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Mobile Home Park and Manufactured Home Community Newsletter

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Joanne M. Stevens

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NAI Iowa Realty Commercial
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THE TALE OF TWO MANUFACTURED HOME COMMUNITY OWNERS

Which owner made the right choice? The story is that five years ago, two manufactured home community owners in the same market with similar communities made a decision about selling. One owner sold for a "good" price. His definition of a good price was a price more than he thought the community was worth. The other owner decided to hold out for more. In a few years it will be worth more, he reasoned. Sound familiar? The first owner took the cash, paid the capital gains tax, and did who knows what with the money. He did recognize that he wouldn't be able to find an investment that would produce as much cash flow as the community. (By the way, that is a narrative that some owners tell themselves: There is a safe real estate investment or some low risk investment that will earn as much net monthly income as their park or community. It's not going to happen.) Anyway, he sold at the top of the market. Today the second owner can't get even close to the price he could have five years ago. That's show business. The world has changed. But what he has achieved in the last five years is a steady, predictable cash flow. Let's say the value of the community five years ago was $1 million and his net income (before debt service) was $72,000 annually or $6,000 per month. Didn't he earn $360,000 ($6,000 per month x 60 months) over five years?

If the first owner put the cash proceeds from the sale into a CD or annuity, he may have earned 3%, or $2,125 per month. That's a difference of roughly $4,000 per month or $240,000 to the good for the second owner. So if the value of Owner # 2's property was $1 million five years ago, then it dropped 25% in value because of the immense changes in finance, but he earned a net of $240,000 over five years, how much is Owner #2 out because he didn't sell five years ago?

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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NEED MARKET REPORTS?

Need a commercial real estate trends report for your market?
NAI has over 375 U.S. offices and researches each market for office, retail, industrial and multi-family real estate trends and more. Call or e-mail to request a trend report for the markets you operate in. It will be our pleasure to send you the reports at no cost.

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Here's the blueprint: in the real estate investment domain, there is a fancy schmancy term called the Internal Rate of Return (IRR). The IRR concept is that the return on investment is measured in four ways. Those four ways are:

1) Net cash flow after income taxes from operating the property.
2) Amortization of loan (principal pay down).
3) Tax savings from depreciation (some of which is recaptured when the property sells).
4) Appreciation, if any.

The net sales proceeds from a sale of the property is also calculated, net of capital gains tax.

Getting back to Owner #2, to simplify, his yield or return on investment (IRR), by earning an additional net income of $240,000 over the past five years, is at about the same net cash as Owner #1. This assumes that Owner #2 sells at a reduced price. He has management in place, so has not spent the last five years toiling in his community. He has a lifestyle comparable to Owner/Seller #1.

Let's stop using one number, the sale price, as the sole measure and determination of whether to buy or sell real estate. Knowing what your park or community is worth in today's market is <u>ONE</u> component of making a wise real estate investment decision. A take away lesson from the current economic and financial environment is simply this—REAL ESTATE DOESN'T ALWAYS GO UP! It just feels that way during a rising real estate market like the one between 2003 and 2007. But over the long haul, real estate beats about any kind of investment—at least in my book.

DIVERSIFICATION of real estate investments?

More MH community investors are reporting that they are investing in or looking to invest in other categories of commercial and investment real estate.

What are they buying?

- Distressed land deals.
- Distressed retail deals.
- Senior housing
- Apartments

A more important question is, why?

Some of the reasons are:

- The nature of the business has changed
- More time and more money are needed to keep the communities full.
- Different skill sets are required now. (Selling homes, financing homes, refurbishing homes).
- It's more work than it used to be.
- Expenses are higher
- Different caliber of customer...makes the business incredibly time consuming.

Sam Zell at the Spring Urban Land <u>Institute in Boston</u>

Sam Zell chatted on stage with Dr. Peter Linneman, real estate professor at the University of Pennsylvania Wharton School of Business. Mr. Zell thinks that there will be no flood of distressed commercial real estate assets coming to market in the U.S. "I'm supposedly the grave dancer, so everybody comes and talks to me and says, 'Well, when are the opportunities going to come up?' I answer them by saying that you don't have opportunities unless there is volume, and there is no volume." He said an exception may be in properties in small banks which he predicts will be sold off in a manner similar to the RTC model in the early 1990's.

WARREN BUFFET ON MANUFACTURED HOUSING

In the 2009 annual Report for Berkshire Hathaway, Inc. Warren Buffet said this about chattel financing for manufactured homebuyers with 21st Mortgage & Vanderbilt Mortgage (both Berkshire Hathaway Companies):

"...our buyers (borrowers), generally people with low incomes, performed so well as credit risks. Their attitude was all important: they signed up to live in the home, not resell or refinance it. Consequently, our buyers usually took out loans with payments geared to their verified incomes (we weren't making "liar's loans") and looked forward to the day they could burn their mortgage. If they lost their jobs, had health problems or got divorced, we could of course expect defaults. But they seldom walked away simply because house values had fallen. Even today, though job loss troubles have grown, Clayton's delinquencies and defaults remain reasonable and will not cause us significant problems… If qualifications aren't broadened, so as to open low-cost financing to <u>all</u> who meet down-payment and income standards, the manufactured home industry seems destined to struggle and dwindle."

Mr. Buffet praised Clayton Homes CEO, Kevin Clayton, saying "we couldn't have a better manager than Kevin."

Have You Tried…..?

- **Short Term Lease** as an amenity. Some properties (apartments, single family home rentals) require a one year lease. If you have a 30 or 60 day lease, some prospective residents may feel this is a distinct advantage as opposed to other rental options that require a one year lease. This might be something to emphasize in your advertising and on your website.
- **Free cable and internet** for a month or two as a move-in incentive.
- **Visitors Unit.** If you have a vacant home, consider outfitting the master bedroom as a guest suite for your residents' visitors. It will be a convenience to your residents and if you rent it for 10 nights of the month, it may bring in as much or more than the site rent and home payment. And it's an amenity to help attract new residents as well as retain existing ones.
- **Crime Prevention.** Set up a meeting between the police and residents to discuss crime prevention. You or your manager could attend and remind residents that the residents' safety and security is not promised nor guaranteed. Every resident has the responsibility to protect their homes and provide insurance. You could talk about your resident screening process, criminal background checks, etc.

UNDER CONTRACT: PALACE PARK
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Multiple offers. Sold for FULL price!

If you are thinking about selling, you should call me. I have buyers that are serious, qualified and expect to pay a fair price. They are not looking for a steal.

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FREE REPORT!

#8006
"Checklist to Calculate the Value of your Park / Community"

Call:

1-877-360-2730

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

From the pen of Aaron Saylor…..

A few weeks ago, I was on the phone with a client and out of the blue he wondered how much money he had made owning his park. He was worried that since the market is tougher right now that he had lost money on his investment. He had bought the property at a good price and run it well. He was worried that selling meant he would lose money, but when we included the income he had gotten from the property and the debt that he had paid down, we found that his return was almost 50% per year!

Was this a good time for him to sell? He was running the property well, but he had already made the improvements that he had planned and he was tired of the day-to-day operation of the park. He felt ready to move on and feels pretty good about the return that is better than almost any other investment.