

WHEN YOUR PROPERTY DOESN'T SELL

Have you put your park or community up for sale only to have weeks and months pass with no offers? Sure, you have had inquiries, lookers, or maybe even a letter of intent or two. If you've had offers, they are low. All this effort, and your park or community is unsold. Isn't the market for parks and communities supposed to be white hot? Aren't these properties selling for strong prices and aren't buyers competing with one another to buy them? What about multiple offers? You thought that is what happens when a park or community goes on the market. That's not happening to you and you don't know why. Has the market changed?

The reality is that sales of parks and communities are in strong demand, but the market has changed and buyers are not competing with each other to buy, like they were a few years ago. There are, however, investors looking for parks and communities in which to invest. What follows is a list of reasons why your park or community hasn't sold. The truth about your property and how it relates to the market is contained in at least one and probably more of these factors.



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REASONS WHY A PARK OR COMMUNITY DOESN'T SELL

1. LOCATION, LOCATION, LOCATION:

We all know this real estate cliché! But it is true. There is a definite preference or bias for buying parks & communities in markets that are 500,000 population (SMSA) or more. The more populated and the higher the growth projected the better. Investors view smaller markets as being riskier. Why? Because if a large employer fails in a small market, for example, it is often unable to absorb the economic loss as well as a larger market.. You know that that isn't a problem because you have operated your property for years. Still, it's an unknown. Metro areas usually do better for park and community occupancy because jobs and people drive the housing market. Most metro markets also have a strong need for affordable housing because site built homes are expensive. Investors like to see a big gap between the cost of manufactured / mobile homes and site built housing. Non-metro location definitely limits the quality and the quantity of buyers for parks and communities in smaller markets.

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2. DELINQUENCIES:

Today's buyers and their lenders underwrite or value Mobile Home Parks and Manufactured Home Communities based on the Net Operating Income (income less expenses). If there are residents 30, 60, and 90 days or more behind in their rent the buyer and the lender will discount the income and net operating income accordingly. The investor and lender are thinking that the delinquent residents will eventually need to be terminated as residents. If you have delinquencies, you can strengthen the value of your asset by making sure that all rent owed is collected. (For a list of ways for residents to raise money to pay rent, you may contact me at 319.378.6786, email at joannestevens@iowarealty.com, or fax me at 319.365.9833.)

Buyers like stable, predictable income. They don't like hassles. If you have delinquencies you will have fewer buyers and they will either pass on your property or make an offer but discount the price.

3. WATER:

Are your water and/or sewer costs out of line? A national survey of park and community owners throughout the US indicated water costs of an average of 9% of expenses. How does yours compare? Do you have water leaks? If so, have you decided to repair them? (HINT: If you have leaks try checking with your local water company. The repair department may be able to find the leaks with their equipment. It may be less expensive to have the local water department detect the leaks than a private contractor. It's worth a call to find out if they can help.)

The best thing that you can do to add value to your park or community is to go to individual water meters. This alone will automatically add value to your park and community and to the bottom line of your P & L. Think that your residents will mutiny if they have to pay their own sewer and water? Think again. There are ways to handle this transition without the acrimony that you may imagine. Call for a sample package of how owners have passed the water cost on to the residents with a minimum of problems.

The other thing about individual water meters is the water conservation. Studies have shown that consumption of water drops by 25% - 33% when residents are paying for their water.

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4. COMPANY OR PARK/COMMUNITY OWNED HOMES:

A certain percentage of buyers for parks and communities will immediately be turned off and drop your property from their consideration if they have to purchase homes with the community. Why? Traditionally the Mobile Home Parks/Manufactured Home Communities real estate asset category has had the image of being the “no brainer” investment. Until the late 1990’s it wasn’t as difficult and didn’t require as many skills to operate a park or community. Retailer’s vied for vacant sites that were rarely available. Owners could be selective on prospective residents because there were often multiple applications for available sites and homes.

It’s not like that anymore. Today, it’s much harder to manage properties, and the manager, whether it’s you or an employee, must have more skills than in the past, such as marketing and sales.

That is why investors do not like the park owned homes. It adds another layer of work for the manager. Training is required in order to be effective. Capital is required to repair, maintain the homes, and re-tenant the homes. The turnover is higher on rental homes or homes sold on contract. The manager, another employee, or outside contractors are needed to do maintenance and repairs. Nor will lenders lend on the homes. It might increase the bottom line or it may diminish the bottom line. Either way, it adds risk.

Investors do not like risk .

5. REAL ESTATE TAXES:

Have you noticed your assessment has gone up, perhaps dramatically, in recent years? Or maybe that assessment is reasonable but the mileage rate has shot up. In any case your real estate taxes are higher than ever and when the property sells, the new buyer will pay taxes much higher than the current real estate taxes you pay. The assessor will reassess the property value based on the sales price.

The buyer knows this and if it is a serious buyer they will be talking to your friendly county or city assessor about what the new taxes will be. If you are in a high tax area, your property may be overpriced because the taxes will lower the NOI (net operating income) substantially.

If this tax phenomena has not come your way, brace yourself. This is like a disease that is spreading throughout the US as counties and cities expand operating budgets and need more money.

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6. MARKETING:

How was your property marketed? It's critical, assuming that you want top dollar for your property, that your property be properly exposed to the market. With today's technology we can market to buyers like never before. Not only that, but today your property should be marketed globally. Why? Despite all the criticism our country receives throughout the world, guess where Middle Eastern, Asian and European buyers want to invest? That's right, America. Today, Australia leads the world in foreign investment in US real estate. Why not tap into that market?

What is your marketing plan?

7. PRICE:

In the current investment climate, if your Mobile Home Park/Manufactured Home Community has not sold, the reason is because it is overpriced.

That is always the basic reason why a property doesn't sell. Your price is not believable in the marketplace. Think investors will make an offer anyway and that if it is below your price the two of you can reach an agreement? That is a huge myth and is old school thinking. Further, it's why you are not getting offers. Today, investors will pass on properties that are even a little overpriced. Why? For two reasons. One is that they don't want to risk being rejected and feeling embarrassed. Secondly, they don't want to risk 'burning their bridges' with you for future transactions in case you decide to get realistic about your pricing.

8. CONDITIONS:

There are more properties available today. Therefore, property condition matters more because investors are shopping and comparing. How does your property's appearance compare to the competition? A poor appearance oftentimes makes buyers feel like there are things wrong with the property that they can't see, such as underground utilities, that might need replacement.

That's the laundry list of reasons why your park or community hasn't sold. Getting to the truth about the market value of your property is a good thing. It will help you make the best financial decision for your situation.

Maybe you will decide to regroup and get more involved with your property and do what it takes to increase the value. Maybe you have a reason to sell and if that is the case, being realistic about your property and how it fits in today's market will help you achieve top dollar.