

**Haines City, Florida** — construction of the final phase of in excess of 100 home sites and a new recreational facility.

Other Florida Projects in the Developmental Pipeline at Gulfstream Harbor, Orlando, FL; Blue Heron Pines, Punta Gorda, FL; and Brentwood Estates, Hudson, FL — planning, design, and engineering of final phases of development at each of the properties are in process.



### OTHER ACTIVITIES

#### Administration

In our first full year of consolidated operations at the Clearwater, Florida headquarters, the Company continued to focus on reducing overhead costs and implementing technology to better serve our customers. Activities included the following:

Implementation of new payroll and accounting software, including the initial phase of job cost software, resulting in an integrated database for tenant accounts, property operations, accounts payable, accounts receivable, and general accounting, real-time inventory cost tracking and measurement of home sale profitability.

The Accounting Department implemented lockbox processing for tenant rental payments for the Arizona portfolio, completing the conversion that began in 2001 with the Florida portfolio. As a result of completing this implementation, the timeliness of posting tenant payments and accuracy of tenant accounts has been improved.

Implementation of direct payment for tenant billings using the Automated Clearing House (ACH) program proved to be highly successful. As of the end of the year, 30% of the portfolio tenant base subscribed to this payment method, resulting in a low cost and accurate method for processing tenant payments.



## EIGHT POLICIES THAT DEFINE AMERICAN LAND LEASE, INC.

*American Land Lease, Inc. succeeds by providing quality services to residents, good jobs to employees,*

*and attractive returns to shareholders. Its business is defined by eight policies.*

**1. Own Land Leases.** We lease land to homeowners, generally in residential land lease communities. These land leases provide secure and predictable rents. The homeowner bears the risk of economic depreciation as well as the cost of home improvements.

**2. Measure Profitability after Capital Replacements: AFFO.** We measure economic profitability by Adjusted Funds From Operations (AFFO), after deduction of the capital costs of maintaining our properties. (See "Accounting Policies and Definitions".)

**3. Pay Dividends from AFFO while Retaining Cash for Reinvestment.** The dividend rate is based on several factors, two of which are AFFO and the REIT requirement of distribution of taxable income. Retained AFFO is available, for example, to acquire additional properties, fund land development, repay debt, and repurchase shares.

**4. Invest in Better Neighborhoods.** We seek to own "subdivision" communities rather than more common "trailer park" communities because the more valuable the home that is located on our land, the more secure is our land rent.

**5. Limit Development.** Development is inherently uncertain. We are conscious of its risks. We will develop communities when we perceive a reasonable balance between risk and reward. In addition to development of communities, we will, in some cases, expand existing communities and redevelop others.

**6. Use Debt with Caution.** We use debt leverage to increase financial returns. We generally seek long-term, fixed-rate, self-amortizing, and non-recourse debt: long term because that matches the character of our investments; fixed rate because land rents do not fluctuate with the bond market and we want a predictable return on our investments; fully amortizing to provide a financial discipline that shields us from the refunding and repricing risks that are inherent in "bullet" maturities; non-recourse to reduce the risk that one bad investment will jeopardize the overall enterprise. We do use some short-term debt to fund short-term uses such as inventory held for sale and our inventory of developed home sites. Our policy is to limit the sum of total debt outstanding, plus development commitments to 80% of the value of our leased land.

**7. Diversify Geographically.** All markets are cyclical. We plan a geographically diversified portfolio as the best hedge against local market fluctuations. While today our portfolio is 71% in Florida, we expect, over time, that our investment in other markets will increase as a percentage of the total portfolio.

**8. Make Managers Owners.** We consider that the operators of our business, both Management and Directors, should have the same interests as our Shareholders. The factors that most reliably align these interests are the substantial stock and OP Units owned by Management and Directors plus the use of American Land Lease equity in lieu of Board fees and as a significant part of Management compensation.



## ACCOUNTING POLICIES AND DEFINITIONS

1. American Land Lease has elected to be taxed as a **real estate investment trust** or "REIT." In general, a REIT is not subject to federal income taxation of its income from rental properties. Many, but not all, states follow the federal treatment. Income from provision of services is generally subject to customary state and federal corporate income taxes. American Land Lease will not provide services that are not usual and customary for REIT qualification purposes. Any such services are provided to American Land Lease through subsidiaries which pay tax at the entity level. American Land Lease's income tax provision is based on its qualification as a REIT. In addition, we have an approximate \$64 million net operating loss carryover available to offset substantially all income taxes that might become due if we should fail to qualify as a REIT.

2. American Land Lease conducts its business through Asset Investors Operating Partnership, L.P., the **Operating Partnership** whose general partner is American Land Lease and whose limited partners hold "OP Units," exchangeable for American Land Lease common stock. This Operating Partnership structure is also known as an "UPREIT."

OP Units are typically used as consideration for our purchase of a property, and are redeemable for cash, or at our election, shares of our common stock on a one-for-one basis. OP Units may offer the holders the opportunity to defer recognition of taxes otherwise due on the sale of a property. OP Units receive the same dividend as our common stock.

3. **American Land Lease reports Funds From Operations (FFO).** FFO is defined in a manner consistent with the guidelines of the National Association of Real Estate Investment Trusts ("NAREIT") as net income (loss), computed in accordance with Generally Accepted Accounting Principles ("GAAP"), excluding gains and losses from extraordinary items and sales of depreciable real estate property, net of related income taxes, plus real estate related depreciation and amortization (excluding amortization of financing costs), including depreciation for unconsolidated partnerships and joint ventures. American Land Lease calculates FFO based upon the NAREIT definition as adjusted for the minority interest in the Operating Partnership owned by persons other than us and amortization of intangibles.

4. We generally capitalize spending for items that cost more than \$250 and have a useful life of more than one year. Capitalized spending which maintains a property is termed a **Capital Replacement** and is deducted in the calculation of AFFO. A common example is parking lot repaving. This spending is better considered a recurring cost of preserving

an asset rather than as an additional investment. It is a cash proxy for depreciation.

It is our policy to deduct at least \$100 per developed home site in determining AFFO, even if that entire amount is not spent in any one year. Over time, \$100 per home site is considered a reasonable minimum provision for Capital Replacement spending. By deduction of at least \$100 per developed home site each year, reported profitability as measured by AFFO is not overstated. Any amount deducted but not spent is available to offset spending in future years. Capital Replacement spending in a year that is more than \$100 per developed home site, except as to amounts deducted and not spent in prior years, will be deducted in determining AFFO for that year.

5. **Free Cash Flow** is defined by us as AFFO plus interest expense. It measures profitability prior to the cost of capital.

6. We measure economic profitability by **Adjusted Funds From Operations (AFFO)**. AFFO is defined as FFO less an annual provision for Capital Replacements at least equal to \$100 per developed home site.

7. In developing, redeveloping or expanding a property, we capitalize related costs, including any allocated interest expense, as part of our investment. A common example is the development of new home sites.

8. Capital spending which adds a material feature or revenue source is called a **Capital Enhancement** and is capitalized as part of our investment. An example is the addition of a marina facility to an existing community.

9. In purchasing a property, we generally consider, as part of our investment decision, a program of spending to improve the property. Such spending, whether or not otherwise capitalized, is capitalized as part of our investment and is called **Initial Capital Expenditures ("ICE")**. Common examples are correction of deferred maintenance, upgrades to community centers and improved landscaping.

10. **Total Return** for one year is defined by NAREIT as the total of the closing price at year-end plus any dividends paid less the closing price for the prior year-end. Divide the results by the closing price of the prior year-end. The return is calculated with dividends reinvested on a quarterly basis.

11. The **Morgan Stanley REIT Index** ("MS REIT Index" or "REIT Index") includes 114 REITs with a market capitalization of approximately \$139 billion at December 31, 2002.

12. For financial reporting purposes, we consolidate entities in which we own substantially all of the capital stock as well as those where we do not have total ownership but do control investment decisions with respect to underlying assets. Entities in which we do not have controlling ownership interest are accounted for by the equity method.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Terry Considine

Chairman

Thomas L. Rhodes

Vice Chairman, Director,  
Chairman of Governance/Nominating  
Committee

Bruce D. Benson

Director and Chairman of  
Compensation Committee

Bruce E. Moore

Director

Todd Sheets

Director and Chairman of Audit Committee

### EXECUTIVE OFFICERS

Terry Considine

Chief Executive Officer

Robert G. Blatz

President and Chief Operating Officer

Shannon E. Smith

Chief Financial Officer,  
Treasurer and Secretary

### CORPORATE OFFICE

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### STOCK TRANSFER AGENT AND REGISTRAR

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161 N. Concord Exchange

St. Paul, Minnesota 55164-0854

(651) 450-4075 or (800) 468-9716

### LEGAL COUNSEL

Skadden, Arps, Slate, Meagher & Flom LLP

Los Angeles, California

### INDEPENDENT AUDITORS

Ernst & Young LLP

Denver, Colorado

Stock Listing: New York Stock Exchange

Symbol: ANL



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