

Top 10 Ways to Tell You've Stopped Operating Your MHP like an Investment

If a magic wand were waved and we all were sprinkled with Warren Buffett investment wisdom pixie dust would our MHPs be making more money? Do you feel Warren Buffett investment principles are applicable to MHPs?

While Warren Buffett is in a class of his own, shouldn't we use him as our role model for achieving as high of return as possible with MHP investments? How about this for a mantra when reviewing monthly P&Ls and rent rolls (and we are all reviewing monthly, yes?):

“What Would Warren Buffett Do?”

What would Warren Buffett do to make as much cash flow as possible?

What would Warren Buffett do make the value of the MHP as high as possible?

Do you feel Mr. Buffett takes his role as one of the most renowned investors in history of the world seriously, and looks at his numbers and bottom line very often? We can follow his discipline.

Here is this year's top 10 Ways You to Tell You've Stopped Operating Your MHP Like an Investment:

1. **You don't have a savings plan or investment plan for yourself.** You are making a lot of cash flow and have a big balance in the checking account, a great lifestyle (nice home, cars, trips, boat, 2nd home, etc.). There is nothing wrong with this picture. The problem is how to maintain this lifestyle after you retire, get tired of running the park and want to sell, or the kids' takeover the park. You want income, without the work, and that is how it should be. Investing in MHPs should be about giving you options for how to fund your life. Having a very comfortable lifestyle after park ownership ought to be on the short list of your investment goals. Where does the monthly check come from when you no longer own the park? Most sellers don't have a good answer for this. How about funding an investment account? Many MHP owners think there are 2 investment choices that they feel safe about investing in:

- #1 MHPs
- #2 Certificates of Deposit (currently, 2% interest for 30 months)

The truth is there is a world of investments out there... time to go exploring! But, think like Warren Buffett. He invests in only a very small number of the hundreds of investment opportunities he is presented every year. He is very selective. Mr. Buffett seems to always have a war chest of billions of investment dollars available so he can move quickly when the

right deal comes along. Some years he doesn't invest in anything. The take away is you should look at multiple alternative investments and not feel pressured by, say, a financial advisor to pull the trigger on investing in something.

It's disheartening to see MHP owners who would dearly love to retire or sell their park BUT they don't have enough money set aside to meet their monthly living expenses.

2. **Numbers, financials, rent rolls.** Many owners don't keep a rent roll, don't track expenses that much, don't know the value of their MHP, and don't know how parks are valued. In other words, they are managing and operating in the dark. Today with such good property management software available that is so much easier to use, an MHP may look at expenses regularly and scrutinize for cost cutting to save money.

This casual approach to the financials would elicit shock from Mr. Buffett. He definitely would not approve of running a business without knowing the numbers very well.

3. **You have stopped setting aside a reserve each month for Capital Improvements.** There is no anticipation or plan for resurfacing roads, replacing underground utilities, signage, or playgrounds, or buying new homes, as old ones' age out and need to be junked. Warren Buffett states Berkshire Companies are not part of America's "crumbling infrastructure" and annually invests in Capital Improvements at his companies.

The fix is to set up a reserve account and make a deposit each month and plan for these expensive Capital Improvements. Look at last year's P&L and decide how much the reserve account ought to be. A rule of thumb is \$50-\$100 per site (including the vacant ones) per year.

4. **Finance and Being Debt Free.** This is not an advertisement for Financial Peace University. It's a CALL TO ACTION to pay down as much debt as you can, as fast as you can. Never, have we seen such low interest rates! The benefit to you is that low interest rates cause your loans to pay off faster, thus, building your equity faster.

If you have refinanced for a low interest rate already, can you make double payments? Or, pay the mortgage twice per month? Think how much better off you will be without debt. Go to www.FNcalculator.com and play around with higher payments on your mortgage balance and see the savings for yourself.

5. **Mr. Buffett knows the value of his businesses.** All he has to do is check his stock price. Deeper than that is he knows the intrinsic value of the business,

what the trends are for the various products and services, what the demographics are and how they will affect the businesses, how interest rates, GDP, will add to (or hurt the business) value. Also, he thinks and speaks of the value of the business and share price in after tax value.

The intrinsic value of a Berkshire Hathaway Company is the “value add” when Berkshire Hathaway invests in a company. Because Berkshire Hathaway and Mr. Buffett are reported on so much, it is an event when Berkshire Hathaway invests in a company. The share price often goes up right away. Investors and regular people rush to invest in that stock because they feel if the stock is good enough for Warren Buffett, it is good enough for them.

Here’s a corollary to the MHP business and intrinsic value. For years, MHPs have been very much in demand by investors. Investors like the stability and predictability of the cash flow MHPs offer. This has caused prices to rise. Demand continues to rise.

If Warren Buffett owned an MHP do you think he would know the market value (not the assessed value, not the appraised value, not the insurance value) but the current market value of his MHP at all times? Do you think Warren Buffett would make certain he had an excellent tax advisor to calculate the Capital Gains tax due upon sale?

A true investor knows the value of his asset. What's our new mantra?

“What Would Warren Buffett Do?”

Promise yourself that within the next 30 days you WILL learn the value of your MHP.

- 6. Buying NEW HOMES.** Filling vacant sites, junking out old abandoned homes, helping your residents trade up to a new home (their old homes will sell quickly and you can help them sell it to lock down their decision to trade up) is key to maximizing your monthly cash flow AND the value of your MHP.

What's different today is that most of the MH manufacturers (Cavco, Clayton, Champion, Commodore) are rolling out programs for you to buy new homes with little to even no cash out of pocket. It's time to go to the home lending smorgasbord to see what the manufacturers can do for you on new and used homes and park owned homes.

Selling new and used homes is an “ADD-ON” business to the MHP business. Warren Buffett loves “add on” businesses and heavily invests in them.

- 7. Water & Sewer & Storm Water.** Pass it on to your residents. It's the single best thing you can do and it instantly accomplishes 2 things:
- A. Makes your residents accountable for their water consumption. They control their usage, therefore the cost, to a large degree.
 - B. It adds to your cash flow overnight.

Warren Buffett loves investments that produce more earnings with not a ton of additional work. Yes, water-meters cost money but the payback is swift or use the RUBs method where you divide the water bill and charge back. Don't forget to check regularly on your municipality to ascertain that your water, sewer and storm water charges are the rates the municipality charges.

There are MHP owners that hardly ever check this and are leaving loads of money on the table every month. They don't realize the municipality has increased its rates and they (MHP owners) may increase rates, too.

8. **You Stopped keeping a “What we (MHP) do for you” List!** Chrissy Jackson, MHP instructor, extraordinaire, shared this tip at an Accredited Community Manger (ACM) class. (For information on the ACM program and classes go to www.manufacturedhousing.org. Chrissy's website is rich in content for MHP owners. Go to www.chrissy-jackson.org). Her tip is to keep a list of the things you do for your residents, review the list monthly to update, and use the list in newsletters, on your website, during lease renewals. MHP owners forget and residents for sure forget, all of the things we all do to provide and maintain a secure, as possible, and pleasant community. We forget

that we maintain the streets, and water and sewer lines, common areas, screen residents and so much more.

9. You Stopped holding Management Accountable and Compensating Well.

Whether you are the manager or employ a manager, two things are key:

- A. **Accountability: What needs to be done and by when.** Managers need to know their job description and they need to have training on Federal Fair Housing, and the nuts and bolts of community management. There are courses (classroom and online) on community management available.

A spin on manager accountability is from a new MHP owner. Recently, I sold a park to a large investment group that owns quite a few MHPs. They tend to keep the existing managers as their manager. This company puts cameras in the park office (like a nanny cam). They know what time the manager arrives at the office, what time they lock up and leave at the end of the day. This might be beyond accountability but you get the idea. Do good employees mind being held accountable? What do you think? Incidentally, this MHP company also puts cameras in the park owned homes being refurbished so that they can see what is getting done.

- B. **Compensation.** Let's stop being CHEAP on compensating managers. This goes back to charging enough rent to hire competent, capable and accountable management! As the unemployment rate continues to fall, we may very well find ourselves in a hiring environment like the mid 1990's. Back then, the unemployment rate plummeted to 2%

in some markets. It was an “employee-market” and employees would switch jobs for more money, a better position, better (perceived?) company AND just not show up for work at their existing job! That was their notice-not showing up. Higher wages, more benefits and perks (meditation rooms, gym memberships anyone?) were commonplace in employers’ quest to hire and retain talented employees. Probably unemployment won’t tighten as it did in the 1990’s. The point is talented managers ought to be paid at market compensation, if they are getting the job done.

10. BASIC Human Needs. Like Warren Buffett, the MHPs satisfy a basic human need and desire-to own or rent as nice of a home as the household can afford.

Warren Buffett doesn’t invest in shares of Facebook, Google, Microsoft (even though he partners with Bill and Melinda Gates on their philanthropic, health & education organization, the Gates Foundation) because he says he doesn’t invest in things that aren’t pretty much essential to the daily lives of most Americans. He invests in companies like Kraft Foods, Coca-Cola, Gillette, Clayton Homes, and insurance companies. He makes lots of money when he invests in these basic needs and desires

businesses. The essence of his profitability is cutting out unnecessary costs yet still getting the job done.

Mr. Buffett writes in his 2016 Letter to Berkshire Hathaway investors that rising productivity of goods and services is the hallmark of America's economic growth. Is that why the US has a world class economy? He goes on to write that the Berkshire Hathaway businesses "Crave efficiency, detest bureaucracy...emphasizing avoidance of bloat."

It's sad to see MHP owners at the end of 20 or 30 years of being MHP owners and end up with too little money for their efforts when some cost cutting or cost pass through to residents can make the DIFFERENCE between a BIG payday at time of sale and a not so big one.

So check out Warren Buffett's Annual Letter to Shareholders and start operating your MHP like an investment. Let's act as if we all are Warren Buffett operating and managing a MHP with a high expectation of spectacular results!

Incidentally, my company, Iowa Realty Commercial, is owned by Home Services, Inc., a Berkshire Hathaway Company.