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Mobile Home Park and Manufactured Home Community Newsletter

INSIDE THIS ISSUE:

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THE RIGHT ANSWER TO THE WRONG QUESTION

In the Manufactured Home business we (manufacturers, community owners, retailers, lenders) have been too self-congratulatory on manufactured homes and communities. We all talk, talk, talk about what a great value our homes are – affordable, energy efficient, how well they stack up against apartments and site built homes. Same thing with the communities. There are so many benefits to community living, we say. Why can't the consumers see it the way we do? At the joint National Communities Council and Urban Land Institute Manufactured Home Community Council all day forum in April, the attendees got a big dose of reality. Keynote speaker, Barry McCabe, a longtime community investor and founder of Hometown America suggested that community owners have the ability to turn lemons (lack of chattel financing, poor image of our homes with the consumer, rental homes, etc.) into lemonade. Barry is a smart, no nonsense problem solver. He is a practitioner, having faced down the issues of growing occupancy, dealing with abandoned homes, buying homes for the communities, selling, renting and financing homes in communities. There isn't a community problem that Barry hasn't dealt with.

Barry gave "Four Key Strategy Areas" that , if adapted by a community owner would have a big improvement on the bottom line and the growth prospects for the community. The four key areas are things anyone can do now without a lot of cost, but the clincher is changing the mindset. As you read Barry's list, think about what kind of a community business you would have if you adapted even one of these.

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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1) Market Niche Focus

When you bought your first community were you more knowledgeable then about where your customer was coming from? Were they coming from apartments?
What was their reason for moving into your community? Where would they have lived if they weren't in your community? Are community owners as up-to-date on housing choices in their local markets as they need to

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CNBC, the cable business channel held a conference in Vancouver this year. They said that there are more distressed buyers than distressed sellers, meaning there are more buyers wanting to make investment in real estate that produces a cash flow than there are properties available. Certainly for the park and community business there is a dearth of parks and communities available for investors to purchase.

Continued from Page 1...

be in order to compete? Maybe not, suggests Barry. We need to address the new realities of the housing market. Has our niche changed? Do rents need to go up or down? Has our market changed? To rent sites and sell and rent homes, the community owner needs to adapt to a changed and changing marketplace. In my market, for example, the demand is for rental homes, but not so much for buying homes.

2) What is My Plan?

Barry says that we need to be realistic and figure out if we can afford to address the new market realities. What he is suggesting is that community owners need to know the following about their customer:

- What is the credit profile of the customer I am willing to finance?
- Can they make a down payment?
- What is the age of the home?

What is the plan for the capital to finance the homes? Two important things Barry noted are:

- Community owners need to be in compliance with the law to finance homes.
- Many owners are running out of cash to finance homes.

(In conjunction with financing of homes, Warren Buffet noted in his 2009 annual report that unless reasonable financing becomes available, manufactured housing demand will continue to shrink).

To finance homes we need systems that are effective, efficient and compliant. Do our homebuyers know that they are building equity in their home and how much their equity is? Do they know, assuming their buyer passes the tenant screening for the community, they can sell their home and move on? On this last point I'm guessing probably not. Residential real estate agents do this all day for site-built homeowners, but in the community business, residents don't get much support from anyone when it comes to figuring out their options, equity being one. Which may be one reason for the customers' not buying in a community to begin with.

3) Resident Pride

We need residents that feel proud about living in the community and want to stay. This can be accomplished by having management structures in place to retain existing residents. The retention system needs to include activities for residents and keeping the appearance up. The rules need to be enforced firmly but politely. Residents that are under water on their home's value are no more stable than a renter.

4) Financing Homes

Community owners need to get creative and think of ways to raise capital to buy more homes and finance them. The Manufactured Home business is starved for capital for the consumer to purchase a home.

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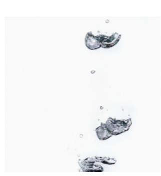
Water Usage & Water Cost

A midwestern community owner knocks on doors in his community with a plumber in tow. He asks the resident if he and the plumber may check the faucets, toilets, etc. for leaks. They fix the problem on the spot and charge the resident.



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There is plenty of capital piled up on the sidelines and investors are looking for investment opportunities. For a well run income producing operation, there are investors. One idea is to take on a partner, perhaps in a minority position. Barry said that today a chief worry for the communities is that community owners may not be able to afford to keep up their communities. In addition to rising real estate taxes and operating costs, the cost to buy, fix up, market and finance homes in communities may mean that some, perhaps many, owners simply won't be able to afford to be in the community business. Hard choices about selling their community may be in store for some.

MONEY IS COMING BACK TO REAL ESTATE

Dr. Peter Linneman, Chairman of the Wharton School of Finance and economist for NAI states that not only is the money coming back to real estate, but that:

- Multi-family real assets will rebound first, before office, retail, industrial.
- We are at the top for cap rates. Translation—prices have hit bottom.
- Little has changed in the economy in the first quarter of 2010 but the psychology of the recession has changed. It's been said that investors and consumers are mentally either in fear or in greed. During the boom years spending and taking risks were the so-called greedy behaviors. When the recession set in, greed quickly turned to fear. Thus, the tightening of credit. According to Dr. Linneman, how people feel has changed. Investors and consumers are edging from fear to courage, and from inaction to more aggressive behavior. The pendulum is beginning to swing toward greed.
- No new multi-family, including communities, are being developed.
- Pent up demand is and will continue to build. One reason is the millennium generation coming out of college. Because it is so tough for young people to find a job in the current economy, many are moving home or doubling or tripling up with friends. Once they get jobs, they will be moving into their own homes.
- Inflation will be a factor. As household formation picks up, rents will increase and so will home prices.
- Another recession will occur in 7 to 10 years. Dr. Linneman says that when debt is cheap and/or easily available it mostly benefits sellers, not buyers. If you are an owner that is wondering when is the best time to sell, you may want to think about…
  a) selling soon before capital gains taxes go up and interest rates go up, or
  b) waiting for another 7 to 10 years for the next "bubble" and sell at the top of that cycle.
- Interest rates will rise faster than cashflow. Prices of real estate will not go up as fast as interest rates.
- Real estate taxes will go up.

Switching From Investing in Communities to Apartments

A long time investor in communities said recently that he is now buying apartments, not communities. The simple reason is financing. Investing in communities is nearly impossible if there are community owned homes. With apartments, the lender doesn't lend on the real estate and not the apartments. It's a one stop shop for getting a loan. With rehabbing, selling or renting homes and financing homes, he says that a manufactured home community has become a tougher business.

GO GREEN!

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Thank you!

<u>Murder Headline Misleads Readers</u>

The following was a "Letter to the Editor" in the Cedar Rapids Gazette

Regarding this March 11 headline, "Man Charged in Mobile Home Death":

I wonder why the editors focused on the type of residence in which the death occurred.

Had the alleged murder occurred in a single-family home of traditional construction style, would we see that in the headline, "Man charged in single-family home death"? I think the implications being made here are rather irresponsible and are attempting to lead the reader to some unsubstantiated conclusions.

If there is a point the editors would like to make regarding crime and socioeconomic status or lifestyle or whatever, the opinion page is the proper place for such discourse, not the front page.

In addition, I believe it was a young woman who died, not a mobile home.

<u>Homes Moving Out</u>

A community owner reports that some residents are getting heavy handed when it comes to getting the community owner to buy their manufactured homes. He says that a few residents have threatened to move their homes out if the community owner won't buy their home.

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