

# WHAT WILL IT TAKE TO BE A SUCCESSFUL COMMUNITY OWNER IN THE FUTURE?

Let's define successful as net income, bottom line, profit maximization. You know, like it was in the good old days when we had 95% occupancy or better. Annual rent increases were the norm. Not the exception.

Today many parks and communities suffer from too many vacancies and rising expenses (utilities, taxes, insurance). It's not the best time to be raising rents. There are exceptions to this of course; particularly in the senior MHCs and the large metro area MHCs. Profitability is not what it should be for most of you. When can you expect things to get better is a good question that is being asked a lot. What is a realistic forecast?

Certainly there are many opinions out there about the future of parks & communities and the entire industry. They range from the sky is falling (!) persuasion (your MHC will become obsolete over time, no one will want to live in a manufactured home) to this is a temporary

## What's Next?

Could it be that the future for a lot of MHC owners/investors/managers will be a different business model? It may not be business as usual. Change many be needed. More investment in money, time, and skills may be necessary. That is for those of you who want to maximize profitability.

Consider the comments of the following industry expert and think about how this relates to your situation.

## **John Whitcomb, MAI, CCIM. Whitcomb Real Estate (813-254-0722)**

John is a dedicated industry veteran. His firm appraises only MHCs. He is based in Florida and appraises MHCs throughout the U.S. There's a lot of value in what he has to say. Not only is he an appraiser, he is an investor with 2,500 homesites. Does John think that times are changing?

As an appraiser, he says that low interest rates are pushing the prices of MHCs up. As rates rise, it may not lower prices but expect to see prices flatten.

As far as vacant homesites are concerned, John appraises them as no value. And for two reasons: One is the absence of income on a vacant site and second is because there is no upside potential. Notice he said no upside. (*Editors note: how many MHC owners think that there is value, particularly when putting on the market?)* John continues by saying that MHCs with vacant homesites need an owner/investor with deep pockets and/or a source of financing in order to fill vacant homesites. Sensing that the effects of the shake down caused by the quantum numbers of repos, is over, he adds that MHC owner will need to buy homes, sell them and finance them.

In the future, he predicts that the strong markets will continue to stay strong. Look for new development in some markets, but it will be a niche market. (Seniors, for example.)

John sees a lot of parks every year. The one thing that could make the biggest difference in value for owners is an annual capital improvement that the residents or prospective residents can see. Too many times residents see little or no evidence that the owner is putting any money back into the MHC.

To summarize, John thinks it's still a viable business. In the future, owners & investors will need more capital in order to fill the vacant sites. The days of getting value from vacant sites, commonly called upside potential is over.

## **You and the Future**

How do John's insights relate to you? Are MHCs in a bubble? Could prices of parks & communities fall if interest rates rise? If interest rates for site built homes stay low - and some economists think that they will - is now the time to sell an MHC? Demand is still pretty strong. But will buyers become less in love with buying MHCs due to higher capital requirements for buying homes and the time and resources to sell and/or lease the homes?

At the very least, you should know the value of your MHC in today's market; the actual market value; not the assessed or appraised value. If you don't know, find out. (You may FAX a request to 319-365-9833 or check out the website for an evaluation). Every investor makes an investment decision each morning, on every investment he (she) owns. Every morning, when your feet hit the deck you make an investment decision. The reality for most investors is that the "hold" decision is made and without, or very little, analysis and/or reflection. Day in and day out, month in and month out, year in and year out, investors unconsciously choose to "hold" without regard for what is happening in the marketplace and how value is impacted by the market conditions.

In summary, what is your business plan for the future? If you are not already a dealer-retailer, will you become one? What about maintaining and repairing homes if you have rentals? Then there is purchasing homes for resale and financing homes for your buyer/residents.

It's going to be different. It's going to take more money, time, and resources than before. Many of you are already doing this. While you are preparing for the future, it may well pay you to know the value of your MHC and the capital gain. There is so much confusion about what the capital gains tax will really cost. For a FREE worksheet to calculate your capital gain tax, call, fax or e-mail me.