

# Mobile Home Park and Manufactured Home Community Newsletter

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Helpful website:  
[www.GraceHill.com](http://www.GraceHill.com)  
(Multi-family ManagerTraining)



Joanne M. Stevens  
For more information on  
**LISTINGS OF PARKS & COMMUNITIES**

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NAI Iowa Realty Commercial  
A Berkshire Hathaway Company

## OVER A YEAR LATER: HOW HAS THE FINANCIAL PANIC AFFECTED THE VALUE OF PARKS & COMMUNITIES?

### *NAI Global Economist Predicts Higher Interest Rates*

Dr. Peter Linneman is both the head of the Wharton School of Finance at Penn State and Linneman and Associates, an investment company. That's important because he's an investor, and not just a prognosticator. He's been an economist for over 30 years and has some perspective on the current recession. There are some implications for the park and community business that we'll get to in a minute. Basically he has said:

1. In the last 35 years we've had two other pretty big recessions, one being in the early 1970's and the other in the early 1980's. These two recessions were different than the current recession, but unemployment was about what it is now and consumer confidence was low.
2. Interest rates were a lot higher in the other recessions.
3. Housing. When you adjust the number of unoccupied housing units for seasonal vacation homes, flipper homes bought for investment and rental homes (site built homes and condos that the homeowner couldn't sell, so opted to rent out), there are approximately 650,000 vacant foreclosed homes. He said it will take less than a year to burn through the excess.
4. Panic. He said in September 2008 the government told us to panic, and we all did. Hence, the stock market crashed, unemployment zoomed, consumer confidence dropped, and so did housing prices.

Joanne Stevens is a specialist in consulting and brokering mobile home parks and land lease communities throughout the U.S. With her 20 years of experience in developing, zoning, owning, retailing, managing, turning around and brokering parks, she can enhance your decision to sell your property.

For a FREE PROPOSAL on your consulting needs or a FREE MARKET ANALYSIS on the value of your park or community, contact Joanne Stevens at:

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Duane Penson owns a community in the Carolinas. He is a homebuilder and his community consists of all rental manufactured homes. Rents are strong because the homes have been remodeled to a homebuilder's aesthetic. Occupancy is 95% and there is low turnover. Every year Duane takes pictures of his community and homes in order to plan what improvements, repairs or maintenance he will do in order to raise the bar for his community. This way, he has a goal and vision to work toward.



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5. Multi-family will be the first category of commercial real estate to recover because job growth will start to recover by mid 2010.
6. Unemployment. He said a lot of the 10% unemployment is because of unfilled positions due to death, retirement and maternity leave and these are counted in the unemployment rate. As profits increase (and they are) companies will start hiring again. To listen to the entire presentation go to [www.naidirect.com](http://www.naidirect.com) and click on Dr. Peter Linneman.

#### How Parks and Communities Will Be Impacted

According to Dr. Linneman, as jobs pick up new household formations will occur. People that have been doubling up or living at home will get their own place. This will cause a shortage of apartments. There are no new apartment projects in the pipeline because there is no financing. Lack of supply will cause apartment rents to go up. Also, it is harder to buy a site built house or condo now. Prices are still good and interest rates are dirt cheap, but not everyone will be able to buy because of tougher requirements for credit, down payment and job stability. This makes manufactured homes in communities a good alternative. Now is the time to position your marketing campaign to apartment dwellers, who may be wide open to moving to your park or community, especially if their rent is increasing. Jumbo postcards work great for this. Find a few apartment complexes near your community and start mailing monthly (twice a month is better). Your message, "For About What it Costs to Rent a 2 Bedroom Apartment, You could Own Your Own 3 Bedroom, 2 Bath Manufactured Home...." These postcards beat newspaper advertising all day long.

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#### **The Recession and The Value of Parks and Communities**

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Team Stevens is all about owners of parks and communities maximizing the cash flow of their park/community during ownership and maximizing the value when you sell. For that reason, we have been monitoring the prices and demand for parks communities very carefully. The Good News: There are still plenty of investors that want to buy parks and communities. Some buyers from earlier times have dropped out due to the need to refinance loans coming due. We'll see how that shakes out. So far, we are not seeing many parks and communities going back to the banks. It is probably too early in the game for that. New buyers are coming into the market. They are new to the community business and they are attracted by the stability of the cash flow. Many like the control feature of knowing what is going on with their money, especially if they've lost money in the stock market. Some investors have careers where they have honed their skills in management, marketing, strategy, accounting, human relations, etc. and want to try their hand at their own investment. The good thing is that they have reasonable expectations for returns on and of their capital. They are not expecting anyone to "give" their property away or "steal" anything. A lot of them have financing arranged. A few have cash.



## IS THIS A GOOD TIME TO SELL A PARK OR COMMUNITY?

That depends. In view of the last six years, it's not as good a time as 2004 to mid-2007. Interest rates were around 5%, amortizations were 30 years, down payments were 20% and rates were fixed for maybe 10 years.

This chart shows what the investors yield is on a sale price of \$1 million. You can see what the higher interest rates, larger down payments and shorter amortizations do to the yield. Buyers today expect a better cash on cash return

NOI (Net Operating Income) <b>80,000</b>	Down Payment (20%) <b>\$200,000</b> (30 Yr. Amortization, 5% Interest)	Down Payment (25%) <b>\$250,000</b> (25 Yr. Amortization 6.5% Interest)	Down Payment (30%) <b>\$300,000</b> (20 Yr. Amortization, 7% Interest)
Loan Balance	<b>\$800,000</b>	<b>\$750,000</b>	<b>\$700,000</b>
Monthly Payment	<b>\$4,295</b>	<b>\$5,064</b>	<b>\$5,427</b>
Annual Debt Service	<b>\$51,535</b>	<b>\$60,768</b>	<b>\$65,125</b>
Cash Flow Before Taxes (NOI Minus Annual Debt Service)	<b>\$28,465</b>	<b>\$19,232</b>	<b>\$14,875</b>
Cash on Cash Return (Return on Down Payment)	<b>14%</b>	<b>8%</b>	<b>5%</b>



A Community owner in central Nebraska uses a leak detector device to find leaks and notify residents that they need to fix their leaks.

Water is included in his rent and this helps the bottom line. Cost of a water leak detector: \$800 to \$1,500.

because they are not feeling optimistic about real estate appreciation. Buyers can't pay as high a price and get a decent yield on their cash investment with the new lending terms. A year from now this chart will look a lot different. The reason? Interest rate increases due to the deficits. Business prognosticators are all saying interest rates will go up. It's a question of when, not if. Not long ago we sold a community that came very close to being re-negotiated because of the changing rates. The seller wanted to delay the closing for a couple of months. No problem. The buyer had locked in their interest rate and terms. Had something occurred to delay the closing, even for a week, the buyers lock would have expired and the new terms would have made the yield change. To obtain the same yield on the cash, the investor would need to have paid \$1 million less.

Real estate investing is more than a two-way street. It has to work for the seller, the buyer, the lender and the lender's appraiser.

## **LEVERAGE YOUR CUSTOMER BASE**

One of the most untapped and under-used source of potential new residents is your existing residents, employees and vendors (local banks, restaurants, churches). They are available to you every day. Get in the habit of asking those you interact with, "Who do you know that would be a good resident for ABC community?" Be sure to say it like that, word for word. It's assumptive. Don't ask "Do you know anyone...?". That makes it easy for them to say no. By asking, "Who do you know...", they have to pause and think.

### **CAPITAL GAINS TAXES UP OR DOWN?**

According to the Wall Street Journal's experts, capital gains taxes may not be going up in 2010. The reasons are because the economy is still shaky and also 2010 is an election year. On the other hand, wealthy individuals, (that would be you, the reader) are perhaps going to be targeted for higher capital gains because of the tremendous Federal deficits. Currently, capital gains are 15% for 2010, but will automatically rise to 20% in 2011. A very wise tax accountant with decades of experience both as an accountant and a real estate investor says "don't make decisions based on the taxes." Some of the distress in commercial real estate assets is probably due to investors deferring their capital gains taxes and exchanging into overpriced properties. When the rental demand diminished, the numbers no longer worked, causing distress.

### **WINTER MARKETS**

Winter markets are becoming popular with consumers because of the emphasis on growing and buying locally. Manufactured home communities could solve the space problem winter markets have. It's sometimes difficult for the growers to find a space. A community room winter market might be an opportunity for marketing the community to a group of consumers that maybe aren't looking for a home, but will become familiar with your community and recommend it. If you are interested, call the manager of your local farmer's market.



*Who do you know that should be receiving this newsletter? Please call or e-mail me with their contact information and I'll be glad to add them.*

### **FREE REPORT!**

#8014

"How To Sell A Park/Community That Didn't Sell"

Call:

**1-877-360-2730**

Instructions are pre-recorded, so no one will talk to you when you call.