

**CHARTER OF THE COMPENSATION COMMITTEE OF THE
BOARD OF DIRECTORS OF
AFFORDABLE RESIDENTIAL COMMUNITIES INC.
AS ADOPTED BY THE BOARD OF DIRECTORS ON DECEMBER 23, 2003**

I. PURPOSE OF THE COMMITTEE

The purposes of the Compensation Committee (the "Committee") of the Board of Directors (the "Board of Directors") of Affordable Residential Communities Inc. ("ARC") shall be to (i) review and approve corporate goals and objectives relevant to the compensation of the Chief Executive Officer of ARC (the "CEO"), evaluate the CEO's performance in light of those goals and objectives and determine and approve the CEO's compensation level based on the Committee's evaluation, (ii) make recommendations to the Board of Directors with respect to executive compensation, incentive-compensation plans and equity-based plans, and (iii) produce an annual report on executive compensation for inclusion in ARC's proxy statement, in accordance with all applicable rules and regulations.

II. COMPOSITION OF THE COMMITTEE

The Committee shall be comprised of three or more directors who qualify as independent directors ("Independent Directors") under the listing standards of the New York Stock Exchange (the "NYSE") and any additional requirements that the Board of Directors deems appropriate. Members of the Committee shall also qualify as "non-employee directors" within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and shall satisfy any other necessary standards of independence under the U.S. federal securities and tax laws.

The members of the Committee shall be nominated by the Nominating and Corporate Governance Committee and elected annually to one-year terms by majority vote of the Board of Directors at the first meeting of the Board of Directors to be held following the annual meeting of stockholders. Vacancies on the Committee shall be filled by majority vote of the Board of Directors at the next meeting of the Board of Directors following the occurrence of the vacancy. No member of the Committee shall be removed except by majority vote of the Independent Directors of the Board of Directors then in office.

III. MEETINGS AND PROCEDURES OF THE COMMITTEE

The Committee shall fix its own rules of procedure, which shall be consistent with the Bylaws of ARC and this charter. The Committee shall meet as provided by its rules, which shall be at least four times annually or more frequently as circumstances require. The chairperson of the Committee shall be designated by the Board of Directors. The chairperson of the Committee,

or a majority of the members of the Committee, may also call a special meeting of the Committee.

A majority of the members of the Committee shall constitute a quorum for the transaction of business at any meeting of the Committee. The act of a majority of the members of the Committee present, either in person or by telephone, shall be the act of the Committee. The Committee shall maintain minutes of its meetings and records relating to those meetings, which minutes shall be maintained with the books and records of ARC.

The Committee may form subcommittees for any purpose that the Committee deems appropriate and may delegate to such subcommittees such power and authority as the Committee deems appropriate; *provided, however*, that no subcommittee shall consist of fewer than two members; and *provided further* that the Committee shall not delegate to a subcommittee any power or authority required by any law, regulation or listing standard of the NYSE to be exercised by the Committee as a whole.

The Committee may request that any directors, officers or employees of ARC, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

Following each of its meetings, the Committee shall deliver a report on the meeting to the Board of Directors, including a description of all actions taken by the Committee at the meeting.

IV. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

Executive Compensation

The Committee shall have the following goals and responsibilities with respect to ARC's executive compensation plans:

- To review at least annually the goals and objectives of ARC's executive compensation plans and amend, or recommend that the Board of Directors amend, these goals and objectives if the Committee deems it appropriate.
- To review at least annually ARC's executive compensation plans in light of ARC's goals and objectives with respect to such plans and, if the Committee deems it appropriate, adopt, or recommend to the Board of Directors the adoption of, new, or the amendment of existing, executive compensation plans.
- To evaluate annually the performance of the CEO in light of the goals and objectives of ARC's executive compensation plans and set the CEO's compensation level based on this evaluation. In determining the long-term incentive component of the CEO's compensation, the Committee shall consider all relevant factors, including ARC's performance and relative stockholder return, the value of similar awards to chief executive officers of comparable companies, and

the awards given to the CEO in past years. The Committee, at its discretion, may discuss the CEO's compensation with the Board of Directors.

- To evaluate annually the performance of ARC's other executive officers in light of the goals and objectives of ARC's executive compensation plans and set the compensation level of each based on this evaluation. To the extent that long-term incentive compensation is a component of such executive officer's compensation, the Committee shall consider all relevant factors in determining the appropriate level of such compensation, including at least the factors applicable with respect to the CEO.
- To evaluate annually the appropriate level of compensation for service on the Board of Directors and committees of the Board of Directors by non-employee directors.
- To review and approve any severance or termination arrangements to be made with any executive officer of ARC.
- To perform such duties and responsibilities as may be assigned to the Committee under the terms of any executive compensation plan.
- To review perquisites or other personal benefits to ARC's executive officers and recommend any changes to the Board of Directors.
- To produce a report on executive compensation for inclusion in ARC's annual proxy statement, in accordance with all applicable rules and regulations.

Incentive-Compensation and Equity-Based Plans

The Committee shall have the following responsibilities with respect to ARC's incentive-compensation and equity-based plans:

- To review at least annually the goals and objectives of ARC's incentive-compensation and equity-based plans and amend, or recommend that the Board of Directors amend, these goals and objectives if the Committee deems it appropriate.
- To review at least annually ARC's incentive-compensation and equity-based plans in light of the goals and objectives of these plans and recommend that the Board of Directors amend these plans if the Committee deems it appropriate.
- To review all equity-compensation plans that are not subject to stockholder approval under the listing standards of the NYSE and approve such plans in its sole discretion.

- To perform such duties and responsibilities as may be assigned to the Committee under the terms of any incentive-compensation or equity-based plan.

Other Compensation and Employee Benefit Plans

- To review at least annually the goals and objectives of ARC's general compensation plans and other employee benefit plans and recommend that the Board of Directors amend these goals and objectives if the Committee deems it appropriate.
- To review at least annually ARC's general compensation plans and other employee benefit plans in light of the goals and objectives of these plans and recommend that the Board of Directors amend these plans if the Committee deems it appropriate.
- To perform such duties and responsibilities as may be assigned to the Committee under the terms of any general compensation or other employee benefit plan.

V. EVALUATION OF THE COMMITTEE

The Committee shall, on an annual basis, evaluate its performance under this charter. In conducting this review, the Committee shall evaluate whether this charter appropriately addresses the matters that are or should be within its scope and shall recommend to the Board of Directors such changes as it deems necessary or appropriate. The Committee shall address all matters that the Committee considers relevant to its performance, including at least the following: the adequacy, appropriateness and quality of the information and recommendations presented by the Committee to the Board of Directors, the manner in which the information and recommendations presented by the Committee to the Board of Directors were discussed or debated and whether the number and length of meetings of the Committee were adequate for the Committee to complete its work in a thorough and thoughtful manner.

The Committee shall deliver to the Board of Directors a written report setting forth the results of its evaluation, including any recommended amendments to this charter and any recommended changes to ARC's or the Board of Directors' policies or procedures.

VI. INVESTIGATIONS AND STUDIES; OUTSIDE ADVISORS

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities and may retain, at ARC's expense, such independent counsel or other advisors as it deems necessary. The Committee shall have the sole authority to retain or terminate a consultant to assist the Committee in carrying out its responsibilities, including sole authority to approve the consultant's fees and other retention terms, which fees shall be borne by ARC.

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While the members of the Committee have the duties and responsibilities set forth in this charter, nothing contained in this charter is intended to create, or should be construed as creating, any responsibility or liability of the members of the Committee, except to the extent otherwise provided under the applicable laws of Maryland that shall continue to set the legal standard for the conduct of the members of the Committee.

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