SAM ZELL'S ACQUISITION OF HOMETOWN PARKS CONFIRMS THAT THE MARKET HAS TURNED

The manufactured home park industry fell off a cliff in 2001, as the loose lending that rocketed manufactured home sales to 400,000 units per year, turned into the bear that ripped repos out of parks as fast as the homes had come in. On the way down, they attached a 1,000 pound anchor to the industry by having commercial lending – most notably conduit – dry up and blow away. The final straw was the instability of some of the largest community buyers, such as ARC, that shut off their acquisition pipeline. As a result, park values have languished for about five years or more, with legitimate buyers about as rare as a manufactured home without a NASCAR item in it.

But most of us saw a sudden turn in the industry about two years ago. Parks that had been selling at 7% cap rates now became attractive as cap rates went up to 10%. With fewer buyers, it became easy to convince sellers that they needed to make drastic price reductions and carry paper. Very compelling deals became commonplace, and those of us who had taken a multi-year nap on purchases suddenly woke up and liked what we saw. For those who had the determination to overcome the weak lending market, and stick to their guns on values, it seemed like picking up gold nuggets on the ground. We bought 2,000 lots in 2010 alone. Everywhere you looked, there was another great deal to be had.

Sam Zell is no stranger to buying assets at the bottom. He has built a reputation as an astute park buyer, who is not afraid to be contrarian. His announcement that his company, ELS, was buying a significant number of parks from Hometown America came as no surprise, although the $1.4 billion purchase price was certainly a shocker. But what this acquisition really signaled was a trumpet call that the market has turned and you should be buying parks now or never – because this is a generational transfer of wealth from the moms and pops to the lucky people who can put deals together.

The other piece of the puzzle that has returned is conduit lending. I was at a dinner at the MHI convention, in which an aggressive conduit program was announced by a major industry lender. Indeed, on deals of $1 million and up, conduit is back and open for business. This will allow many buyers, who had hesitated before due to lending issues, to get into the game again.

Of course, there are some important trends that have also become apparent to everyone. One is that the U.S. economy is going to be lousy for a long time – maybe forever – and is creating manufactured home customers in abundance. Indeed, 20% of the U.S. population now has a family income under $20,000 per year. At the same time, apartment rents have been rising as fast as the economy has been falling, with the average 2-bedroom apartment going for $1,050 per month in 2010. The only form of affordable housing left is the manufactured home park – and the demand for the product grows every day.

Another given is that cities and towns everywhere will not allow new parks to be built. One of the first questions we ask in due diligence is if the market where the park is located allows new parks to be constructed. We have never had a town or city say “yes”. So the supply is basically capped at the parks that are already there, putting constant upward pressure on supply and demand.

Finally, the alternative investments to manufactured home parks are a joke. The stock market continually fails to produce consistent returns, and CDs and bonds are paying around 2% to 3%. Investment funds and IRA accounts are all massively behind plan and need to bolster high returns – the kind that manufactured home parks produce – if the American dream of retirement is to be achieved.

What it all adds up to is that YOU SHOULD BE BUYING MANUFACTURED HOME PARKS RIGHT NOW. I couldn’t say that a few years ago. And even just a year ago I would be a little self-conscious about it. But at this point everyone pretty much knows it’s true. Just ask Sam Zell.