Mobile Home Park Investing

This is A Must have Book for the

Serious MHP Investor!

This Book is For : First-Time Investors, Seasoned Investors and any other Business Professionals in the Mobile Home Park Industry

You Will Receive a Copy of Contract That I use to Buy Mobile Home Parks !

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The information provided in this book is intended to be a general guideline and not the ultimate source of information. When appropriate, you should consult your own legal, accounting, financial, and other advice.

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HOW I STARTED IN THE MOBILE HOME PARK BUSINESS:

I was introduced to the mobile home park business at the age of 14 when my parents purchased a mobile home park in Fairplay, Colorado. My dad had been looking to get into the real estate business for some time and against the advice of family members he skipped single family homes and other investment types and jumped right into a mobile home park that was in a somewhat depressed area at the time. He has many stories of how he used to worry about making the monthly payments and other bills... what would they do if the water well or sewer system failed or people started to move out and so on.

He even decided that we should move from Denver and go run the park as a family. Luckily this was in the summer as living at 10,000 feet with the wind blowing almost constantly was a huge change from growing up in the city. Moving from a 2,000 sq foot house to a small doublewide in an older run down trailer park was not for me.

I thought this whole idea was crazy and was thrilled when about 3 months after moving to the park, the previous owner offered to purchase the park back from my parents. As my family was running the park, it became clear that the situation was not really living up to their expectations. They were glad to sell it back to the previous owner and make a profit in the process in the form of a 2nd note. It was great to move back into a house again and I had no intention of ever going into another trailer/mobile home park again.

Anyway, about 3 years later, the investor that had sold the park and then purchased the park back from my parents called my Dad up one day and said he had some unrelated financial problems and he was not going to be making any more payments on the note. He offered to just give the park to back to my parents instead of going through the whole foreclosure process. They did not really have a choice in the matter but as it all worked out the town of Fairplay was starting to grow due in a large part to the shortage of affordable housing 25 miles away in Breckenridge, CO. All of a sudden the park started filling up and the rents started increasing and the park became an excellent investment and we didn't even have to live there.

I started to become interested in real estate (not trailer parks) and after my first year of college I bought a small house in Grand Junction to fix up and live in while I went to school. For the next few years I continued to buy a house here and there to fix up and sell.

My Dad found a small mobile home park in Grand Junction that came up for sale that was doing real well and tried to convince me to buy it either on my own or with him. I still did not want anything to do with mobile home parks and came up with every excuse of why I could not do it without insulting him. After going back and forth for a few weeks it was too late as the park was sold to another investor. I was relieved as I did not want any part of it. I was happy making $10k on buying and selling houses.

At the time, the owner was asking $95,000 for the park which had about 20 lots, a single family home, and about 10 acres to expand. About a year later I was looking through the paper and saw this same mobile home park for sale. Not much had changed except for the price. It was now listed at $279,000. I decided to call and see what was going on as I thought they were crazy for having such a ridiculous price. To my amazement the property was already under contract.

I still try to avoid driving by that park to this day as I regretted not listening to my Dad.

About that same time with my new college education my Dad asked me if I wanted to tackle doing his income taxes. After all, that was my major. In doing so I realized that he was making substantially more from his mobile home park in Fairplay, CO than his full time job.

Well things started to click and I was determined not to let another good mobile home park investment go by. At this time, I didn't have very much money and had just started establishing my credit.

I kept getting all these credit card offers in the mail with the teaser low interest rates for 6 months and I just kept filling them out and it wasn't long until I had a credit line of about $50,000. My thought was that I would find a park to buy and cash advance the credits cards for the down payment. In the meantime I was watching for mobile home parks to buy mainly by checking out the Rocky Mountain News and Denver Post. I didn't even consider investing out of state even though there were not many deals in Colorado.

After a few months of searching, I saw an ad for a mobile home park in Limon, Colorado. The park was listed for about $275,000. However, the owner wanted to be cashed out and after telling the banks where I was planning to get my down payment from, to say the least, they were not at all impressed. The seller said he had found a buyer so this deal was all but dead.

A few months later, the same owner called me and said that his other buyer didn't go through with it and if I could come up with $50,000 in 10 days, I could assume the notes and own the park. I was all over it. The next day I met with the seller and his attorney and found out that the reason I had to close so quickly was that he was about 10 days from losing the property to foreclosure and was desperate. He didn't have time to find another buyer and I was basically his last resort. Looking back, I probably should have negotiated a better deal and at least hired an attorney to review the contract I made in the seller's attorneys office as this was my first commercial property transaction. I was nervous to find out that the Seller was in foreclosure and figured that there must be something wrong with the property that I didn't notice on my 30 minutes of driving through the park and around town.

I wouldn't say that I fell in love with the property but I did have my mind set on buying a mobile home park and I would make it work one way or another. I was buying this park with cash advances on my credit cards and when I showed up to the bank the day before closing to cash advance 50k from a variation of about 10 credit cards the President of the Bank couldn't believe I was actually serious about taking all these cash advances from my credit cards in order to buy a TRAILER Park! Well after about 2 hours at the bank and verifying all the information one by one I had a $50,000 cashiers check in hand and was ready to go.

The next day, I showed up to closing in Hugo, Colorado at the most unorganized title company I have ever seen to this day. The paperwork had just been started, they did not own a computer, the two note-holders that I was assuming their notes were there, the Seller was there and was half drunk and I could tell there was tremendous animosity between the Seller and the note-holders. (Later on, I found out that the Seller bought the property about 9 months beforehand and had never made a payment and had also not made payments for most of the utilities or repairs that were done in the park for the time he owned it) Imagine a very small town in which all the plumbers and electricians had been stiffed and then trying to get someone to the park to do any work!

As the closing statements were being drawn up I noticed that the notes that I was assuming were not the same amounts that I had been told by the Seller. I was supposedly going to be buying the park for $265,000 with $50,000 down and assume a balance of $215,000. To get to the point, the balance on the notes were about $200,000 instead of $215,000 so I had to come up with another $15,000 real fast as I had not insisted on any provisions stating what the amount to be assumed was. Needless to say, I ended up racking up an additional $15k on credit cards to make the deal happen.

I know what you must be thinking... why didn't I threaten to walk away from the deal if the seller didn't come down in price? I was his last hope, if he didn't take the 50k down that day he would get nothing from it tomorrow. Looking back, I could have saved at least the 15k by hiring an attorney for a few hundred dollars to review the contract.

At about 5 pm, I owned my first park. As I was driving back home to Fort Collins it started to hit me that I was now in charge of about 50 lots and owned around 20 park owned mobile homes. I basically had about 5k left on credit and in the bank to work with and needed to come up with a plan. I had been paying my way through graduate school at CSU with a lawn mowing business and so we decided that it was time to sell that business and move closer to our new investment. After about a month, we sold our house and business and moved to the town of Agate, CO. This was about 20 miles from the park and I thought it was a good buffer zone.

We proceeded to work on the park and after about a year it was starting to bring in enough of an income to cover the credit card payments and the mortgages. At that time we still had good credit... just a lot of it. We owed about 100k in credit cards so it was time to find a bank to refinance the park and pay off these debts. I think I tried about 20 banks before I finally found one that would do the deal. I was able to refinance, pay off the credit cards, and had a good interest rate and 20 year loan with a payment of about $1,000 less than what it was before.

All of a sudden, I had some money (credit) again and was ready to do it all over again. There was a park in Fort Morgan, CO that seemed to be a good fit. So about a month later, I was at the bank again maxing out my credit cards to the tune of $80,000 and was the proud owner of another mobile home park. This park had 50 mobile homes and 50 RV sites. This park had an out of state owner who was being robbed by his managers to the tune of about $3,000 per month. He had a great income as a pilot and didn't have the time to worry about the park. It was basically just a write off.

I knew that this park was going to need a large time commitment at first so I packed up my family and we moved to the park. It was an old KOA and had an apartment above the office. I think my Dad got a kick out of seeing me move to the park after all the grief I had given him over the years about moving our family to Fairplay. I didn't care now as I was fully immersed into the business.

Anyway, I moved my wife and 2 boys to the park in September and then about a month later, we had a husband and wife that had been staying in the RV park come into the office one day and make us an offer of about $150,000 more for the park than we had paid the previous month. That was an easy decision and a quick closing. We moved to the park in September and had moved back to Agate by the end of October with our credit cards paid off and about $100,000 in the bank. This is when I knew that I had found my calling. I was going to be the mobile home park king.

Through the purchase of the second park in Fort Morgan I met a broker that had been specializing in selling mobile home parks and motels for the past 30 years. I decided I should get my real estate license so I could start making money selling parks that I did not want to buy. I became licensed in several states under this broker, Carl Smeltzer, and started my brokerage career.

About this same time, I discovered a website on the internet that was run by Josh Hunt. At that time, I believe the domain was www.themobilehomeparkstore.com. I started watching the site, placed my brokerage listings on the site and began driving all over the Midwest looking at the mobile home parks for sale that were listed. I was having some success in getting leads from the site and thought it was a great concept.

Then one day I went to the site and it wasn't there anymore. I tried the next day and the next and still no site. I was able to get in touch with Josh a few days later and asked him what was up. He said he was moving and was going into ministry and did not have any interest in the site. I asked him if he would sell the domain name to me and if I remember right he said I could basically name my price. I think we settled on one thousand dollars and all of a sudden I had an internet site that I had no idea on how to run.

He told me what software to buy and walked me through getting things setup and that was the beginning of MobileHomeParkStore.com. When Josh had run the site, he was basically working a few states and getting commissions on parks that were sold as a direct result of the site. I think one of the things that frustrated him was that he was not getting credit for many of the sales and was not making anything from it. I decided to do things differently and just charge a nominal fee to individuals and brokers and become basically the nationwide MLS for Mobile Home Parks for Sale.

Being involved with this web site for the past 9 years has been a learning experience like no other. I would guess that we have helped individuals and brokers sell over 1,500 mobile home parks and many parks have been sold several times on the site. There was a park in South Texas that I bought for $150,000 one month, sold it through mobilehomeparkstore.com the next month for $195,000, and it has sold 2 more times since with the latest listing price of $450,000.

On my first 2 mobile home park deals, I was very lucky. I spent about 30 minutes of due diligence on the first park and a few hours on the second park. It would not be until some of my future mobile home park investments that not doing proper due diligence would come back to haunt me. I was very lucky. Don't ever take the Due Diligence step lightly!

The next park that I purchased was a small 9 space park in Kit Carson, Colorado. This was about 60 miles from the park I had in Limon and I thought it would be no problem to run it easily. This park had 5 homes that went with it and the other 4 spaces were occupied. For $45,000 I thought I couldn't go wrong. After all, the seller said the park was bringing in $400 for each mobile home and $100 for each lot for a total of $2,400 per month. I drove through the park one day and met with the owner and he claimed that everything was as he said, all the homes rented and everyone paying. I said great and purchased the park a few weeks later.

After closing, I went to the park and was talking to one of the residents and he said that they would be pulling their three mobile homes out the next month as the business they worked for just closed and they were moving the homes to another town where they and their renters had been transferred. He also asked me what I was going to do with all the vacant homes I had just bought. I said... what do you mean vacant? He said they had been vacant for some time and needed a bunch of work. Come to find out, I had one home out of 5 that was rented, 4 homes that had to be completely re-plumbed since they had frozen up over the winter, and one person that was renting a lot. $500 per month income. Well after about a year of trying to fix the homes up and finding renters for them (it is hard to find renters when there are no jobs in the area) I was able to sell the park for $40,000 and move on.

Since that time, I have purchased over 30 mobile home parks and currently own 9 parks. In addition, while I was working as a broker I was involved in another 25+ mobile home park sales and have helped over a thousand buyers and sellers through MobileHomeParkStore.com.

I have helped some of my family and friends purchase mobile home parks and have seen them prosper as well. One of my boys is also on the right track. During one of his school functions when he was 8 years old, they were asking all the kids what they wanted to do when they grew up. Most of the kids in his class wanted to be policeman, doctors, athletes, and such. When it came my son's turn to respond he said:

"I want to buy a mobile home park when I grow up and have my wife collect the rents for me"

I think this floored the entire room as well as his parents. I must have driven him through too many parks while he was growing up.

As I have continued to buy, manage, fix up, and sell parks I made some great purchases but also made many mistakes. The purpose of this book is to educate you on the process of buying a mobile home park as well as teach you what to look out for and learn from my mistakes.

DEFINITIONS AND TERMINOLOGY:

What is a Mobile Home Park?
Mobile Home parks are basically a collection of 2 or more mobile homes situated on one parcel or contiguous parcels of land in which the owner is renting the lots or mobile homes for profit.

A Mobile Home Subdivision is basically 2 or more mobile homes on contiguous parcels of land in which the owners own their own home and lot. There is often a monthly subdivision fee to cover common operational expenses.

A Mobile Home Coop is basically 2 or more mobile homes on a single parcel of land in which the mobile home owners own a share of stock in the coop and have a long term renewable lease to use that lot. There is typically a monthly maintenance fee to cover the common areas, taxes, utilities, etc.

We currently have a list of approximately 45,000 mobile home parks in the U.S. and I would estimate that there are about 5,000 to 10,000 mobile home parks that are not on that list. (I would venture to say that these 5-10 thousand parks represent some of the best opportunities to locate good deals)

According to our list, the states with the most mobile home parks in order are:

California, Florida, Texas, North Carolina, and the state with the fewest is:

Hawaii – I do not know of any mobile home parks in Hawaii – (Any mobile home transporters ever move one there?)

WHAT IS A MOBILE HOME?

A mobile/manufactured home is basically a home built off site and then moved on wheels and axles to either a mobile home park or private land. It can be permanently attached with a foundation or else placed on blocks and tied down.

Manufactured Homes are usually built indoors and away from the elements of rain, snow, etc and the manufacturing processes are much more efficient to that of site built homes. This efficiency and the ability of the manufacturer to purchase in bulk are the major reasons it may cost up to 60% less per square foot to build a manufactured home compared to a typical site built home. Many of the features of site built homes can now be found in the late model manufactured homes.

The affordability of manufactured homes is very attractive to those looking for ownership but not able to afford a comparably sized site built home.

The typical cost of a site built home after deducting the cost for land is typically around $90 and up per square foot.

The typical cost of a new manufactured home is around $32 per square foot for a singlewide and around $40 per square foot for a doublewide home.

When looking at the cost of mobile homes versus single family homes consider the cost per square foot for late model repo homes. Depending on your location and the supply of repos in that area you can often buy nice 16' x 80' homes in the 10-15k range. Consider the cost per square foot for a 16' x 80' that is 5 years old purchased for 15k. This would equate to under $12 per square foot!

In the last few years it has become increasingly difficult for those looking to buy new or used manufactured homes to locate financing. With the demise of many of the large manufactured home lending companies this has been a real problem for dealers as well as those individuals looking to sell their homes. The market is slowly turning around and new lenders are starting to surface and I believe the market will stabilize and regain momentum over the next few years.

PROPER TERMINOLOGY?

The homes used to be called Coaches or Trailers, then came Mobile Homes, and now the new homes are referred to as Manufactured Homes.

The parks used to be called Trailers Parks, then came Mobile Home Parks and Mobile Home Villages, and then Mobile Home Communities, then Manufactured Home Communities, and now Land Lease Communities.

I would estimate that about 10% of the people in the industry use the Trailer and Trailer Park terminology, then about 50-60% use the Mobile Home and Mobile Home Park terminology, and the rest are into the Manufactured Home & Manufactured Home Community.

When I am talking about a 4-5 star community with mostly newer and well cared for homes, I refer to it as a Manufactured Home Community and the homes as Manufactured Homes.

The rest of the time, they are Mobile Homes and Mobile Home Parks to me. I try to refrain from using the words Trailer Park too often even though I see parks out there that still fit that description.

In this book I will use the terminology Mobile Home and Mobile Home Park for the most part so I will apologize in advance if I upset anyone.

WHY INVEST IN MOBILE HOME PARKS:

When deciding to invest in any type of real estate, stock investment, or any other type of investment whether a CD or an oil well, these all include with them a risk however small or large. Depending on the risk you perceive in each type of investment you will expect or hope for a certain return. As the perceived risk goes up you will want a greater potential return and vice versa.

According to most books and advice you get from investment advisors, real estate usually is regarded as being a safe investment as the downturns in real estate have usually been short-lived and have corrected themselves quickly. This is generally speaking and goes for most real estate markets. However, when you invest in markets that have one major employer or are dependent on a certain industry, you may run the risk of a long term decline in values and occupancy if something happens to that employer or industry.

Like most investment real estate, mobile home parks are similar in that you typically expect them to increase in value, produce an increasing monthly cash flow as the rents increase, have income tax advantages, and include an increase in equity as you pay down the debt.

Advantages of Purchasing/Owning a Mobile Home Park as Compared to Apartments and Other Real Estate:

1. There has always been and will always be a need for affordable housing. The typical mobile home park is just that... affordable housing.

2. It is typically accepted that the average operating expenses for a mobile home park are usually around 35-40% of the gross income as compared to apartments which have in the 50-60% expense ratio. One of the biggest advantages of mobile home park ownership is not only this decreased operating expense margin but the reasoning behind it.

   Mobile Home Parks in which you rent the land to the home owners have a much lower turnover ratio as compared to apartments. In most cases, once the home is moved into your park, that home will stay in there for 25+ years and when people are ready to move they will just resell the home in the park and you will have a new homeowner.

   The biggest reason for the low home turnover is that it costs so much to break down, move, and set up a home. In most cases this is going to cost at a minimum of $2,000 for a singlewide and $4,000 for a doublewide. In an apartment, your renters can pack up and leave in the middle of the night.

   In most cases a mobile home will not move out in the middle of the night (especially legally). There are those cases where someone will hire someone to come in and move a home in the middle of the night but it is rare.

   I actually had someone who was a few months late on rent, decide to hook up to their 14 x 70 home with their ¾ ton pickup in an attempt to move it down the road a few miles to a different park. They made it out of the park with the home but about a mile down the road the mobile home separated from the truck and they not only flipped the home but destroyed a truck. All of this to avoid about $800 in lot rent.

3. When you raise the rent by $10, $15, $20 or more in a mobile home park, it is less justifiable for a renter to spend several thousand dollars to move their home to save $10 or $20 per month. In addition there is no guarantee that the mobile home park that they move their home to will not follow suit with a rent increase of their own.

4. Another reason for the lower operating expense ratio for mobile home parks is that you are not responsible for painting, cleaning carpets, fixing windows, and all the fun jobs of the apartment maintenance personnel. You are typically only responsible up to where the home connects to your utilities and the maintenance of the common areas.

5. As far as depreciation, apartments have a large value attributable to the building itself and the building portion is generally required to be depreciated over 27.5 years However, for mobile home parks, the depreciable costs are typically the roads, water lines, sewer lines, electric poles and so on. These are considered land improvements and are typically depreciated over a period of 15 years. This increased depreciation over the first 15 years is a major tax benefit for many investors.

6 Another hidden benefit of mobile home parks are the barriers to entry for competition. In most areas of the country, it is difficult to get the proper zoning, meet all the requirements to build a new community and actually make a profit. Face it, once you get all the permits and licenses and have the curbs, roads, driveways, utilities, pads and everything else built out, you will have a carrying cost until you actually get enough homes into the project to break even, let alone start making a profit.

Mobile Home Parks are in limited supply and the barriers to entry as far as costs, regulations and government restrictions make developing new parks unfeasible in most areas. State and local governments restrict new mobile home park developments for many reasons, including: bad reputation, existing owners allowing parks to deteriorate, less property tax base to fund schools, police, fire, and other government services.

In addition to the small number of new communities being built, many communities are being sold for other development purposes (townhomes, condos, beach houses, etc). I just read an article about a mobile home subdivision that is being sold for over 500 million dollars which equates to over 1 million per space – this was a park where the lots were owned by individuals who will now each be a millionaire!!!

7 Another benefit of mobile home parks is that in most cases you have individuals that own their own homes and will tend to take care of the home as well as their lot. Since you are renting basically the land and the utility connections, there are not nearly as many things that your renters can do to cost you major repairs. Sure they may flush things down the sewer and let the water run, but they will not be putting holes in the walls and floors or spilling things on the carpet as they will in your apartment rentals. You rent the land and do not have to fix leaky kitchen faucets or toilets.

8 Another benefit of owning mobile home parks is that you are often in a good position to buy and sell new and used mobile homes. You can often buy homes that people sell in your park, in nearby parks, repos, or even new homes from the manufacturers and place them in your park and sell them at a profit.

Depending on the situation, you may be able to sell them for cash, on terms, or with new financing. As the park owner, every time you sell a home and fill a vacant lot in your park you have just increased the monthly lot rent income as well as the value of the park.

If each occupied lot is worth an additional $10,000 then in addition to the profit from the home sale itself you have just made an extra 10k in equity.

A mobile home dealer makes money on the spread between the purchase and sale price and thus needs to have good profit margin to stay in business. As the park owner you can live on a much smaller or even a break even on the home sales and thus save your buyers thousands of dollars.

TYPES OF MOBILE HOME PARKS TO CONSIDER:

When deciding on purchasing a mobile home park, you can basically look at four different types:

1 ***Building a New Park:*** This is starting from scratch and will take time, money, and patience. This is usually the riskiest and drawn out option but can be potentially a great opportunity.

2 ***Buying a Stable Park:*** These parks usually have low vacancy, are operating smoothly and have rents at or near market. You are buying a cash flow that should increase as rates increase over time. You will pay a premium price for this type of park.

3 ***Buying a Park that is mainly filled up*** but is not running efficiently. In these types of parks you want to buy them based on the current income and expenses and then increase the value through such things as raising rents to market, collecting rents, sub-metering utilities. This is the type of park that I am on the lookout for.

4 ***Buying a Turnaround Park:*** In addition to increasing rents and reducing expenses this is the type of park that is either half vacant and needs rent to own homes or the type of park that the owner has forgot about and is run down. This type of investment usually has the best potential to increase in value for existing parks but will take the most time, money, and efforts. Make sure that the extra time and efforts will be worth it. Turnaround parks are often better deals as the owner may have lost interest or is having financial difficulties. The opposite is true of the stable parks.

WHEN LOOKING FOR A PARK, YOU CAN BASICALLY CHOOSE:

Large Metro Areas: There is usually more competition here from investors but they are generally regarded to have greater stability and less market fluctuation.

Small Cities & Rural Parks: There is generally less competition here from investors and you will usually be able to buy the parks with a higher cap rate. These parks will typically have a larger risk due to dependency on one or two major employers. However, in the right cities and markets these will often represent great investments.

Adult & Senior Parks: These are usually more desirable as your tenant base willl have greater stability and tend to care for their homes and lots better and pay their rents on time. However, many of the residents in these parks will have a lot of time on their hands and require more amenities and offer more resistance to rent increases.

Most REIT's (Real Estate Investment Trusts) and larger mobile home park investors are looking to purchase parks that are in the 150+ site range so the competition and pricing is generally higher for these larger communities. I would suggest you focus on the parks that are in the 25 to 150 space range. Lower than 25 spaces if you live nearby and are able to manage the park yourself.

Any size of park can be run efficiently and profitably. Some 10 space parks are easier to run from a distance without a manager than one that is 100 spaces with a full time manager. There are many factors. Some parks require weekly visits, monthly, yearly, or whenever you are bored.

When deciding what type of park to buy, you need to decide on your investment goals, evaluate the amount of time you have, talk to others in the business about the time requirements for your potential purchase and then begin your search for parks that will fit with those goals. Make sure your goals are reasonable. It is not likely your are going to buy a 100 space park in a good market operating well for a 15 cap and it is not likely you will find a park operating well in a good market that will be purchased for no money down, etc.

WHERE TO FIND MOBILE HOME PARKS TO BUY:

When starting your search to buy a mobile home park there are several ways to do this. I would suggest trying each of these as they will all give you a different perspective and comparables to evaluate. Then when you find the park that seems to fit, you will have the knowledge and be able to move quickly. If you wait too long, you will most likely find out it is under contact. So it is best to be ready when the time comes.

When you are searching for a mobile home park to purchase, it is often the park or deal that is least advertised that may represent the best deals.

Here are a few potential ways to find properties:

1 ***MobileHomeParkStore.com:*** on average we are adding over 60 new properties for sale to the website each and every month. Of these new listings, I would estimate that about 20% of them are reasonably priced and will sell quickly. About 30% are of the listings are borderline and may sit on the site for a few months but will sell within 6 months to a year. The other 50% are overpriced and/or not currently viable projects due to a bad local market or other factors. It is the first 20% that most of you will be looking for. The best way to stay updated on new properties for sale is to join our early investor list. You receive all the new listings by email 48 hours before they hit the site. As soon as I receive the listing, it is immediately sent out to this list of investors.

The benefits of being on this list is twofold: one you get emailed all the listings and you start seeing what parks are listed for and can usually tell which parks are worth following up on quickly. The other benefit is that you will see the listings 48 hours before the general public and are able to get a conversation going with the Seller before he is inundated with all those calls once it is posted on the site.

2 ***Other Websites:*** Loopnet.com, CIMLS.com, Real Estate Company Websites, Business Brokerage Websites, and numerous other similar sites: I purchased a mobile home park in 2006 that was listed on a Business For Sale web site that had been on there for 6 months. I know that if it had been on mobilehomeparkstore.com or loopnet.com it would have been sold long before that. It is worth checking out some of these other websites that do not have a big mobile home park investor following.

3 ***Google Web Searches:*** We are always doing these searches looking for new parks for sale to promote mobilehomeparkstore.com to. Every once in a while there will be a good potential deal listed for sale down about 20 or 30 pages in the search results.following.

4 ***Contact Real Estate Brokers*** that specialize in selling Mobile Home Parks. These are the professionals that are out there every day trying to get parks listed for sale and will often have pocket listings or listings that they cannot otherwise advertise. I would contact any broker that does business in areas you are looking and be very specific about what you are looking for. It is good to stay in touch with them on a regular basis so when they get a new listing they will think about you if it meets your criteria.

5 ***Contact other Real Estate Brokers*** that are in areas that you are looking for properties. It is amazing how many mobile home parks are listed by brokers that have no idea how to value a park, how to market a park for sale, and where to find a buyer for the park. If you are looking for a mobile home park for sale in a certain state or city, I would find all the brokers you can in these areas and send them an email asking them if they have any mobile home parks for sale or if they know of any. The ones that reply to you with an offer to keep an eye out for you will be the ones that you will follow up with on a regular basis.

6 ***Direct Mail:*** I have been using this method in various forms over the years and have purchased many parks this way. In setting up your direct mail campaign, you will want to set yourself apart from the other companies and individuals that send out massive amounts of mail to the park owners/managers. Here are just a few ideas that I have used in the past:

- a Make your mailing piece stand out from the rest of the competitors.
- b Identify yourself as a real person, not some LLC without an identity.
- c Incorporate useful information in the mailing so that it will be retained by the owner. I continue to get calls from mailings I sent out several years ago from owners that kept my postcard.
- d Possibly include magnets, notepads, or other useful gadgets with your phone number on them that will be right in front of the owner when they decide to sell.

In addition, any direct mail campaign should include more than one contact to each recipient. Anywhere from 3-5 contacts per year should be made in order to keep you and your company in front of the potential sellers. I like to switch it up by varying the mailings to include different letters, postcards, etc, so it is not the same piece each and every time.

Another important part of the direct mail process is that you have to get a good list of prospects to mail to. The best way to do this is to purchase an existing list like the one we have on our site or with a list service such as infousa.com and then work on building it to fit your needs.

7 ***Cold Calling:*** Basically you can go to our website, MHPS.com and go to the park directory and start making phone calls to parks that are in the areas you are looking. I have found it best to identify yourself as someone that is looking to purchase a mobile home park in that area and were wondering if this park is for sale or if they know of one for sale. You will get hang-ups and occasionally even be yelled at, but for the most part people will be sociable. Many times these owners/managers will know of other parks for sale in the area. It is often good to follow up by mail with anyone that seems to be a potential prospect in the future.

8 ***Major Newspapers and Manufactured Home Magazines.*** Just like staying on top of listings on MobileHomeParkStore.com you will need to stay on top of these classified ads to be sure you don't miss potential deals that will be snatched up by other investors. Many of the larger newspapers have an online service that will allow you to sign up to be emailed listings that match particular criteria.

9 ***An indirect way*** to find Mobile Home Park deals is to look for mobile homes for sale and then call on these homes. By talking with the owners of the mobile homes for sale you can often find out a great deal about the community and who owns it, what the rents are, the size of it, how many vacancies and such. If it seems to fit into what you are looking for, then you have another prospect and you can start contacting the owner on a regular basis.

10 ***Driving through potential parks:*** If you see a park that looks interesting, take a drive through, write down some phone numbers of homes for sale, stop and talk to the owner/manager, leave your card, and if it seems to be a good fit, follow up on a regular basis. Don't bother the residents though as you will often upset the manager and owner and they will not be open to talking with you.

11 ***Visit Manufactured Home Trade Shows,*** Mobile Home Park Investment Seminars, and other industry events. You will make many great contacts with other investors and industry professionals, and will start to develop a network of people that will help you in your search and management of your mobile home park investment.

12 ***Subscribe to RSS feeds or Google Alerts*** to get news on mobile home parks that are in the news. You will be looking for parks and park owners that are in trouble. Many times, the owner is not in compliance, behind on bills, or is doing something to stir up a ruckus with the residents. This is a great way to find motivated sellers especially if you have a solution to their problem. Make sure that you have a good solution to the problem so you don't end up in the same boat as the seller.

13 ***County Tax Records:*** Most counties have a listing of the mobile home parks in the county and some information in regards to the owners, etc. By searching the country records you might also be able to see what the park was last sold at, is currently valued at by the county (which is often quite low) and whether the taxes are paid. If the taxes are not paid, this may indicate a motivated seller.

14 ***Contact appraisers, banks, title companies***, friends, relatives and let them know what you are looking for and to keep their eye open. Offer them a finders fee if they find something that you end up purchasing.

I had a friend that knew I bought mobile home parks and he passed me on to an awesome deal in Texas. He had done some concrete work for the owner and the owner told him it was for sale. He told me about it and I purchased it about a month later. I sold it a few months after that for a profit of over $100K and wrote my friend a check for $25,000. He has been keeping his eye open ever since.

In another instance I was having my oil changed at Wal Mart in Nebraska. The service guy asked me what I was doing there from Colorado. One thing led to another and he told me about a mobile home park that he lived in that was for sale. I went straight to the park and talked with the owner and purchased it a couple of months later. It was a park of about 45 units but was mismanaged and priced right. I sold the park about 6 months later at a profit of over $75,000. I call this the best Oil Change ever!

15 ***Heirs:*** Another great place to buy a park. They usually want cash not a mobile home park to manage.

16 ***Make Unsolicited Offers:*** In the past, I have collected information on certain mobile home parks, number of spaces, lot rents, occupancy, who pays water, sewer, and trash and then plugged this into a basic valuation formula and generated offers. I would prepare a purchase and sale contract with all the standard provisions with the price I was willing to pay and mail these out to the owners. I received a much higher response rate doing this than any other type of direct mail. However, I received many irate owners calling or writing back asking me if I was on drugs or plumb crazy because their park was worth much more than I offered. On the flip side, I had several owners sign the contract and send it back. I purchased about 5 parks using this strategy.

HOW TO VALUE A MOBILE HOME PARK:

Like most real estate the Seller usually wants too much and the purchaser wants to pay too little for a mobile home park. Certain buyers may have different motivations for buying a certain park (1031 money, ability to obtain better financing, conversions to other uses, and location to where they live). In this book we will only look only at the value of a mobile home park for the typical buyer who will continue to operate it as a mobile home park.

Anyone that has seen an appraisal on a house or most types of real estate will have heard mention of the 3 approaches to determining the value of that real estate. They are the Cost, Sales, and Income Approach.

Unless you are coming up with the value of a brand new mobile home park or one that is predominately vacant, I do not see any reason to use the cost approach. It is not likely that a new mobile home park will be built nearby and what it would cost to build a new park does not even take into account the amount of time, effort, and money it takes to fill that park up with occupied and paying residents.

As far as the Sales or Market Comparison approach to value, this is also highly suspect. This is based on comparing the sale of the subject property with other recent sales and adjusting for differences that you may or may not know about. Problems with this approach include varying expenses, rents, and management. Whether you are an investor or appraiser I would just use this approach as potential information and not draw any conclusions from it. Here is a quick example of the improper use of this approach from my experience:

Examples

Property A: 50 lots, 100% occupied, Lot Rent of $179.00. Lots will hold a maximum home size of a 14' x 60' – Water and Sewer is submetered back to residents - NOI of about $75,000.

Property B: (10 miles from Property A): 53 lots, 10 vacancies, Lot Rent of $150.00. Lots will hold 16' x 80's and doublewides. Park pays water and sewer - NOI of $45,000.

Property B is sold in December of 2004 for $425,000.

The owner of Property A (one of my LLC's) goes to the bank to refinance the property in January of 2005. The appraiser appraises it at $400,000 and places the most emphasis on the Sales Comparison Approach as Property B just sold and it was a superior property in terms of size, appearance, and location. In fact in the appraisal report, he claims that we were charging too much and that our numbers were inflated.

After arguing with the bank and appraiser for a couple of weeks, we were refunded our money for the appraisal. In the meantime, we were approached by another investor who made us an offer of $645,000 for the park and we accepted and the sale closed by the end of March 2005. I really wanted to send the appraiser a copy of the closing statement with a nice letter but decided against it.

The point is that even though one park may look nice, be in a better location, and have so much more going for it on the surface, does not mean it is worth more per space or even worth as much per space as an inferior looking park.

As a side note, once I found out that property B was sold for $425,000 I was in contact with the new owner and tried to buy the park from him - I offered him $50,000 more than he had just paid and he didn't want any part of it. He knew he had just made a tremendous buy and was already raising the rents and starting to get his lots filled up.

The third approach to value is the Income approach and I find that this is really the best and only way to evaluate a mobile home park correctly. I have come up with a basic formula in which I value the park based on what it is currently doing, what it should be doing, and what it will do once I implement some basic changes and run it more efficiently.

Here is my standard process in estimating the value:

I want to know how many lots there are, how many are occupied and paying, what the lot rent is, what expenses the owner is paying, and who is responsible for the water lines, sewer lines, and roads. (Example Provided Below)

A good rule of thumb that I use to start with is that I take the number of occupied spaces and multiply this by the average monthly space rent and multiply this by 70.

For example if the park has 110 spaces with 10 vacancies, a monthly average space rent of $200.

Then my initial value calculation is 100 x $200 x 70 = $1,400,000.

If the park is on the market for $3 million I will probably pass. If the park is on the market for $1,800,000 or less than I will probably look into it further. Remember this simple calculation is very generic and may or may not be the true indication of the value of a mobile home park.

In looking at the park in more detail, I will ask for actual operating income as well as actual operating expenses.

The operating expense ratio can vary significantly from one park to another in the same city even if located adjacent to one another. One of the largest expenses in a park is the water and sewer expense. If the residents of the park are paying this expense then you can expect the operating expense ratio to be as much as 15% less than the average.

I owned a park in Northeastern Texas a few years ago that had the lowest expense ratio that I have ever dealt with (I regret ever selling it). Although this park had large lots 60' x 120' and up, it was filled with old homes (trailers). We even had some old RV's and campers renting lots. Usually when you encounter a park such as this with old run down homes and trailers they are usually stacked on top of each other with about 20 per acre. This was not the case. Each home was on a large lot and every time I drove through the park it seemed that the homes had aged several more years. Anyway, the park had 94 spaces and each space was separately metered for all utilities by the city and utility companies. The streets were owned by the city, the city was responsible for the water and sewer lines up to each home. The city paid for the street lights.

We had basically 5 expenses:

- Taxes: $1100 per year (the assessed value of this park was under $60,000!!!)
- Insurance: $2,000 per year
- Management: $700 per month plus free lot rent – about $10,000 per year
- Telephone: $0 – the manager used his phone number
- Repairs: $2000 per year on average (the only repair we had was each time a home moved out and a new home moved in we had to update the electric pedestal – about 3 per year)
- Office & Travel: $600 per year

In the 3 years I owned the park, the expenses never totaled more than $16,000.

The gross collected income over these 3 years averaged just over $135,000. So this park had an expense ratio of under 12%.

This is truly an exception to the rule and the manager I had at this park was awesome and we had collections in excess of 97%. It is rare that you are able to find a park with such a low expense ratio but it is possible. The usual case is that you find a park that is listed for sale and the projections or proformas have expenses that are ridiculously low and may not have expenses listed for repairs, capital improvements, management, insurance and so on.

The value a mobile home park may be $2 million for one person and $1.5 million to someone else. The key is really deciding what you are willing to pay based on your expectations of what type of return you want on your investment. This return on investment will come in several different forms:

- Monthly/Yearly Cash Flow
- Tax Savings
- Equity Buildup
- Appreciation
- Rent Increases and Expense Reductions

In analyzing the financial statements and tax returns, they are often different. The financial statements usually have more income and less expenses and the tax returns usually have less income and more expenses.(however, I have seen in some cases that the tax returns are also overstated in order to show a better net income when it comes time to sell or refinance a park. If by paying taxes on an additional 20k in income for a couple of year's increases the value of the park by 200k then a real sophisticated and dishonest seller may be trying to pull a fast one. So be careful.

The key then is to reconcile the tax return with the profit and loss statement and then interject reality into the whole process.

Figuring out the actual income is usually not too difficult. You can take the actual number of spaces in the park and multiply this by the actual rents being charged and subtract out a reasonable allowance for collections and you should be able to come up with a good estimate of the income. I usually use 3% as the collections expense.

The next thing to do is to come up with the anticipated expenses based not only on how the park is currently operating but also based on how the park will operate with you as the new owner. For example, if the current owner is managing the park, then you need to plug in an amount for management and payroll taxes and workers comp. If the park has vacancies and there is no advertising expense, then you need to plug in an amount for advertising. And so on.

Common expenses for Mobile Home Parks. Not every park has all of these expenses and some have additional expenses but this is a good starting point.

Advertising	Maintenance Labor	Supplies: Maintenance
Bank Service Charges	Management Offsite	Supplies: Office
Depreciation	Management Onsite	Taxes: Payroll
Insurance: Liability	Mowing & Landscaping	Taxes: Property
Insurance: Property	Postage	Telephone
Insurance: Workers Comp	Rent Discounts & Incentives	Travel
Interest: Mortgage	Repairs: Equipment	Utilities: Electric
Legal and Accounting	Repairs: Property	Utilities: Gas
Licenses and Permits	Reserve for Capital Improvements	Utilities: Trash
		Utilities: Water & Sewer

In most cases when you review a sales package for a mobile home park for sale it will not mention any reserve for capital expenditures. This really should be addressed in your evaluation of the park and in the due diligence phase. Items like replacing all the water lines or sewer lines for older parks, resurfacing the roads, topping all the trees, are large expenses that can occur in the future and they should be budgeted for. While they are not expensed for income tax purposes they are capitalized and depreciated over 15 years or so, and are therefore real costs. I would include at least 2-3% of gross income as a Reserve for Capital Improvements in your numbers when determining the value.

You will find some sellers that expense everything and then find the opposite where owners capitalize as much as possible to make the bottom line look better. Spend some time going through all the expenses and estimating future capital improvements.

After coming up with the income that the park is currently generating and deducting from that all the anticipated operating expenses including the reserve for capital expenditures you will have what is called the Net Operating Income.

If you take the Net Operating Income and divide this by the price you come up with the Capitalization Rate (Cap Rate). Also, if you divide the Net Operating Income by the Cap Rate you come up with the price and so on.

Now this is where subjectivity comes into play. I remember not too many years ago you could buy 50 -100 unit mobile home parks valued in the 12 – 14% cap rate range. It is hard to find these deals anymore. Add into that the fact that the interest rates were so low for the last few years and the 12-14 caps are now 7-10 caps. The demand for good quality mobile home parks is and has been much greater than the supply. There are even stabilized parks that I have seen purchased for 5 & 6 percent caps. These were not just for redevelopment purposes either.

What is a good cap rate? The answer is really up to the buyer. Some buyers tell me they want at least a 7 cap, some say 10 cap, some say 15 cap (I say good luck to these people).

So in reality, a certain mobile home park will have a different value to each and every person. The idea is to decide what you want or will require in terms of your investment and then work to make the deal fit these requirements.

If you want a 10 cap on a property priced at a 7 cap, it does not necessarily mean you should pass on the deal. For instance, what if the park has rents that are $50 under market and through your inspections and due diligence you know you could raise the rent to market rates in 2 months. What if this would make it a 10 Cap? Another possibility would be to put it under contract and then in your due diligence you tell the seller that you want to move forward with the purchase but in order to do so and to satisfy your lenders requirements, obtain an adequate appraisal, and/or make the required return on your investment, you need to have him send a rent increase notice out right away so the rates are where you want them at closing.

In another example, suppose the park has an NOI of $80,000 and is priced at 1 million. Also, suppose that the park is currently paying for water and sewer and this expense is running approximately $30,000 per year. You know that you could install water meters and pass this expense on to the residents. You want a 10 cap on your purchase. You could very well purchase this park and realize the return you want very quickly in situations such as this. If the rents are under market or there are expenses that can be reduced or other ways to increase the net income with minimal work and cash outlay you might pay extra for a park if it otherwise meets your investment criteria.

As my general rule when dealing with parks that are borderline but have the potential to increase in value and offer an acceptable return on investment by raising rents or reducing expense: I generally will add up to 50% of the value from these quick fixes to my offer on a park. So if I can increase the rates to market and reduce expenses and this increases the value of the park by $100,000, then I would consider adding $50,000 to my offer price if necessary. After all, we should earn something from our expertise and doing what the owner could have done already.

Other considerations on the value of the park will be the entrances, streets, landscaping, utilities, parking, lights, storage sheds, number of singles versus doubles, swimming pools, clubhouses, etc. The nicer the park typically the lower the cap rate and the easier it will to tap into better financing programs.

***Example #1** - Mobile Home Park Valuation*

- 95 Spaces on 15 acres – no expansion possibility
- 90 Occupied Spaces
- Lot Rent $225.00 per month (Market Rent is $225.00)
- Residents pay water and sewer costs
- Streets are paved and maintained by park
- Highest and best use is as a mobile home park
- Seller currently lives in the park and takes care of management & maintenance.
- We will hire a Manager who will receive free lot rent plus $1,000.00 per month plus space rent and a part-time maintenance person at $10 per hour (ave 50 hours per month). We will also pay payroll taxes and workers compensation insurance.
- Seller has had the same insurance with low limits and insufficient coverages – a new quote was received at $3,000 per year with 1 million coverage and standard community insurance.
- Since we live out of state, we will incur travel expense estimated at $1,800 per year.
- Current owner does not run any advertising and at a minimum we will spend $100 per month to run some ads to fill the park.
- If we purchase the park, we will most likely have a larger tax basis for depreciation and will have a larger depreciation expense. Note that depreciation and mortgage interest are backed out of the expenses to come up with the Net Operating Income (NOI) to come up with the cap rate.
- Property taxes are based on 1.5% of the assessed value and the assessed value is currently $800,000. We estimate the assessed value will go up after the sale to $1,200,000.
- Price of $1,500,000.00
- New Mortgage with 20% down, $1,200,000 new loan at 7.5% interest and amortized over 25 years).
- The rest of the expenses are listed below in the Profit & Loss Calculations:

Initial Value Calculation Formula: Occupied Spaces x Monthly Rent x 70

(90 x $225 x 70)	$1,417,500

Based on a price of $1,500,000 it is worth looking further at this deal.

Profit and Loss Statement From Seller and Adjusted

	Seller Proforma	Adjusted Proforma
Income		
90 Lots at $225.00 x 12 Months	$243,000	$243,000
Estimated Collection Costs(3%)	0	-7,290
Total Income	$243,000	$235,710
Expenses		
Advertising	$0	$1,200
Bank Service Charges	200	200
Depreciation	35,000	60,000
Insurance: Liability	1,500	3,000
Insurance: Workers Comp	0	2,000
Interest: Mortgage	70,000	106,400
Legal and Accounting	2,400	2,400
Licenses and Permits	300	300
Maintenance Labor	6,000	6,000
Management Offsite	0	2,400
Management Onsite	0	15,000
Rent Discounts & Incentives	0	2,400
Repairs: Equipment	1,200	1,200
Repairs: Property	12,000	12,000
Reserve for Capital Improvements (3% of Gross)	0	7,290
Supplies: Maintenance	1,800	1,800
Supplies: Office	1,000	1,000
Taxes: Payroll	0	2,000
Taxes: Property	12,000	18,000
Telephone	800	800
Travel	0	1,800
Utilities: Electric	1,400	1,400
Utilities: Gas	0	0
Utilities: Trash	9,000	9,000
Utilities: Water & Sewer	0	0
Total Expenses	$154,600	$257,590
Less: Depreciation	-35,000	-60,000
Less: Mortgage Interest	-70,000	-106,400
Total Operating Expenses	$49,600	$91,190
Net Operating Income	$193,400	$144,520
Cap Rate	12.89%	9.63%
Net Spendable Cash	$123,400	$38,120
Cash on Cash Return		12.71%

Based on the Seller's numbers the cap rate is 12.89%. Based on our research and due diligence we find that the cap rate is more in the 9.63% range. It is very important to look at how the Seller is operating the park as compared to how you will operate the park. Even if you are managing the park yourself, you should plug in a reasonable management expense for your time. After all, your time is not worthless.

Is this park a good deal? It all depends on what you want as a return on your investment. If you are looking strictly in terms of cap rate and you want a 9.63% cap rate or higher, then it should be a good fit. If you are looking at a cash on cash return and are able to get the proposed financing as shown and a return of 12.71 % is acceptable then it is good on this front as well. Additional considerations can be given to return on equity, income tax savings, and other investment formulas.

Taking this same example and assume that the market rents in the area are $250 per month and through your inspections you feel you could easily raise them right away by $25 per month. With all other factors remaining equal, your net operating income would go up by $25 x 90 x 12 = $27,000 per year. Assuming the cap rate on a park such as this is 10%, the value would increase by $270,000 after the rent raise. Based on this information I would consider paying up to 50% of the $270,000 ($135,000) extra for the park than I would have otherwise.

OTHER VALUE CONSIDERATIONS:

Vacant Lots:

When purchasing a mobile home park that has vacant lots which are ready to be occupied, what value, if any should you place on these lots? We just came up with the value we are willing to pay based on the NOI and the cap rate we are looking for. So, unless these homesites will fill up with minimal effort and investment, I would not place much of a value on them at all. In fact, having empty homesites that are hard to rent out will end up costing you money in terms of monthly maintenance and time. I would definitely point this out to the seller as a negotiating point. Many sellers like to say there is upside on all the vacant spaces. However, if this upside was easy to obtain, then the seller would have most likely realized it before selling.

In some cases, you will be able to fill up the homesites with minimal investment and effort so you may place a value of 25-50% depending on your comfort level. I would definitely lean toward the 25%.

Park Owned Homes & Notes:

When purchasing a mobile home park where there are park owned rentals, rent-to-own homes, and mobile home notes it is important to break out the income and expenses from this portion of the business from the lot/space rental portion.

Many times the income and expenses from the entire operations are lumped together and the seller or broker says the property is priced at say a 10 cap.

Here is the problem with this approach of lumping it all together:

Suppose you have 10 mobile homes that are renting for $350 above the normal lot rent per month and that there is an additional expense of $100 per mobile home each month. You basically have a net of $250 per month for each home or $3,000 per year. If you are capping this income at a 10 cap, you are placing a value of $30,000 per mobile home. Now there may be some nice doublewides that are being rented in some parks that are worth $30,000 but it is not the norm. Most of the time, these homes are older singlewide homes that may have a value from $3,000 to $10,000. So if you are valuing them at $30,000 you are paying too much!

Another situation occurs when you have mobile home notes or rent-to-own homes. Lets say you have a note payment of $200 per month in addition to the lot rent and that the balance left is $8,000 on the note. The monthly payments of $200 per month will add up to $2,400 per year and if you cap that at 10% then you are paying $24,000 for an $8,000 note. Not a great investment move!

SO WHAT DO YOU PAY FOR THESE TYPES OF ADDITIONAL INCOME SOURCES?

Mobile Homes Rented Out: Many people will say that you should pay what the home is worth on the market if sold for cash or for cash with outside financing. My formula is that I will pay about 75% of what I feel I can sell the home to the current renter for on a rent-to-own agreement with a term of 3-5 years and also increase the lot rent in the process.. Here is an example:

A home is being rented for $425 per month and the lot rent is $200 per month. I will approach the current renter and tell them if they continue paying rent for 3 more years, then I will assign the title over to them and the home will be theirs. In the rent-to-own agreement, I specify that the lot rent is $225 per month (not $200) and after 36 monthly payments of $200 plus lot rent, the home title will be transferred to them.

In this case, I would not only be receiving 36 x $200 or $7,200 for the home, but I have also increased the lot rent for that home in the process. When I get ready to raise rents for other residents in the park, I can always say that there are other people already paying the higher rates. So, in this case I would pay somewhere in the $5,000 to $6,000 range for this home. ($7,200 x 75% = $5,400)

Mobile Home Notes and Rent-to-Own Agreements: When I am purchasing notes and agreements that have already been created by the current seller, I will typically use the lower of the value of:

- 75% of the value of what I can resell the home to a new renter in case of default as calculated above; or
- 65% of the future note or rent-to-own payments.

Due Diligence:

When you put a mobile home park under contract you will definitely want to have a stipulation in the contract that will allow you confirm what the seller has said so far as well as evaluate the overall feasibility of the purchase. Due Diligence will look at the physical, economic, demographic and market feasibility of the project. This time period is usually between 30 and 60 days.

In conducting your due diligence you are looking to identify anything that poses a potential issue and that you are able to change or fix. These usually deal with the cleanliness of the park (junk & trash piled up), mismanagement, lack of rule enforcement, collections, expenses that can be reduced.

But more importantly you are looking for those problems that you may not be able to fix or that will be very expensive to fix. These types of issues usually deal with the size of the lots, reputation, problems in local market, flood plains, drainage problems, bad configuration of lots, water, sewer, electric, and gas line problems.

In conducting your due diligence you may call on experts in surveying, accounting, marketing, financing, plumbing, electrical, and legal.

ASK THE SELLER TO PROVIDE YOU WITH THE FOLLOWING (IF APPLICABLE):

1. City, County and State Permits and Licenses
2. Sewer Plant Records and Readings
3. Water Well Tests and Compliance Records
4. Existing Surveys or Environmental Reports
5. Water and other Utility Meter Reading Records and Formulas
6. Property tax bills for the last 2-3 years
7. Copy of current insurance policy and binder showing premiums and coverage's
8. Current staffing list including position, wages, job descriptions
9. Any drawings and maps of the park and infrastructure and size of lots
10. Any Contracts that will be transferred to buyer at closing(laundry, trash, phone)
11. Signed Rules and Leases for each resident
12. Bank Statements
13. 2-3 years Tax Returns
14. 2-3 years Profit and Loss
15. Certificates of Occupancy
16. List of Capital Expenditures for the last 3 years
17. Listing of any current park infrastructure problems (water, sewer, gas, electric)
18. Rent Roll with specific homesite number, name of resident, move-in date, monthly rent, current balance, additional charges, number of occupants, and a brief history of the resident (good resident / bad resident, special circumstances, etc.)
19. Names and phone numbers of all of all contractors used in the last few years – plumbers, electricians, propane, gas, roto rooters

As you are receiving this information from the Seller you will want to evaluate it with the other information you receive from outside sources.

52 BASIC AREAS TO COVER IN THE DUE DILIGENCE PERIOD NOT NECESSARILY IN ANY ORDER:

1 Park Location Issues: Is it close enough to shopping, employment, schools, transportation. Will potential residents be able to find the park?

2 Flood Plain: Is the park located in a flood plain? If so, when was the last time it has flooded? If the park does flood, are the homes high enough to remain undamaged? Do the homeowners have flood insurance?

I have personally dealt with the flood issue in a park in Texas. About 10 years ago I was looking at some parks in the Dallas area. In looking at these parks I found a park that had about 100 spaces and the numbers were great. However, it came up that the park was in a flood zone and the city was not allowing any more homes to move in the park. The park was flooding every few years and it was going to continue losing residents. I backed off from buying this park and made a mental note to check the flood plain issue in the future.

Well the very next day after I visited this park I went to look at another park in San Antonio. As I was slowly building on my due diligence questions, I asked the sellers about the flood zone and flooding issues. I received a copy of a map that the sellers had provided which showed that the park was located outside of the flood plain. The survey did not show any flood plain issues either and so I took the sellers word as well as the survey as being accurate.

I purchased the San Antonio park to flip and sold it the same day to another investor and good friend. About a month later, the park flooded very badly and destroyed about half of the homes. Come to find out the Seller's had given me their own version of the flood map and had lied about the park flooding. In fact, it had flooded twice in the last 10 years.

Several years and $$$'s later, my friend successfully won a lawsuit against these Sellers and recouped his losses. It was a long and costly process.

The sellers intentionally falsified documents, but, if I had talked to a few of the residents I would have found out the park had a history of flooding. I could have also received a true FEMA flood map that would have shown the whole picture.

3 In most cases, buying a park in a 100 year or 500 year flood zone will not come back to bite you. However, you should definitely understand the risks involved. Most of the time your renters will just have to carry flood insurance and your lender will require the same for your buildings and utility connections.

4 Noise Problems: Loud outside noise can often be a deterrent for living in a certain mobile home park. Being located close to highways or busy streets and also nearby trains can be very annoying to potential residents.

I had a park near Victoria, Texas and I was in the manager's home one time and here comes a train. The whole trailer shook and you could not even carry on a conversation until it had passed by. It was definitely a nuisance and I guess it happened there about 10 times per day. I realized why it had been so hard to rent any of the RV spaces that were nearest to the train tracks. Luckily the mobile home park section stayed full as the market was good.

5 Find out if the park is required to be licensed, and if so that it has the required license. You will want to check that the park is operating in compliance with the license. If a park has 50 units but is licensed for only 25, you may have potential problems. The license may be issued by the State, County, or Local authorities. Often it is issued with the State Board of Health.

Some cities have laws that state that if a certain percentage of the homes in a park that has "grandfathered" zoning are destroyed, then those lots will not be allowed to be rented again. This can happen from fire, tornado, hurricane, etc. Check the local codes.

6 Review any park inspection reports conducted by the State Board of Health or other City/County inspectors. In some states, especially those where licenses are required, the state does an annual inspection and produces a report with notices of any violations. It is good to see these violations and be sure that they have been corrected.

7 If you are considering hiring the current management you may want to have friends or associates make a few calls to the property and see how the management handles the calls. Also, if you visit the manager's home and it is not kept up well or they have a set of rules for themselves, it may be an indication that you should look for other management.

8 After you have the park under contract and usually after you have the owner's permission it is definitely a good idea to interview some of the current park residents. They are usually full of information when it comes to finding out how the park is actually operating. You will often hear about water problems, sewer problems, and any other common problems by talking to the residents.

9 Another good source of information would be the local mobile home dealers. They usually know about most of the parks and can give you information on the parks reputation, whether they have in the past and will in the future refer the park to potential residents, etc. You might also find out if they have trade-ins or other reasonably priced homes for sale.

10 If possible, you will want to visit the park at various times of the day, morning, noon, after dark as you will be able to see the park as it is. It is also advisable to see the park during the week and on the weekends. This will give you a better indication of parking, occupancy, lighting, as well as noise level.

11 The local Chamber of Commerce is also a wealth of information. They can give you information on population trends, new and current employers, potential plant shutdowns, as well as the general market conditions of an area.

12 Local Real Estate Brokers can also provide a wealth of information on the area and market and real estate outlooks.

13 Good school districts are often a great place to own parks. Many times these districts are in wealthy areas of the city and less affluent people are often looking for affordable housing in these areas to allow their children to be in these good school districts.

14 Contact the Property Tax Office: to check tax rates and whether taxes are current. Learn what their assessment procedures are so that you can estimate how much you will be paying in taxes if you purchase the park.

15 Verify the rent rolls as well as copies of receipts to verify that the amount actually collected is being reflected correctly. Often times, park owners forget to tell you that they give some people discounts (seniors, friends, relatives, etc).

16 For insurance purposes make sure to verify the pet restrictions as well as the enforcement of such. Most insurance carriers do not allow dangerous breeds of dogs or even dogs over 20 – 30 pounds.

17 Water Lines: What are they made of? Are there signs of water leaks? Is the water pressure acceptable? Many times you will have some areas of the park where the water pressure is much lower than the rest.

You can review bills from the utility companies from the same month over a couple years to locate any major problems/leaks.

18 Sewer Lines: Typically you will have problems with older sewer lines: clay pipe and thin walled plastic pipes. Clay pipes will allow large tree roots to start growing inside which will start causing backups. In addition clay & thin walled sewer pipes will also tend to crumble and then plug up. You may be able to have a camera check out the pipes as well as have them professionally blown out with high speed water jets as periodic maintenance.

19 Electric service: You will want to check whether the electric is above ground or below ground. If above, you will generally be responsible for the main electric poles so take a look at the electric poles to see if they are rotting near ground level. These can be quite expensive to replace.

Another potential electric issue is that most of the homes now require 100 to 200 amp service. Many of the older parks have electric service with 30-50 amps service. This will usually require an upgrade which will usually cost $500-$800 in parts and labor to upgrade.

20 Gas service. If you are responsible for the gas meters and lines, you may want to have the system pressure tested as a small gas leak can cause your service to be shut down until it is located and repaired. It is also a good idea to have this done on a routine basis to avoid potential problems.

21 Fire Hydrants located nearby. A question your insurance company is sure to ask.

22 Trees: Many times you will see a park that is full of large beautiful trees and it may look real nice. However, these trees will definitely cost you down the road. You need to keep them trimmed, remove old and dead trees, cleanup the leaves every year, as well as auger sewer lines that become filled with tree roots.

Falling branches are often one of the most likely insurance claims.

23 Roads: Are the roads in good repair, do they need to be resurfaced, are they wide enough, are there speed bumps, etc? Roads that are not maintained are often one of the most widespread complaints you will get from your residents.

24 Drainage Problems: It is advisable to know how a mobile home park drains after heavy or sustained rains. Even if the park is not in a flood zone, it can have a horrible problem with standing water and puddles. Getting rid of the excess water can be costly and difficult.

I made this mistake in a park I purchased in Kentucky. When I conducted my due diligence, it was never raining and I did not notice the problem. About a week after closing I started getting phone calls with people wondering what I was going to do about the water as the previous owner had been promising to fix the problems for years. About a year later I ended up spending over $25,000 on culverts, gravel, and dirt to resolve the worst of the problem.

Here again, if you talk to the residents, they will volunteer much more information than will the seller.

25 Sewer Plants: When a mobile home park has an actual sewer system, lagoon, or is on septics this is another area in which you should definitely find out as much as possible. You want to know how the system operates, whether it is meeting the EPA guidelines, what it costs to run, what upgrades have been made, whether it is running at full capacity, do you need to have a licensed operator, how many hookups it is licensed for, etc?

This was my $225,000 mistake. I purchased a park in the year 2000 that had its own sewer plant. The park was 61 spaces and had 48 homes in the park. The park had a licensed operator and he claimed that the plant was doing fine. The plant was only a few years old and it was meeting all of the requirements of the state.

I proceeded to fill the park up and with the increased load on the sewer plant, it was no longer meeting the standards set by the state. Not only was I left with the task of trying to fix the problems with the plant, I received a notice that I had to reduce the number of homes in the park back to 48 as this was the maximum number of connections I was allowed. Even after removing the required number of homes, the plant continued to not perform. I spent about $50,000 on ideas suggested by engineers and so called experts to no avail. I was paying about $300 per week just to haul the sewage off and it still didn't work.

Finally, after trying everything we could come up with, I proceeded to replace the current plant with a new one. In the process we were able to increase the number of allowed connections up to 61, but with engineering, permits, and construction, it cost another $175,000 just to have a functioning sewer plant.

26 Lift Stations: Are they adequate, do they have warning lights, are there backup pumps?

27 Walk property during the day and at night. You will uncover many problems such as smells, dog barking, parties, hidden trash & junk, water leaks, sewage puddles, old electrical boxes

28 Water Wells: What type of system, how deep are the wells, water pressure, any prior violations or problems, backup systems, what does it cost to operate, if the owner is the Licensed operator are there operators in the area that are available and reasonable to operate, can you send your manager to classes to obtain the operators permit/license. How many spaces is it licensed for?

29 Who pays what? Utilities, Cable, Mowing, etc: find all those hidden expenses that the owner takes care of cheaply (does he haul the trash to the dump?). If the trash is not being hauled off, what are the residents doing with it?

30 History of Rent Increases: Have the rents been increased on a regular basis?

31 Count the lots: Some may have been combined and many parks have weird numbering schemes.

32 Late Fees: Take a look at the bank deposits and compare with the rent roll. When are the rents coming in, are late fees being charged?

33 Security Deposits: Get a certified list of Security Deposits from the owner. If later on, someone claims to have a deposit that is not on that list you have it in writing from the owner.

34 Check the leases: Is there any strange language in the leases? Are they month to month. Are there long term leases that will make it difficult to raise rents or submeter water?

35 Hazardous Materials: Don't even consider buying a park without having a Phase 1 environmental study done. If there are any underground storage tanks, above ground storage tanks, chemical drums, buried waste, lagoons, stained soil, gas pumps, auto repair shops, electrical transformers, asbestos in building, etc., you may be liable to the US Government for millions in cleanup costs.

36 When looking at a park make sure you check into anything that does not seem right. Are there easements that don't make sense, are there oil wells on the property, etc.

37 It is also advisable to obtain a current or recent survey of the park. You want to be sure you are buying what you think you are buying. Are some of your mobile homes over the property line? Are there fences or sheds over the property lines? With a new owner, the adjoining land owners may use this time to enforce some of these issues. Check the legal description with the survey and with your contract and warranty deed.

I was brokering a mobile home park deal in Greeley, Colorado about a month after I received my real estate license. The park was 3 separate parcels and at closing, the buyer received a deed for only one of the parcels. Neither I, the buyer, seller, nor title company caught the mistake and a few months later the issue came up when the buyer was refinancing the property. The buyer owned about a third of the park. If it had not been for the fact that the Sellers were honest people and signed the paperwork to transfer the other 2 parcels of land to the buyer at no charge, I would have been in trouble for not doing my job in a diligent manner.

38 Seller says the property can be expanded. Make sure the current zoning will allow the proposed expansion. Also make sure that it is feasible: Where can you tap into the water, sewer, and other utilities? Do the current water wells and sewer plant have the capability to service additional homes? What are the impact fees? What are the likely costs to expand?

39 Lot Sizes: One of the biggest issues with older mobile home parks is that they were built for 10-14' x 50-60' homes. As most of the newer homes are 16' x 80' and up, this can become a real issue when replacing homes or filling vacant lots. In addition, some cities/counties are requiring homes to be a certain age. Thus, moving an older 12' x 50' home into your park may not be an option.

While you can find new smaller homes that are still manufactured, most of the buyers are opting for the larger homes when given a choice by the dealer. You will usually have to buy the homes yourself and sell them in your park.

40 Vacant sites. There are 50 sites and 10 vacant. Are these 10 sites ready and able to take new homes. Are the water and sewer lines marked? Is there gas and electric? Does the electric need to be upgraded before accepting a new home. What are the setback requirements? What age of homes can be moved into the park? Are the lots in such an arrangement where a home can actually be placed into each lot without moving other homes around?

41 Are the current units tied down? Many older parks have units that are in there and were never installed properly including being tied down according to code if even at all. I have experienced this twice in the past. One time a tornado hit one of my parks (actually 2 parks next to each other). All in all we lost over 40 homes out of 100 and the homes that were actually tied down and installed correctly were much less damaged than the ones that were not. Another time we had some high winds in one of my parks and 2 of the homes just blew over as they were not tied down.

42 Street Lights: Drive through at night. Who is responsible for the street lights? Who will change the bulbs? If a light goes out who will fix it?

43 If at all possible get a plat map. If one is not available ask the owner to draw one to the best of his knowledge and locate any cleanouts, shutoffs, etc. This is important to have in case of line breaks and other emergencies in the future. The seller may not be around to help.

44 Does the park have adequate equipment to operate? If the current owner has a pickup, tractor, mower, make sure to negotiate for this as it will come in handy in the future and you don't want to have to start buying all of this the month you take over. It is a good idea to get a list of all the supplies and equipment currently being used to operate the park and have it included in the purchase.

45 Market Survey: Find out what other parks are charging and what it includes, find out their vacancies, move in incentives, reputations, etc.

Compare the costs of renting single family residences (SFR's), Apartments, Duplexes, with the cost of buying a mobile home and paying lot rent.

What does an SFR of comparable size sell for in the area? What are the payments on buying an SFR and buying a MH and paying lot rent?

Also, find out what other parks restrictions may be for the age and types of homes. It may be that your park will fill the niche of having only newer homes or the older homes.

46 Visit the planning department to see if there are any new parks that are going to be built as well as the location of any vacant land zoned for mobile home parks development.

47 If you are going to buy the park and in the process buy homes to rent or sell, you might want to place some teaser ads in the local newspapers to see what type of response you get. If you don't get any calls it may be a good indication of the market and the feasibility of filling the park up.

48 Find out the eviction laws. What is involved in the process: time frame, forms required, etc? Also, check with other park owners/managers in the area to see what their experience is.

49 Zoning: Can homes be placed anywhere in the county which creates huge competition. What age must a home be to be moved into a county, and what are the other restrictions on homes being moved in, sold, etc.

50 Also, if a city has extended or is going to extend utilities to your location are you required to hook on and if so at what cost?

51 Get in contact with the local agencies as they can be a great source of information: police, planning, engineering, utility, and building departments.

52 Removing abandoned homes – consider making seller pay for this – at least find out what it will cost and what options you have to get rid of the abandoned homes.

53 If the park you are buying has rental units or rent-to-own units, make every effort to check these out. You will not only see how the units are being taken care of by the residents, you will also get an indication of the way the current owner runs his business. If you find holes or soft spots in the floor or walls, bad carpeting jobs and such, this may be an indication that the owner is not only doing quick fixes on the homes but also in the park maintenance as well.

I have seen this many times in the past. I buy a park that has some rental units and the renters start calling to say they were promised all kinds of repairs by the previous owner. I have been in homes where there is mold on the walls, 2 foot diameter holes in the floor, buckets collecting water from leaks in the ceiling and so on. It is better to know up front what you are dealing with.

The more thorough you are in the due diligence phase, the better you will understand the property as well as the potential problems that may occur specific to the property. In addition, you will be much more comfortable taking over the property and most likely have plumbers, electricians, and other contractors on board to aid you in the future.

When doing your due diligence, there are some things that you just cannot change and the risk will just be too high to proceed. Other things may just be too costly. Other areas of the due diligence may discover smaller problems that you should be able to change with proper management and operations and can lead to quick equity increases.

If this is your first park or you would rather have an experienced professional help you in the process, you can find one on MobileHomeParkStore.com.

FINANCING:

If you have average to excellent credit it is not difficult to locate financing for cars, boats, homes, duplexes, apartments, and unsecured credit lines. However, when you enter into the world of seeking financing for mobile home parks you will most likely endure some frustrations. Many banks have those types of loans that they will not make and mobile home parks will often fall into that category.

It has been my experience that loans under 1 million dollars and loans for parks that are run down or do not have paved streets and newer homes are the most difficult to obtain. The larger parks with paved streets, newer homes, multi-section homes and so on have many lenders competing for your business.

For the parks that are harder to finance, you will usually need to obtain financing from the seller, a local bank you have a relationship with or one in the same market as the property, or private and hard money lenders. The key is to not give up in your search. When seeking out lenders to finance the park, try to find banks and lenders that have successfully loaned on parks in the past. If they have had a good experience with other similar loans, it will be much easier to get the loan approved and funded.

As a general rule of thumb, you will need from 20-30 percent down and the loan will be amortized over 15 to 25 years.

There are many lenders on mobilehomeparkstore.com that specialize in the industry and will guide you through the process.

INSURANCE:

Insurance – get insurance quotes – don't just take seller's numbers.

When searching for insurance for you mobile home park, you will want to make sure the company you are considering understands the business as well as the potential liabilities and risks involved. Once again, the insurance companies on our website have knowledge of the industry and will be able to provide you with a good policy that will cover you for the standard losses as well as for additional exposures specific to mobile home parks.

Some of the factors that affect your insurance rates include:

- Your experience in the industry and history of claims/losses
- The property condition
- Adequacy of lighting
- Additional exposures such as swimming pools, playgrounds, and other property specific exposures
- Property location and susceptibility to crime, hurricanes, tornados, etc.
- Types of utilities provided and whether public or private, above or below ground, etc.

In addition, if you have mobile homes that you rent out, the general park liability policy will not cover these so you need to get a separate or additional policy for liability as well as physical coverage.

Make sure your residents have insurance on their homes – especially in flood, hurricane, and tornado areas.

In October of 2001, my family and I were taking a vacation in Florida and about half way through that vacation, I received a call that 2 of my parks located adjacent to each other in Texas were just hit by a tornado. Of the 100 or so homes in the park, about 40 were damaged beyond repair. It was truly an experience I will never forget. Besides the fact that we just lost almost 50% of our income, we had 40 homes to remove.

Of these 40 homes, about 10 of the residents had insurance that covered the removal of the homes and 3 residents paid out of their pocket to remove their homes. The rest of the people just walked away and left us with the cost and responsibility to clean up the lots. Needless to say, we now try to require all homeowners to carry insurance on their homes.

CLOSING CHECKLIST:

- Get Insurance.
- Estoppel Certificates which show lease commencement and expiration dates, rent payment status (current or past due), security deposit, defaults by landlord, modifications or amendments to the lease.
- Transfer Utilities – get all phone numbers and account numbers from seller. Find out what deposits are required, etc.
- Write letter to tenants letting them know of the new owners and your policies.
- Get contractors lined up and negotiate fees in advance – get certificates of liability insurance.
- Get bank account setup, order checks, and deposit slips.
- Get all records for management & maintenance personnel and get signed employment or independent contractor letters.
- Arrange Workers Compensation Insurance.
- Get current rent roll showing any delinquent rents.

OTHER MOBILE HOME PARK CONSIDERATIONS:

Parks with Older & Small Homes: One of the best type of parks to own and that is often overlooked by investors in favor of the newer parks is a park that cater to the older and smaller mobile homes.

For example, if your park will allow older homes that most other parks in the area will not allow and by doing so you fill the niche for older homes you will in many cases have better occupancy, fewer repos, better collections, and a more profitable investment. Consider that most people in the older homes will buy them for cash and will just have to pay lot rent and the taxes will be much lower.

Compare this to the nice new parks where the taxes, insurance, mortgage, and other factors make it much more expensive to live here. In many cases these homeowners will also be upside down.

High Vacancy: Potential reasons for this include: new parks, poorly managed parks, parks with rents too high, bad infrastructure, poor reputation, and usually a bad local economy - decide which of these factors are the cause and decide which ones you can change. You can't change everything overnight and some things no matter what you do, you will not be able to change.

Private vs Public Utilities:

I think the best scenario is a park on city services metered and paid for by the residents.

Next would be a park on city services submetered by the park.

Next would be a park on city services paid for by the park that could be submetered.

Then a park on private utilities that is operating smoothly and at a reasonable cost AND that has the ability to connect to city services in the case of a problem at a reasonable rate.

Next would be a park with private utilities that are operating within limits and capacity.

Lastly would be a park on private utilities that is experiencing problems. Parks with bad water wells or sewer systems can be a nightmare as the costs and time to repair or replace are usually high and can go on for months.

Also, if a city has extended or is going to extend utilities to your location are you required to hook on and if so at what cost?

In the past several years, many the laws and regulations both Federal and State are making it much more difficult to operate your own utilities in an efficient and cost effective manner.

Amenities: When evaluating a park, I would usually rather have a park that rents the land and is not filled with amenities (clubhouses, swimming pools, etc). The costs to operate these amenities are often high and the usage of these amenities does not usually justify the costs. Of course there are exceptions but this is my general rule.

Park Owned Homes: When considering operating a park and having park owned rental homes, if you are not operating the park yourself then you will most likely need enough homes to keep a part or full time maintenance person busy. If you do not have staff on site it will usually be cost prohibitive to hire plumbers, carpenters, and other contractors to do all the repairs on the homes. In order to justify having rentals I would estimate you should have at least 20 if not more in order to make to keep a maintenance staff.

Park owned rental homes: if the park you purchase has one or many park owned rental homes this will typically be your biggest problem in terms of maintenance and turn-over. I try to sell any existing park owned rental homes as soon as possible and avoid purchasing homes to rent out. I would much rather have homeowners in the park. Homeowners are stakeholders in your business.

As far as having investors that have rental homes in your park… I have had parks with investor owned homes in them and currently still do have a couple. Beside the lack of control, other problems with having investor owned homes is that these homes are typically not taken care of, the renters are not homeowners, the investor is paying you lot rent and needs to keep them rented in order to cash flow and will not always screen their renters as they should.

In order to make this situation work, you need to work closely with the investors, you should be able to screen their renters, they must sign your rules and abide by them and if for some reason they do not, you need to be able to call the investor and have him get the situation under control immediately or else have them evicted immediately.

I owned a park in Nebraska that had mainly older homes and in that park of about 60 spaces there was an investor who owned about 15 of those homes. He was a great land-lord and pleasure to work with. He kept his homes as nice as any homes in the park and anytime my manager had a problem with one of his residents, all that was needed was a phone call and the problem was solved. His monthly lot rent for 15 spaces was always on time and it was a great situation.

In another situation, I had an investor who had about 10 homes in a park in Texas. Although he paid his rent on time, he basically wanted us to stay out of his business and allow anyone who breathed to move into the park. Most of the complaints my manager had in that park were about his residents and eventually we had to tell this investor to either move his homes out or start selling them off. He sold them in the park and I think he was glad to be out of the business anyway.

In another case, I had a friend who purchased a 70 space park that had about 30 homes in the park that were investor owned. About 3 months after the purchase of the park, the investor went bankrupt and lost all the homes to the bank. It was a real mess and fortunately my friend was able to purchase the homes from the bank with decent terms and get the homes fixed up and sold.

I think you just need to take each situation on a case by case basis and be sure to have a detailed and written contract with the investor to avoid any misunderstandings and conflicts that will come up.

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MANAGING A MOBILE HOME PARK:

Once you purchase the park you will have ideas and strategies to implement and the only way to find out if they work is to try them and then try variations of them to make it better, and keep testing and modifying as you go. What may work today may not work next month. Be flexible but diligent.

Your goal in managing your mobile home park is to rent out every space with good tenants, rent your spaces at the rate you feel is fair and acceptable, reduce and pass on your expenses as much as possible, keep your resident retention (the good ones) as high as possible, make your residents feel like they are getting an adequate service for what they are paying, and reduce your liability exposure.

Here are a few other thoughts on management. We will have a book on management available soon!

- It is a good idea to raise the rents every year in order to get it into the minds of the residents. There is much less resistance when they expect it even if it is just a couple of dollars.
- If the park you are buying is nearly full, then in most cases, you should immediately raise rents – the residents will expect it.
- If the park is a turnaround park with high vacancy then instead of raising rents you might consider offering big incentives to current and potential residents in order to get the park filled.
- To get rid of problem tenants, you may consider buying their home by given them a little walking money. Try this instead of court as it can save you time and money and allow you to get a new resident in there sooner.
- If you are going to manage the park, it will be good to keep some distance in order to not get personally involved with the residents. This usually leads to problems and favors. It is hard to say no if you become to close.

  When we were running our first park in Limon we had our kids at the park many times and they naturally played with some of the kids in the park. Then they started wanting to have sleepovers, etc and it became increasingly difficult to be strict on the parents when their kids were friends with ours..
- *What do you pay a manager? I get asked this question a lot and usually respond with: What you feel is reasonable. A full time manager or fee based management company will usually get in the range of 7-10% of the gross income plus free lot rent. I think a lot of it has to do with what the manager is doing to earn his money.*
- *If the park is stable and operating smoothly and the manager is just collecting rents and doing very little maintenance it may be 4-5%. If the manager is working 40 hours a week, plus being on call for emergencies, it may be that it is closer to 10%.*

  When you have a good manager that is doing a great job, it will pay to keep them happy and not looking for another job.

  A good manager and your oversight of that manager is probably the most important aspect of running a park to the best of its potential.

WHERE TO BUY HOMES IN ORDER TO RENT, SELL, OR RENT-TO-OWN:

- In other nearby parks – offer referral fees
- Getting a list of the various repo lists in your area
- Running ads in local newspapers
- Buying dealer trade-ins
- Various websites... MHBay.com, MHVillage.com
- Tell your family & friends to keep an eye out
- Tax sales & delinquency lists
- Offer referral fees to people in your park to bring you possible deals

WAYS TO INCREASE THE VALUE OF YOUR MOBILE HOME PARK:

1. Raise Rents: A $10 per month rent increase at a valuation using a 10% capitalization rate, can increase the per lot value of $1,200. Other increases such as charging more for pets, additional people, and additional cars are also possible.

2. Submeter Water and Sewer and Trash: By installing water meters and billing the residents back for water and sewer and trash you are in effect increasing your bottom line. I often think this is one of the most equitable ways to pass on expenses to the residents as they only pay for what they use. In my experience when meters have been installed the master water and sewer bill is reduced by 30-40% as your residents become conscious about the amount of water going through the faucets. Leaky faucets are fixed, toilets no longer run continually; cars are not washed every day, etc.

3. Enforce Rules and Leases: By enforcing reasonable rules and regulations your community will be regarded as a safe and comfortable environment. Get rid of problem tenants. If you are worried about losing the rent from one or two problem residents, consider that you may lose even more good residents and potential residents by keeping those that are causing problems and not obeying the rules.

4. Reduce your Property Tax Expense: Contact a company that specializes in going to bat for you with your county tax assessor to get your valuation and taxes reduced. Many states and counties base the assessed value on the purchase price. However, most mobile home parks should have a business value component that should not be taxed as property tax. These companies often work for a % of the reduced taxes, thus no money out of pocket.

5. Reduced other ongoing expenses: Get multiple insurance quotes, evaluate telephone costs and extras, negotiate with plumbers and electricians to get a lower hourly rate, etc.

6 Fill vacant lots: How much is a vacant lot worth? In many cases, a vacant lot is actually costing you money to keep the grass mowed, the lot clean, and so on. If your lot rent is $200 per month and based on a simple formula that a lot is worth 60 times the monthly rent, then an occupied lot is worth $12,000. Would it make financial sense to spend $2,000 to cover the home moving costs of a potential resident? I believe it does. Other incentives I have used include, free or reduced rent for the first year or two, free installation of new skirting, free steps and decks, and the list goes on. Be creative and stay ahead of your competitors. It is much more effective to come up with 50 ways to market to one customer rather than 1 way to market to 50 customers.

7 Buy homes for Resale or Rental. Buying used homes and placing them in your community for resale or rental is another way to drastically increase the value of your community. As mentioned before, each time you fill a vacant space, the value of your park increases. As a community owner you have an advantage over most mobile home retailers in that you do not need to make a profit on the sale of new and used homes. If you profit by $12,000 per space in equity each time you add a new home, you can sell the homes at breakeven and be way ahead.

8 Increase the Curb Appeal: Encourage residents to clean up their yards and property. Hold clean up days on a monthly basis. Have new and attractive signs installed at the entrances. Repair roads and maintain adequate street lighting. Have monthly rent discount incentives to the residents for things such as: Property of the month, most improved property, etc. Additionally, financing for your residents such things as new skirting, paint, wood siding, and other outside improvements can get the homes looking better as well.

9 Add additional income sources: If you have some vacant land, consider adding some mini storage units, or fence it off and offer storage for RV's, Boats, and extra automobiles. If you have highway frontage, look into placing billboards or selling easements to billboard companies. Look into getting Cable TV or Wi-Fi for the entire park and in doing so, your residents will get a break on these costs and you should be able to profit as well. Rent out the clubhouse for special events and sell passes to your pool to non residents.

10 Dedicate streets and utilities to the city. Although is not too common for established communities, if you can talk your city into making this happen, you just reduced your exposure to street repairs, utility repairs and metering. Cities & county requirement vary for them to take over roads and other utilities. Sometimes it may be as simple as asking them and other times you may have to build them to certain specs, maintain them for a few years, and maybe have a certain number of residents living there.

11 Sell homes for the residents on a commission. As the park manager you will be getting calls from your advertising already and are in prime position to act as a broker to sell the homes in the park owned by individuals as well. (Make sure to check on state licensing laws)

12 Provide leads to residents for insurance, inspections, warranties, and financing. You might also take it to the next step and actually offer these services as an authorized representative.

MOBILE HOME PARK PURCHASE AND SALE AGREEMENT:

Attached is a sample Purchase and Sale agreement with financing contingencies. Important things for the buyer are the due diligence contingency, financing contingency, survey and legal description, environmental issues, and what is included and not included.

Another item you may want to address is who will get the delinquent rents at closing. I often negotiate for these for 25 cents on the dollar depending on the amount and anticipated collection rate.

One possible way to purchase a park is through the use of Lease Options. Basically this will give the owner a way to defer any capitals gains and still receive a monthly income from the park and have tax shelter through continued depreciation deductions. This option will not be taxable in most cases until the lease expires or it is executed. In addition if you don't make your payments it will be easier for the owner to get the park back as a foreclosure will not be necessary.

For the purchaser, the lease option may be a way to buy a larger park with less money down and benefit from the appreciation during the lease period which will, in turn, make it easier to finance when the option is exercised. The biggest drawback is the loss of the depreciation deduction but you may deduct the monthly payments.

Where to Begin:

- Read this book and other books on the subject.
- Check out MHPCollege.com for our upcoming seminars and immersion weekends.
- Start evaluating as many properties as you have time to – get info from MobileHomeParkStore.com and get familiar with looking at income, expenses, and ways to implement the strategies to make properties fit your investment requirements and to make them prosper.
- Visit some parks that are nearby where you live, both poorly run parks as well as those nicer parks and visit with the owners and managers. Learn all you can from them and think about how you could do things differently to operate that park more efficiently and profitably.
- Use as many of the tools and strategies as possible to find parks that will fit your investment criteria.
- Find out what the seller's motivation is in selling as this can be a good indication of potential problems in the park. A bad property for one seller may be your worst nightmare or it may be the perfect turnaround.
- Also when finding out the seller's motivations, this may also help you in structuring the transaction in a way that will benefit both Buyer and Seller.
- When you do put a park under contract, do not cut corners in the due diligence process.

If you ever have any questions please let us know!

MobileHomeUniversity.com
P.O. Box 457
Cedaredge, CO 81413

Phone: 855-879-2738

Email: Brandon@creuniversity.com

Hoping all of your future investments are a SUCCESS!!!

PURCHASE AND SALE AGREEMENT FOR MOBILE HOME PARK

For valuable consideration, the receipt and adequacy of which is hereby acknowledged, this Agreement dated__________________________ is hereby made by and between NAME OF PURCHASER, and/or their assigns or nominee, (hereinafter "PURCHASER") and NAME OF SELLER (hereinafter "SELLER").

W I T N E S S E T H:

WHEREAS, SELLER owns a mobile home park and improvements situated thereon, in CITY AND STATE.

WHEREAS, SELLER desires to sell, transfer and assign to PURCHASER the land, together with all improvements thereon (hereinafter referred to as the "Real Estate") and personal property (hereinafter referred to as "Personal Property"), and;

WHEREAS, PURCHASER desires to acquire from SELLER said Real Estate and Personal Property.

NOW THEREFORE, in consideration of the mutual promises herein contained, the parties hereto agree as follows:

1. <u>SALE OF REAL ESTATE AND PERSONAL PROPERTY.</u>

Subject to the terms and conditions of this Agreement, SELLER hereby agrees to sell, convey, transfer, assign and deliver to PURCHASER, and PURCHASER agrees to purchase from SELLER, the Real Estate and Personal Property, as defined below:

> **Real Estate defined:** The land, including all improvements, legally described and identified on Schedule A (attached hereto and made a part hereof). Notwithstanding the foregoing, the definition of the Real Estate hereunder shall not include any Hazardous Substance, as defined in paragraph 13(g) of this Agreement, and under no circumstances shall PURCHASER be deemed to have consented or agreed to take title to or ownership on any Real Estate, or portion thereof, which is found to be contaminated with or by any Hazardous Substance;
>
> **Personal Property defined:** The non-real estate assets described and identified on Schedule B (attached hereto and made a part hereof) are the Personal Property subject to this Agreement. Notwithstanding the foregoing, the definition of the Personal Property hereunder shall not include any Hazardous Substance, as defined in paragraph 13(g) of this Agreement, and under no circumstances shall PURCHASER be deemed to have consented or agreed to take title to or ownership on any Personal Property, or portion thereof, which is found to be contaminated with or by any Hazardous Substance;

2. <u>PURCHASE PRICE.</u>

The total purchase price for the Real Estate and Personal Property shall be PURCHASE PRICE ($), plus and/or minus the Prorations, as such term is hereinafter defined (the "Purchase Price"), which shall be paid as follows:

(a) The sum of $5,000.00 shall be paid by check from PURCHASER within Five (5) days of the date of this Agreement, which amount shall serve as an Earnest money deposit, subject to the provisions of paragraph 3(c) below, and applied to the balance of the purchase price due at closing. Said Earnest money deposit shall be held in escrow by national title company, as escrow agent, that is reasonably acceptable to PURCHASER and SELLER.

(b) At closing, the PURCHASER shall pay to SELLER, by wire, cashier's or certified check, the balance of the Purchase Price with a wire transfer, cashier's check, certified check or other good funds in the amount of PURCHASE PRICE LESS EARNEST MONEY DEPOSIT ($). Purchase Price to reflect (a) credits to PURCHASER for any liabilities or charges assumed, and (b) credits to SELLER for any amounts prepaid or otherwise credited for the benefit of PURCHASER; provided, however, that the Prorations shall not include any adjustments for the benefit of SELLER for any unpaid rents or assessments. The amount of any general real estate taxes not then ascertainable, if any, shall be adjusted on the basis of 105% of the most recent ascertainable general real estate taxes.

(c) The "Prorations shall be defined to mean prepaid rents, prepaid assessments, security deposits, prepaid or unpaid water and other utility or fuel charges, prepaid or unpaid service contracts, general or special real estate taxes or assessments, and other unpaid taxes. The Prorations shall be adjustments to the Purchase Price to reflect (a) credits to PURCHASER for any liabilities or charges assumed, and (c) credits to SELLER for amounts prepaid or otherwise credited for the benefit of PURCHASER; provided, however, that the Prorations shall not include any adjustments for the benefit of SELLER for any unpaid rents or assessments. The amount of any general real estates taxes not then ascertainable, if any, shall be adjusted on the basis of 105% of the most recent ascertainable general real estate taxes.

3. <u>PURCHASER'S RIGHTS OF INSPECTION, LOAN APPROVAL, AND CANCELLATION.</u>

(a) PURCHASER may inspect or cause to be inspected the condition of the Real Estate and all improvements and Personal Property;

(b) PURCHASER may inspect or cause to be inspected all other documents and materials relating to the Real Estate and Personal Property, with SELLER to deliver any such documents or materials to PURCHASER within seven (7) days of PURCHASER'S request;

(c) PURCHASER may cancel this Agreement for any reason, at the sole discretion of PURCHASER, within Sixty (60) days of acceptance of this Agreement by SELLER. After the initial Sixty (60) day inspection period, PURCHASER may cancel this Agreement during the next Thirty (30) day period in the event that PURCHASER does not obtain a loan approval for the purchase of the Real Estate and Personal Property that is satisfactory to PURCHASER, and the determination of an acceptable loan shall be in the PURCHASER'S sole discretion. In the event that PURCHASER elects to cancel this Agreement during the initial 60 day inspection period, or during the additional 30 days designated for loan approval, this paragraph shall serve as authority to the escrow agent from the SELLER to act upon the "single order" of PURCHASER to distribute the Earnest money to PURCHASER. Additionally, this paragraph shall serve as the SELLER'S release of the escrow agent from liability for disbursing the Earnest money to PURCHASER.

SELLER shall allow PURCHASER, or PURCHASER'S representatives, access or provide documents for review, whichever the case may be, to the Real Estate and Personal Property, at all reasonable times and cooperate with PURCHASER'S efforts to conduct the inspections permitted herein.

4. TITLE INSURANCE, SURVEY, AND ENVIRONMENTAL STUDY.

(a) Title Insurance:

Within Thirty (30) days from the date of this Agreement, SELLER shall deliver a commitment for an ALTA owner's policy of title insurance that is reasonably acceptable to PURCHASER (together with legible copies of all easements and restrictions of record identified by the commitment), in the full amount of the purchase price, evidencing SELLER'S good and merchantable title to the Real Estate. In the event that this proposed transaction does close, at closing, SELLER shall be responsible for the cost of title insurance.

(b) Survey:

Within Thirty (30) days from the date of this Agreement, SELLER shall deliver to PURCHASER an ALTA Survey of the Real Estate. SELLER shall be responsible for the cost of survey.

(c) Environmental study:

PURCHASER may obtain, at PURCHASER'S expense, an environmental study of the Real Estate. PURCHASER shall be responsible for the cost of the environmental study.

5. THE CLOSING.

Subject to PURCHASER'S right to terminate this Agreement, as set forth in Paragraph 3(c) above, the closing of this transaction shall be held no later than 30 days after the PURCHASER'S right of inspection and cancellation period expires, as described in Paragraph 3, above, unless earlier extended in writing and signed by mutual agreement of the SELLER and the PURCHASER. The closing shall take place at the title company serving as escrow agent for the earnest deposit. The time of the closing shall be a mutually convenient time for the PURCHASER and SELLER.

6. PURCHASER'S CLOSING INSTRUMENTS.

At closing, PURCHASER shall deliver to SELLER the following instruments:

(a) A certified, cashier's check, or wire transfer for the amount required by Paragraph 2(b).

(b) Any other instruments reasonably necessary to complete the transaction contemplated hereby.

7. SELLER'S CLOSING INSTRUMENTS.

At the closing, SELLER shall deliver to PURCHASER the following documents:

(a) A Warranty Deed reasonably acceptable to PURCHASER conveying good title in the Real Estate as described in Schedule A, and a transfer of title agreement reasonably acceptable to PURCHASER conveying good title in the Personal Property as described in Schedule B;

(b) Any other instruments reasonably necessary to complete the transaction contemplated hereby.

8. POSSESSION.

PURCHASER shall take possession of all of the Real Estate and Personal Property at closing.

9. PRORATIONS, TRANSFER TAXES, AND CLOSING COSTS.

Prorations shall take place at the time of closing. All deposits shall be transferred to PURCHASER at closing, including but not limited to security deposits from residents and advanced rental deposits from residents. PURCHASER and SELLER shall pay their usual and customary portion of transfer taxes at the time of closing. All remaining closing costs which have not been addressed by this Agreement shall be shared equally by PURCHASER and SELLER.

10. CROSS INDEMNIFICATION.

SELLER hereby agrees to indemnify PURCHASER and hold and save PURCHASER harmless from and against all liabilities, debts, claims, actions, causes or action, losses, damages, and attorney's fees, now existing or that may hereafter arise from or grow out of SELLER'S past ownership of the Real Estate and Personal Property, that are of the subject of this Agreement, and which occurred through the date of closing. PURCHASER hereby agrees to indemnify SELLER and hold and save SELLER harmless from and against all liabilities, debts, claims, actions, or causes of action, losses, damages, and attorney's fees, that may arise from or grow out of PURCHASER'S ownership of the Real Estate and Personal Property, that are the subject of this Agreement after the date of closing.

SELLER and PURCHASER acknowledge that this contemplated transaction includes only the sale and purchase of the Real Estate and Personal Property, and that the Seller is not selling a business, nor do the parties intend that PURCHASER be deemed a successor of SELLER with respect to any liabilities of SELLER to any third parties. Accordingly, PURCHASER shall, neither assume nor be liable for, any payments and benefits to past and/or present employees of SELLER in connection with the Business being conducted on or from the Property as may have accrued through the Closing Date, including, but not limited to, salaries, wages, commission, bonuses, vacation pay, health and welfare contributions, pensions, profit sharing, severance or termination pay, taxes or any other form of compensation or fringe benefit.

11. COMMISSIONS DUE.

PURCHASER represents and warrants to SELLER, and SELLER represents and warrants to PURCHASER, that no commission is due as a result of this transaction contemplated hereby and no real estate brokerage company has been used by either PURCHASER or SELLER to facilitate this transaction. PURCHASER and SELLER shall indemnify and hold each other harmless, from all claims or damages for any brokerage commissions and/or fees being claimed, and arising out of this transaction resulting from the actions of the defaulting party.

12. PURCHASER'S REPRESENTATIONS AND WARRANTIES.

PURCHASER hereby represents and warrants to SELLER as follows:

(a) PURCHASER warrants that it is a limited liability company duly organized, validly existing, and in good standing under the laws of the State of ____________________;

(b) PURCHASER warrants that it has full power and authority to execute, deliver and perform this Agreement;

(c) PURCHASER warrants that the execution, delivery and performance of this Agreement by PURCHASER has been duly authorized by all requisite actions on the part of PURCHASER;

(d) PURCHASER warrants that it has no judgment against it in any court of law or equity, nor does PURCHASER have knowledge of any claims that may lead to the institution of legal proceedings against it;

(e) PURCHASER warrants that all representations and warranties of PURCHASER in this Agreement are true, accurate and complete in all material respects as of the date hereof, and will be true, accurate and complete in all material respects as of the date of closing.

All representations and warranties of PURCHASER contained in this Agreement, and all remedial provisions contained herein, shall be deemed remade at closing and shall survive the closing.

13. <u>SELLER'S REPRESENTATIONS AND WARRANTIES.</u>

SELLER hereby represents and warrants to PURCHASER as follows:

(a) SELLER warrants that, so long as this Agreement is in effect, SELLER will not negotiate or contract with any other person or entity for the sale and purchase of the Real Estate and Personal Property;

(b) SELLER warrants that to the best of SELLER'S knowledge there are no claims, actions, suits or proceedings pending or threatened on account of or as a result of SELLER'S ownership of the Real Estate and Personal Property, which, if adversely determined, would have an adverse impact on the value of the Real Estate and Personal Property, or would prevent or hinder the consummation of the transaction contemplated herein;

(c) SELLER warrants that to the best of SELLER'S knowledge the records of the Real Estate and Personal Property constitute a true and accurate representation of the financial condition of the manufactured home community as of the date of said statements and records;

(d) SELLER warrants that to the best of SELLER'S knowledge SELLER has good and merchantable title in fee simple to the Real Estate and Personal Property, that are subject to this Agreement, and the SELLER has not entered into any leases, licenses, easements or other agreements, recorded or unrecorded, granting rights to any parties in any of the assets, other than to renters in the manufactured housing community, and no person or other entity has any right to possession or occupancy of any of the assets, other than renters in the community;

(e) SELLER warrants that to the best of SELLER'S knowledge there exists no violation of any Federal, State, County, or any other laws, or ordinances, with respect to the use and operation of the Real Estate and Personal Property as a manufactured housing community;

(f) SELLER warrants that to the best of SELLER'S knowledge SELLER is not in default under or in violation of any contract, commitment, or restriction to which they are a party or by which they are bound, which default or violation would have a material and adverse effect on this transaction;

(g) SELLER warrants that to the best of SELLER'S knowledge there has never been and there are currently no hazardous substances, generated, stored, buried, placed, held, located or disposed of on, under or at the Real Estate and the Real Estate has never been used as a dump site, and there are no, nor have there ever been any, underground storage tanks in or on the Real Estate.

The definition of "Hazardous substances" shall mean all hazardous or toxic materials, substances, pollutants, contaminants, or wastes currently identified as a hazardous substance or waste in the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (commonly known as "CERCA"), as amended, the Superfund Amendments and Preauthorization Act (commonly known as "SARA"), as amended, the Resource Conservation and Recovery Act (commonly known as "RARA"), as amended, or any other federal, state or local legislation or ordinances applicable to the Real Estate or Personal Property;

(h) SELLER warrants that to the best of SELLER'S knowledge the Real Estate has at least _______ manufactured/mobile home sites and has zoning and all regulatory approvals for at least _______ manufactured/mobile home sites and there are no pending requirements that must be satisfied in order to maintain such approval. Additionally, SELLER warrants that there are no regulatory or non-regulatory restrictions that would limit the PURCHASER'S ability to replace a manufactured/mobile homes if one or more of the _______ home sites becomes vacant. Additionally, SELLER warrants that to the best of SELLER'S knowledge all power supplies/systems owned by SELLER meet the current code requirements as well as any change mandates that are in effect. Additionally, SELLER warrants that to the best of SELLER'S knowledge there are no existing or pending regulatory requirements that must be satisfied for SELLER to complete this Agreement with PURCHASER. Additionally, SELLER warrants that to the best of SELLER'S knowledge there is no other study, report or finding which indicates that any portion of the Real Estate is located in a floodplain or is unsuitable for building purposes;

(i) SELLER warrants that to the best of SELLER'S knowledge the water and sewer systems, together with all mechanical systems serving the subject Real Estate and Personal Property, are in sound operating condition, free from hidden or latent defects, and are adequate in size and performance to properly serve the needs of the existing manufactured home community; and

(j) SELLER warrants that to the best of SELLER'S knowledge all representations and warranties of SELLER in this Agreement are true, accurate and complete in all material respects as of the date hereof, and will be true, accurate and complete in all material respects as of the date of closing.

All representations and warranties of SELLER contained in this Agreement, and all remedial provisions contained herein, shall be deemed remade at closing and shall survive the closing.

14. GENERAL TERMS.

The following general provisions shall also apply to this Agreement:

(a) All notices that may be required by this Agreement shall be sent to the respective parties at the addresses appearing below:

"PURCHASER"	"SELLER "
Purchaser Info	Seller Info

Any such notices shall be (i) personally delivered to the office set forth above, in which case they shall be deemed delivered on the date of delivery to said offices, (ii) sent by certified mail, return receipt requested, in which case they shall be deemed delivered three (3) days after deposit in the U.S. mail, postage prepaid, (iii) sent by facsimile, in which case they shall be deemed delivered on the date of transmission (if before 5:00 p.m. CST) or (iv) sent by air courier (Federal Express or like service), in which case they shall be deemed delivered on the date of actual delivery. Either party may change the address to which any such notice is to be delivered by furnishing written notice of such change to the other party via one of the above methods in compliance with the foregoing provisions;

(b) In the event that a dispute arises over the terms of this Agreement, the parties agree to submit to binding arbitration to resolve such dispute. The arbitration shall be conducted in accordance with the Expedited Procedures of the Commercial Arbitration Rules of the American Arbitration Association at a hearing to be held in or near Phoenix, Arizona and the laws of Arizona shall govern. Any decision reached from such arbitration shall have the same binding authority as if it were decided by a court of competent jurisdiction. The non-prevailing party shall pay all costs, including reasonable attorney's fees, of the prevailing party;

(c) In the event the transaction contemplated hereby does not close or is terminated due to a default by SELLER, PURCHASER shall be entitled to immediate return of the Earnest Money and may pursue all its rights and remedies at law and in equity, including, without limitation, specific performance. In the event the transaction contemplated hereby does not close or is terminated due to a default by PURCHASER in the performance of its obligations under the Agreement, SELLER, as their sole remedy, either at law or in equity, shall be entitled to retain the Earnest Money as liquidated damages. In the event of a default by either party hereto, the party not in default shall give notice thereof to the defaulting party and an opportunity to cure for a period of five (5) days following the delivery of notice, prior to exercising any right or remedy to which the party not in default may be entitled;

(d) PURCHASER may nominate and/or assign its rights under this Agreement.

(e) Either PURCHASER or SELLER may record this Agreement in the county where the Real Estate is located, provided that the party choosing to record pays all county recording fees associated with the recording.

(f) This Agreement constitutes the entire agreement between the parties pertaining to the subject matter contained herein and supersedes all prior and contemporaneous agreements or representations whether written or oral;

(g) This Agreement may only be modified if the modification is made in writing and signed by both PURCHASER and SELLER. No oral modifications shall be permitted;

(h) This Agreement is binding upon, and inures to the benefit of the parties hereto and their heirs, executors, administrators, successors, and assigns;

(i) Each party, by its execution of this Agreement, represents that by signing this Agreement, they are acting on the PURCHASER'S or SELLER'S behalf, whichever shall apply, and they are duly authorized and empowered by any necessary acts to make this Agreement binding;

(j) For purposes of this Agreement, the term "Day" shall mean calendar day, unless otherwise specified. The time in which any act provided by this Agreement is to be done shall be computed by excluding the first day and including the last, unless the last day is a Saturday, Sunday, or Holiday, in which case it also shall be excluded. If any deadline set forth herein falls on a Saturday, Sunday, or Holiday, the deadline shall be extended to the next business day;

(k) This Agreement is intended to be performed in accordance with, and only to the extent permitted by all applicable laws, ordinances, rules and circumstances. If for any reason and to any extent any portion of this Agreement shall be held to be invalid or unenforceable, the remainder of this Agreement shall be enforced as if such invalid or unenforceable provision did not exist, and such valid and enforceable remainder shall be enforced to the greatest extent as permitted by law;

(l) Time is of the essence of this Agreement, and of each provision thereof;

(m) This Agreement may be executed in one or more counterparts;

(n) This offer shall expire and become null and void if not accepted by SELLER and delivered to PURCHASER within seven (7) days of the date of this Agreement;

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, and agree to its terms.

"PURCHASER" "SELLER"

______________________________ _________ ___________ __________ _________

Signature Date Signature Date