

2019
February

MANUFACTURED HOME COMMUNITY & MOBILE HOME PARK NEWSLETTER



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Why are Parks Selling for Such High Prices?

Should You Sell or Hold?

Ned George built his park a few decades ago and has been operating it ever since. It's over 200 sites and most of the homes were from his home sales operation. That was back when park owner/retailers actually made money selling new and used mobile homes. Ned knew that someday he would sell his park. He was in no rush, though.

Every year, from November through February, was spent at his lake home. It wasn't as if he never got away from the perpetual late payers and increasingly higher number of home and lots that were unsightly, to say the least. It rankled him. But that was the manager's job. Ned reasoned he was still making plenty of money. He had no debt. He mentally patted himself on the back for not having any rental park owned homes. Those five vacant new homes that were about four years old, well, he could always sell them if he reduced the prices.

For Ned, things weren't bad at all. Yes, the water and sewer were included in the lot rent and the water and sewer bills were getting out of control. And ten percent of the homes had been repossessed and bought by other park owners, who moved the homes out. *But buying homes to fill vacant sites?** He reasoned that he could save money and have a better bottom line by spending less on road and driveway maintenance. That was his plan to adjust for the lower occupancy.

*(*Ugh! This was definitely not on his wish list.)*

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Figure 1: Barn doors are in!

When a nearby park sold, he perked up. He liked the price the other park owner got. But what about the capital gains tax and how would he replace \$300,000 in before income tax cash flow? Then Ned received an offer. The offer was so eye popping that any hesitation about capital gains tax or replacement income went right out the window. For Ned, the offer was all that he ever hopped for in a sale. Silently, he knew that the Buyer could not make any money by paying this much. It was definitely time to sell.

Is Ned a modern MHP fairytale? No. Parks really are selling for high prices. The Buyers aren't fussing about park owned homes or even deferred maintenance such as tree trimming and roads. What is happening? If you are a park owner, what should you do?

Income Insight:

The Commercial Investment Real Estate magazine in its January/February 2019 issue cited apartments with pet-friendly features such as dog parks, walking trails, and even pet pools, as selling for more, closing faster, and having higher cash flow. Residents at apartments pay quite a bit of additional rent for pets. The mobile home park industry should charge more, too.

Ideas for Clarifying Your Thinking:

- A. Prices are at an all-time high for parks. Even parks with vacant sites and private utilities are selling for top prices. What if you have a lot of rental homes? Not an issue. As long as the site is occupied and producing rent, it's just fine.
- B. Metro Area Vs. Rural. Today's MHP buyers could make a living as demographers. They know the population trends and they thoroughly understand the employment pictures. Buyers are enamored with mobile homes parks with "bullet proof" economics. That means the local economy has plenty of jobs in:
 - a. Colleges and Universities
 - b. Government (ideally a state capital or home to a large federal government agency)
 - c. Healthcare. An aging population center especially means lots of hospital, care facilities, and medical office jobs.

These markets are highly certain to have a stable economy even if the regional economy tanks, due to, say a manufacturing plant that closes. If you own a park in a market like this, you have a very desirable park.

- C. What about Capital Gains Tax and loss of income? Park owners aren't talking about this much. The reasons are because:
- The park owner has personal motivation for selling. Lots of times this amounts to simply being tired of operating the park.
 - The high price pays the capital gains tax and provides a lot of cash.*
- D. 1031 Exchanges. Proceed with caution if you wish to do an exchange and defer the capital gains tax. First, it's not as if you won't pay the capital gains tax. All you're doing with a 1031 Exchange is kicking the can down the road.
- Keep in mind that the commercial real estate market has heated up, too. It's very difficult to find an exchange property that produces even moderate cash flow. And do you really want to overpay for an exchange property simply for the chance – and it is a chance – that maybe you will come out ahead? If you want to take that risk and are an experienced commercial real estate investor, then maybe you should do an exchange. Otherwise, think very carefully and don't get too life and death about it.
- E. Time to think and make a good real estate decision. Interest rates are a little higher, but the higher rates have been offset by the escalating demand for parks. There are lots of buyers and more are pouring into the market all the time. This means it might be okay to sell later in 2019 or even in 2020. Real estate brokers normally don't tell owners to hold off on selling. But if you are thinking about selling then now is the time to talk to a real estate broker about current value, get with your CPA, and fill some vacant sites (even if you rent the homes).

It is time to think about you, your life, your family, and the things that matter the most to you. Haven't you earned this?

**A park owner said recently that after the capital gains tax, he had 20 years of net cash flow and no work.*

Two Trends in 2019:

1. Apartment Overbuilding:

Lower rents, 30-day leases, no security deposits. Tenant turnover is creeping up at the expensive new apartment buildings. After a month or two of paying \$1,200 to \$1,500 per month, tenants realize they can't afford it and move. Does this spell opportunity for the mobile home park industry?

2. Emotional Support Animals:

Lawmakers are trying to get rid of certificate mills. Consensus is that the letters from 'medical professionals' claiming or encouraging the need for emotional support animals are out of hand. Some state legislatures are making putting limitations on emotional support animals a priority in the next governing year and creating consequences for those that heedlessly provide said certifications.

Please email Joanne with your comments or your own trends to watch.

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*Happy Valentine's Day from
the Stevens Team to all of You!*

Past Newsletters are on my website.

JoanneMStevens.com

Click newsletters on the left-hand column.

SAVE THE DATE: Links on Our Website

2019 MHI Winter Meeting

The Driskill, Austin, TX 78701

2/18 - 2/20/2019

2019 MHI Congress & Expo

Hyatt Regency New Orleans, New Orleans, LA 70113

5/6 - 5/8/2019

2019 MHI Annual Meeting

The Westin Savannah, Savannah, GA 31421

9/22 - 9/24/2019

2019 NCC Fall Leadership Forum

Westin Michigan Ave, Chicago, IL

11/13-11/15/2019

Keep current on mobile home industry events.
Go to my website; you will find information on upcoming events.

WHAT IS YOUR PARK 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.