

INSIDE THIS ISSUE

Warren Buffett, The Owner-Operator	1-
Have It Made	2

NAI Iowa Realty Commercial

A Berkshire Hathaway Company



Joanne M. Stevens
Real Estate Broker

For more information on
LISTINGS OF PARKS &
COMMUNITIES visit us
at:

www.JoanneMStevens.com

joannestevens@iowarealty.com

What If Warren Buffett Owned a Mobile Home Park? *Are You Operating Your Park as If It Were an Investment?*

Imagine if Warren Buffett was in the Mobile Home Park business. What profit-producing tactics would he bring to the industry? (Note: Interestingly, when Berkshire Hathaway brought Clayton Homes in the mid 2000's, Clayton sold their Mobile Home Parks not long after joining the Berkshire Hathaway family of companies). All one has to do is read through any of Mr. Buffett's and Mr. Charlie Munger's Letters to the Shareholders to get a picture of how they might fair as MHP operators. Even better, watch HBO's *"Becoming Warren Buffett"* documentary. It is on HBO on Demand, Amazon Prime and on YouTube. We have a link to it at my YouTube channel.



Many MHP Owners don't raise rents more than \$5-\$10 per year, if that, because the residents "can't afford" it. Imagine Buffett as an MHP owner-operator. Do you think that would fly in Mr. Buffett's park? He is mega profit oriented because his job is to make money for the shareholders. That probably explains why mobile home parks owned by portfolio owners charge more rent than parks owned by a local individual or family. The multiple park

portfolio owner has to answer to investors (shareholders) and a Board of Directors. The single park owner answers to no one.

Here are the key principles that have guide Warren Buffett's investment career. Let's see how Mobile Home Park investing stacks up to the Warren Buffett success model. Some of his key principles may surprise you.

MHP Owner's Call:
Our Newsletter is a call-in show!
Thursday at 1 pm central. Dial: 1
408 638 0968 ID: 948 357 166

1. **20.8% Annual Return on Investment (ROI)**

Mr. Buffett measures success with Return on Investment (ROI). As an investor, his job is to produce ROI and track results. How else would he know the score? In stock investing, he stands with a tiny group that can claim such a high and consistent ROI, year in and year out. As he has become more and more known for his high and consistent ROI, more investors have bought his stock.

What is your ROI? Here's the recipe. Simple take your initial cash outlay when you bought your property (the down payment) and divide that by your cash flow after income taxes. That percentage is your ROI. Now do the ROI calculation for every year you've owned the property and average it.

Example: MHP A

Purchase Price	\$2,000,000
Down Payment	\$500,000
The \$500,00 is the investment. Income is \$250/lot/Mo for 100 sites (100% occupancy)	
Annual Income	\$300,000
Annual Expenses	\$120,000
Net Operating Income	\$180,000
Annual Loan Payments (4.5%, 20 years)	\$114,000
Cash Flow before taxes	\$66,000
Assumed 25% taxes	\$16,500
Cash Flow after tax	\$49,500
ROI	10%

Assume the loan is paid off. Then the cash flow after tax is roughly \$135,000 or a whopping 27% ROI! Or you increased the rent to \$300, then cash flow after tax is \$94,000 or a ROI of 19%. As you pay off debt, improve the net income by managing expenses better, or by increasing rent to market value, you then increase your ROI. As MHP owners, we need to measure our ROI regularly. We do that by reviewing our income and expenses, rent roll, and loan amortization every month. How often do you think Warren Buffett is checking his financial reports? How often are we?

2. **A Simple Business**

Mr. Buffett likes simple businesses; businesses that are easy to understand. He is known to pass on technology companies for this reason and admits that was his mistake with companies like Google and Apple. Mr. Buffett doesn't invest in real estate, per se. Real estate may be too cyclical for his business model. Certainly, the Berkshire Hathaway Companies own plenty of real estate for offices and manufacturing plants.

And Berkshire Hathaway owns and continues to acquire real estate companies. Iowa Realty is a subsidiary of MidAmerican Energy, which is a Berkshire Hathaway company. The real estate companies are a major source of revenue for MidAmerican Energy. Business doesn't get much simpler than mobile home parks.

3. Know the Value

Read the Letters to Shareholders and you will learn that a hallmark of the Berkshire Hathaway Standard Operating Procedure (SOP) is that Mr. Buffett won't "waste our time or that of the seller by talking (about buying) ...when the purchase price is unknown." There are plenty of Mobile Home Park owners who don't know the market value of the investment (which is NOT the assessed value or insurance value). If you don't know the value of your property (even if there is no plan to sell), are we really investors? It's not that hard to figure the current market value of one's parks. It's good to have an updated financial statement.



In that vein, he is known for his prompt and friendly response to sellers and buyers alike. Maybe the reason Warren Buffett doesn't own any parks is he can't get any owners to call him back!

Some park owners are also park buyers.

Mr. Buffett writes about his evolution as an investor by describing how he started out buying ONLY good deals or undervalued assets. It was his CFO, Charlie Munger (who is in his 90's and very integral to the continuous growth of Berkshire Hathaway) who convinced Mr. Buffett to pay fair prices for quality assets. Mr. Buffett made the change. The result is that the company has grown prolifically. This has helped Berkshire Hathaway attract more and higher caliber companies for acquisition. You don't have to buy on the cheap to do very well in business. You can create a reputation for paying fair prices which is capital no bank can lend you. And anyway, the era of "bargain" Mobile Home Parks is over. Prices have risen for parks significantly, mostly due to cheap capital.

There is another characteristic about Mobile Home Parks that is quite like Berkshire Hathaway. Charlie Munger, CFO, states on the occasion this year of the 50th anniversary of Berkshire Hathaway that the company inspires a "weirdly, contagious devotion of investors to buy Berkshire Hathaway stock." If you ever been to the Shareholder meeting for Berkshire Hathaway, it seems more like an

enormous fan club convention than shareholder address. Many mobile Home Park investors share the intense “weirdly, contagious devotion” to our industry. They like the returns, the simple business model and the predictability of the cash flow.

4. Managers

Mr. Buffett describes his “managers” (the CEOs of the Berkshire Hathaway companies, such as Kevin Clayton, of Clayton homes and Tim Williams of 21st Mortgage) as having these traits:



- Trustworthiness
- Energy
- Love of the Business

Warren Buffett pays his managers very well. There is a simple reason why. He says long term management (Berkshire’s CEOs) are likely to continue to produce strong future profits.

So, good managers make money for companies such as a Mobile Home Park? Yes. The MHP business is notorious for paying as little as possible for managers. Occasionally a park owner lucks out and finds a good manager willing to work for little pay. Most of the time, owners get what they pay for- less than stellar results in the form of late payments, non-payers, vacant homes and so on. This is an opportunity to improve our ROI. By paying managers well, and training them well, we will collect more rent, more of the time, have fewer problem tenants, fewer vacancies and make more money even after the higher manager compensation is deducted.

5. Excess Cash Flow

Mr. Buffett’s company doesn’t pay dividends. The company uses the excess cash flow to make more investments, and by paying cash when possible. Not only do the new acquisitions make money for the company, they add to the ROI. Mr. Buffett says to think of it as breeding rabbits. Mobile Home Parks often produce significant cash flow after taxes. The difference is that too few MHP owners reinvest the cash flow. A sad observation of the MHP business is that some park owners, after decades in the business, can’t “afford” to retire. The reason is that the extra cash flow has been spent, not invested. They can’t afford to retire because there are no other income producing assets to maintain the lifestyle to which the owners have become accustomed. Mr. Buffett is known to be frugal in his personal life; look at his house and car. What if we park owners invested the cash flow and spent the cash flow from those secondary investments.



6. Survivorship

Mr. Buffett understands that even good managers leave. He makes sure there is a plan in place so that the businesses survive and thrive if the current CEO or company founder leaves. Have we done that with our parks? Or if the park owner wasn't there, would the survivors feel compelled to sell? Imagine heirs to mobile home

park owners having to contend with vacant homes, nonpaying tenants, rental homes. Many might feel as if they have no choice but to sell. Many large MHP companies talk about their systems and procedures to ensure smooth operations and continuity. Think of how Clayton Homes would be if there were no manufacturing, marketing, and delivery systems. Pandemonium, right?

7. Cash on Hand

Warren Buffett likes cash! And in business, cash buyers are preferred. The ideal cash buyer has little debt, good credit, and cash on hand to buy as the opportunities arise. For park owners that invest the after-tax cash flow, these are good rules of thumb to follow.

8. Revenue Growth

Warren Buffett likes to buy companies that produce goods and services with a good outlook for raising prices, whose value will not be diminished by rising prices (think Coca Cola, See's Candies, Clayton Homes, etc.). The corollary is that many MHP owners won't raise the rents more than \$5-\$10 per month, and even then, not every year. A good rent pricing policy learned from Frank Rolfe, is that park owners need to charge enough rent to pay for good management and keep the property in good repair.

Is the reason so many parks have junk piled up, roads in poor conditions, and an overall messy appearance because park owners, have failed to raise enough revenue from rent, failed to invest in good management and failed to reinvest in our property?

Are we thinking of our properties as investments? In summary, if Warren Buffett owned a Mobile Home Park, he would:

- Know the current market value of his park.
- Pay his managers well.
- Charge enough rent to keep the property running well.
- Shoot for an annual Return on Investment of 20.8%.

And (drum roll....) these are all doable!



SAVE THE DATE: Links on Our Website

RV/MH Heritage Foundation Induction Dinner

October 7th, 2017 Elkhart, IN

67th Annual Convention- NY Housing Assoc.

October 5 - 6, 2017, Turning Stone Resort, Verona, NY

National Communities Council Fall Leadership Forum

November 1-3, 2017, Westin Michigan Avenue, Chicago, IL

The Have It Made Initiative by Clayton Homes is currently airing a national TV campaign. Naturally, the initiative is to destigmatize manufactured homes. And what better way to do so than during Saturday college football games!

The commercials highlight the quality that factory building offers and the plethora of floor plans. Most of all, they highlight the furnishings, colors and lighting that give manufactured homes a look on par with or surpassing site built homes.

Even though the Clayton brand is prominent throughout the country, what home retailers, mobile home park owners, and even other manufacturers won't benefit from these commercials?

I understand Kevin used his own money and spent heavily on this campaign.

Thank you, Kevin.



WHAT IS YOUR PARK WORTH?

In the last 36 months, have you:

- Added homes to your community?
- Passed through utilities to your residents?
- Changed occupancy?
- Increased rent?

IF YOU ANSWERED YES, YOU NEED TO KNOW YOUR PARK'S CURRENT WORTH!

I am always happy to do a FREE, NO OBLIGATION, Real Estate Review for your park(s). You ought to know today's market value of your real estate investments.

If this is something you would like, simply give me a call at 319-378-6786, email me at joannestevens@iowarealty.com, or visit <http://joannemstevens.com/> Joanne Stevens is a specialist in listing and selling mobile home parks and manufactured housing communities throughout the U.S. With her 20 plus years of experience in developing, zoning, owning, retailing, managing, turning around and brokering parks, she can maximize your sale price.