Frank & Dave

Their Life in the Affordable Housing Industry and Predictions for the Future.

By Jessica Nicklos

Foreword by Anthony DiMarco

Foreword

I have been fortunate enough to work with Frank Rolfe and Dave Reynolds for over a decade. Their work ethic and analytical skills are legendary in the manufactured housing community industry. It is not uncommon to send an email to them and get a response at 2 AM - they seem to work 24 hours a day. Of course, if you really love doing something, I guess that there's no reason you wouldn't give up sleep.

Frank and Dave have built one of the finest "affordable housing" portfolios in the U.S. Their parks are not the fanciest, but the locations are rock-solid, the common areas clean and well organized, and the rents right in the sweet spot for the typical American family living on $30,000 per year and less. Their grasp on the puzzle of affordable housing, and how to deliver a great product, are exactly in-line with what the tenants want, and sets them apart from the pack. I have seen first-hand the transformation that occurs when they take a poorly-managed property in terrible physical condition, and turn that pile of rubble into a safe, attractive community with kids riding bikes, men mowing yards, and women hanging out laundry in a park that is filled with respect and appreciation for their neighbors.

The affordable housing industry is growing in importance every day. Much of the manufactured home community business is built around a more upscale product that requires higher incomes – doublewides in parks with swimming pools and clubhouses. Another segment addresses the needs of those who don't have many other options, and are working 12 hours a day to provide a decent home for their family on a very limited income. Much of the progress in this sector is a direct result of pioneers like Frank and Dave, who have created a business model that makes the American Dream possible for everyone.

Anthony DiMarco

America's #1 Mortgage Broker to the Manufactured Home Community Industry

INTRODUCTION

Frank Rolfe and Dave Reynolds have been legends in the manufactured home community industry for almost two decades. They are currently the 28^{th} largest owners of mobile home parks in the U.S. They were early pioneers in "affordable housing" before that term was even used. Their opinions are sought by their peers, bankers, appraisers and trade publications. So what makes them so good?

When you read this book, you will have the feeling that Frank and Dave trained for the bulk of their adult lives for that one big opportunity to buy a large number of mobile home parks at cyclical lows in pricing. But you will also notice a knack for planning each move so far in advance that, by the time that most investors in the mobile home park observe a trend, Frank and Dave are already in the middle of it and planning for the next move. Staying one step ahead of the competition has not only brought them opportunities, but also kept them out of trouble. Frank's sale of his first portfolio during the cyclical high in park values – and immediately before the crash – was good foresight. Dave's ability to predict the decline and steer clear of parks that would not weather it well – and kept growing – was even better.

Affordable housing is an important subject at times like these, when America's economy is in steep decline, and millions of families have no reasonable place to live that they can afford. While Frank and Dave have been pioneers in this subject, it's important that we open a dialogue on a larger scale. This is one of the primary problems facing America going forward, and will expand beyond just trailer parks to all areas of society, including assisted living.

THE EARLY YEARS

Frank Rolfe was born on April 19th, 1961 in Kansas City, Missouri. He attended public school in Dallas until fifth grade, and then transferred to St. Mark's School of Texas, a private boys' school through graduation. His grades were decent, and his one big extracurricular activity was that of Yearbook Editor. In line with his later ability to work non-stop, he spent an extra four to five hours a day in the darkroom at school, developing photos and at the typewriter and writing the copy. He found it easier to do the work himself than to manage the staff, many of whom never showed up at meetings. His yearbook won several awards, and this one item propelled him to acceptance at Stanford University in California, where he received his A.B. in Economics in 1982.

While a senior in high school, and a freshman at Stanford, Frank had an epiphany. He obtained a summer job at The Richards Group advertising agency, and found that he enjoyed working in an office more than anything he had ever done before. Office work gave him 100% satisfaction, and he was soon the first person in the door (often standing outside until somebody showed up to unlock the door) and the last one to leave (normally being asked to leave by the cleaning people who wanted to lock the door). By working 80 hours per week (and getting paid for 40), he soon was given projects that were even more exciting, such as copywriting and even submitting advertising concepts in inside-the-agency competitions, of which he came in third for an ad for Mercantile Bank at one point – ahead of half of the adult art directors. At the end of his freshman summer job, Stan Richards suggested that he was wasting his time going to college; he should stay at the ad agency, and he'd give him a well-paying full-time job. Although it was attractive, it was not part of his master plan.

After the summer job experience of working in an office, it was hard to re-adjust to the seemingly juvenile business of going to class. Frank spent about 50% of his time doing homework and the other 50% coming up with businesses to start. One such business was called “Direct Marketing,” and it was so successful that it required Stanford to change its rules to put it out of business. Frank had helped someone in the dorm get elected to office for freshman class (difficult to do when there’s 1,000 freshmen, none of whom know each other). His attack plan was simple – put a flyer of the candidate’s name on every door on every dorm, on every bulletin board, in every bathroom – everywhere. Nobody had ever done it before because it required too much work. It proved to be highly successful, so Frank had an idea – he would have outside businesses pay to have such a “blitz” of flyers put around Stanford. The first customer was the local Mexican restaurant. The flyers offered a free pitcher of margaritas with two entrees. A few days after the “blitz” was launched, the restaurant called Frank and offered to pay him just as much as they had to put up the flyers, to take them down. The “blitz” was pulling so well that it was killing them to give away so many margaritas. With the business concept a proven success, Frank started hitting all the merchants in Palo Alto, and installed similar programs selling everything from cameras to sunglasses. Just as Frank was considering branching out into other local colleges, the business was killed by Stanford creating a new ordinance banning such flyers.

By taking extra courses and summer school, Frank was able to graduate in three years instead of four. This gave him one year to do something different, and still be in-line with his peers. He decided that he should go to business school, and use that “free” year to start a business, to then use as a positive on his business school application. While doing some research on what business to start, he came across billboards as an idea from one of his old bosses at The Richards Group. This sounded like the perfect concept; he’d build a few billboards, sell them at the end of the year, and go to business school. Armed with absolutely no knowledge of how to locate, negotiate, evaluate, build, or rent a billboard – but not too shy to try to find out the information – he began his 15 year career in the billboard business. After the “free” year was over, he had three billboards, so he went one more year, and then another. From 1982 to 1996, Frank was 100% obsessed with building his billboard company. By 1996, he was the largest private owner of billboards in Dallas/Ft. Worth, with over 300 billboards. Then came the call from Dan Simon at Universal Outdoor, which had just gone public. Dan was interested in acquiring the billboards, and in September 1996, the billboards were sold to Universal Outdoor (now Clear Channel) for $5.8 million. The sale lead to a few months of abject boredom in semi-retirement, followed by a desperate desire to find something more interesting than hanging around the house.

Two of Frank’s billboards had been built on a mobile home park called Glenhaven, on I-35 South in Dallas. He was familiar with the park because the owner would call him periodically and ask him to do a favor, which normally consisted of driving by the manager’s mobile home to see if he was jacked up on crack, or drunk. Frank would knock on the door in the afternoon, the manager would answer in his underwear – completely hung over – and Frank would tell him to call Ron, the owner. He had become fascinated with the mobile home park business from driving through the park; it seemed to be the only business he had ever seen that was weirder than the billboard business. Plus, he liked the fact that it had a rare zoning. His years in economics at Stanford had taught him the concept of supply & demand, and he knew that there had to be something worthwhile when there are only a handful of mobile home parks in a city the size of Dallas. So when he needed a new business to focus on, the first thought that came to mind was Glenhaven. Frank called Ron, and the deal was cut. Frank would buy Glenhaven for $400,000 with $10,000 down, with Ron carrying the note of $390,000. It was time to start a new chapter in Frank’s working life. Little did he know what an important chapter it would be.

Dave Reynolds was born on December 14, 1968 in Denver, Colorado. He attended public school in Littleton, CO until 9th grade when his family moved to Western Colorado, where he graduated from Cedaredge High School in 1987. Dave spent his early days immersed in playing basketball and baseball. It was not uncommon for Dave to spend all day every summer outside - playing pickup baseball and basketball games from morning until night. If there was nobody else to play with, he would make up phantom games for extra practice. All this practice and hard work helped to ingrain a sense of dedication that has stuck with Dave his entire life. While his sports career ended after high school due to an elbow injury, he did earn several awards and played on some good teams over the years. Dave started every game on Varsity, from his sophomore to senior year in both Baseball and Basketball. He led the league in scoring his senior year in Basketball, and led the league for 3 years in free-throw percentage (probably due to all that practice at the charity line).

In addition to sports, Dave was always looking for ways to make money to either buy things he wanted as a teenager, or to save for down the road. When he was in middle school, Dave had a paper route, and also spent snow days walking around the neighborhood looking for people who would pay him to shovel snow. In the summers, he would do yard work around the neighborhood. With these early businesses of delivering papers and yard work, it was not uncommon for Dave to earn around $4 to $5 per hour, which was about minimum wage at the time. Then, one day after adding up the money he was making pulling weeds in a garden at $4.25 per hour, he decided it was time for a change. One of Dave's friends was working alongside him, and was doing about 1/3 of the work for the same pay; it was frustrating. Dave decided that going forward, every job that he would do, he would bid on rather than working by the hour. This propelled him to closer to $15 per hour almost overnight. He was doing the same work, but for 3 times the reward. Dave continued to obtain more customers and get better equipment, and by the time he graduated, he had a good business. This lawn mowing business continued to grow, and allowed him to buy his first house after his first year of college.

During his last year of high school, he took a course in accounting, and really liked the subject, so he decided to major in Accounting in College. He attended and graduated with his undergraduate degree from Mesa State College in Grand Junction, CO with a degree in Accounting and Taxation and a 3.9 GPA. The only regret that he had in college was that he spent too much time studying and not building his business more quickly. After graduation, he and his wife moved to Fort Collins, where Dave spent about a year and a half working on his graduate degree. Immediately upon moving to Fort Collins, Dave started another lawn mowing business, and in two years had over 300 customers. About half way into that second year of college, he was looking at job opportunities, and after looking at starting salaries, he knew he would have to work in an office under someone else, 5 days a week and more during tax season. He decided to put a graduate degree behind him and continue with moving lawns, as he would have had to take a large pay cut if he got a real job.

With his degree, Dave started doing his parents tax returns, and while his Dad had a real job, he had also purchased a mobile home park. Dave's family spent a few months living in the park, and this did not appeal to him whatsoever while living there. However, after doing these tax returns, it started to appeal to him very quickly. His dad worked 40 hours at his regular job, and probably less than 6 to 8 hours dealing with this park. But the park was generating more income than his real job! Dave and his wife, Terri (his high school sweetheart), started looking for a mobile home park to buy. They found a park in Limon, CO, which was in foreclosure and available to purchase with about $75,000 down. Most of that $75,000 came for cash advances from credit cards. They proceeded to sell the lawn mowing business and move to the area to run the park. The park was not pretty, but it did generate a good cash flow. After getting the park running on all cylinders, they were able to refinance the park and pay off all of the credit cards. They added another small park (9 units) in Kit Carson that was a no money down deal, but turned out to be a waste of time. It was too small, too remote, and had little demand for the homes or lots. They sold it about a year later at a $2,500 loss, as they purchased for $47,500 and sold for $45,000. Next, they purchased another park in Fort Morgan, CO that had been on and off the market a few times. This one required more money down, but with the refinance and cash advancing the credit cards, they were able to come up with $150,000 to buy the park. This one went very well and really quick. They bought the park in August and sold it in October of the same year - at $150,000 profit plus a 5th Wheel Trailer. It was around this time (1997) that Dave proceeded to obtain his brokerage license; he was working with a mobile home park broker as additional income.

In this same time frame, Dave was able to purchase the website that became MobileHomeParkStore.com, which grew quickly as the nation's leading website for brokers and owners to list their mobile home parks for sale. Armed with a few parks under his belt, a brokerage license, and the national website for mobile home parks for sale, Dave was in a great position to not only buy properties with leads, but also to develop a great list of prospective buyers to sell parks to - once he did the normal property turnaround. Dave continued to buy and sell properties on his own and with various partners until early 2010, when he and Frank saw a fantastic opportunity in the marketplace.

THE BIG ATTRACTION TO MOBILE HOME PARKS

Almost immediately, the benefits to mobile home park investing became obvious to Frank and Dave. Those benefits include:

- Supply and demand. There are relatively few mobile home parks in the U.S., and that number is not increasing, as most cities and counties do not want any new parks built. You can't say that about any other type of real estate. "I knew from my experiences in the billboard business – pouring over zoning maps for billboard locations – that mobile home park zoning was extremely rare," said Frank. "A simple call to any city hall will confirm that new parks are pretty much out of the question. As an economics major at Stanford University, I knew that a limited supply, coupled with a growing demand, was a good formula for making money."

- It costs around $5,000 for the tenant to move their mobile home. This means that the tenants really have no freedom of choice – they must stay in the park no matter how much the landlord raises the rent. "I don't know of any other business that has this level of control over the customer," said Dave, "Can you imagine a restaurant that has the legal right to chain the customers to the booth so they can never eat anywhere else, and raise the prices on the menu whenever they like?"

- Incredible demand for affordable housing. While the supply and demand relationship of parks makes them attractive at a macro level, the demand for individual mobile homes for rent or sale is unbelievably high. A lot of this demand is fueled by the poor quality and living conditions provided in low-rent apartments. "I will never forget my first ad in the Dallas Morning News," said Frank, "using a simple classified ad for a home for rent in Glenhaven. It pulled so many calls on the first day that I had to turn the phone off to keep my sanity. I was used to the billboard business, in which I'd get maybe a call every other day for a vacant sign. I probably received 20 calls the first day. I knew I was on to something big; I'd never seen that level of demand for anything before in my life."

- Extremely low on-going capital requirements. Mobile home park owners are basically renting land, and the continual repairs and capital needs of the homes themselves are not the park owner's concern. "My friends who own apartment buildings are constantly getting hit with giant renovation costs like $250,000 roof repairs. The people who own buildings – like apartments, office, retail, and hotel – would pass out if they realized that mobile home park owners don't have any of these issues. I immediately realized that mobile home parks were superior to all other forms of real estate in this regard."

- Unsophisticated sellers with a poor grasp of real values. These moms & pops will often sell their parks for a fraction of the actual value, as they have no source of correct pricing information.

"When I bought Glenhaven for $400,000," said Frank, "I immediately knew that this could not happen in any other niche of commercial real estate, as everybody else is too sophisticated. Apartment owners know - to the square foot - the value of Class A buildings, Class B buildings, etc. But there is little or no pricing information available to park owners, so they normally just guess, or use their tax value, which is a lousy tool. It's kind of like selling automobiles without a NADA guide or even a source like Auto Trader, in which you can compare similar models. I knew this was unique."

- Low competition. This allows park buyers to get better deals and better terms, as they are often not competing against other buyers. "It's a fact," said Dave, "that few people are in the mobile home park business. I've never personally met anyone in my circle of friends or acquaintances – at my kid's school or at church – that are in this business. It's just not on the radar screen of most investors." Frank added, "Most people are afraid of it – just like I was when I bought Glenhaven."

- Non-recourse seller financing. "This was the biggest thing that got me to buy Glenhaven – I had never even heard of a seller carrying the paper and without recourse. The way I looked at it, my worst-case scenario at any given moment was losing my $10,000 down payment and giving the park back; that gave me the confidence to buy it. Of course, the 2.5% down was also a huge attraction. I was coming out of a 20% to 30% down world, and I had no idea that people would take less than that on a real estate deal," said Frank.

These initial attractions have never changed for Frank and Dave. In some businesses, you get into the industry and then realize that your assumptions were flawed. For Frank and Dave, these initial assumptions and attractions are as true today as they were 15 years ago.

FIRST PARK

Frank's first park was Glenhaven Mobile Home Park, located at 5500 S. I-35 in Dallas. He bought it in 1996 for $400,000 with $10,000 down, and the seller carrying the paper. "It was a complete dump," said Frank, "The manager was a drug addict, and the park had evolved into a collection of the scum of the Earth – carnival workers, street people, hookers; the dregs of society. They had even built an amateur Saturday Night Wrestling arena in the back corner, with bouts every weekend and even concession stands out of rotted plywood. The first thing I did when I bought it was to get a concealed handgun license. I honestly thought it might be like the OK Corral. I quickly realized that the people were not dangerous – just crazy. I did immediately realize, however, that job #1 was to restore order, get the abandoned homes renovated and rented, make sure everybody was paying rent, and get rid of the deadbeats. Almost all of my "crazy tenant" stories come from this one park. I had an office in the little park single-wide for a full year, and I received a full baptism by fire at Glenhaven. Everything possible that could go wrong, did go wrong. I lost the natural gas system. I had a tenant sue me for faked injuries on some stairs. Although it looked bleak, I was continually renting homes and lots, fixing broken items, and getting the park in a decent condition. I took it from a complete write-off to about $5,000 per month cash flow (after debt payment) pretty quickly."

As Frank was re-building the park into a legitimate enterprise, he was also learning what worked and what didn't work in a mobile home park. "At Glenhaven, I had a chance to test all the theories I had on what makes mobile home parks work. I learned, for example, that you can raise monthly rent from $125 per month to $350 and nobody leaves, which is what we did. I learned that nobody really cares if you have a tire in a yard or a box on your front porch; some park owners are enforcing the rules just for their own amusement, and would be better off backing off. I learned that renting or selling one-bedroom mobile homes is impossible, and renting RVs is beyond impossible. But most importantly, I learned that all my initial, major assumptions were right on, and that I had found the best niche I'd ever seen."

Frank also felt empowered from turning around Glenhaven. "I thought that if I can turn a pig like this around, I can turn any park around. I did not think a whole bunch at that point about Glenhaven's ultimate value, but I sold it for over $1.5 million in the end. The return on investment, even after the capital used to renovate it and bring in homes, was something like 100% per year. Glenhaven was basically what launched my career in mobile home parks."

Dave's first park was in Limon, Colorado, and was and known as Wagon Wheel Trailer Park. The park had 43 mobile home sites, 9 RV sites, and a little laundry building. As previously mentioned, this park was being foreclosed on, as the current owner had been basically taking all the income from the park and not paying any of the bills. This turned out to be a problem, as the park was in a small town, and had only 2 plumbers and 2 electricians - all of whom had unpaid invoices on the park. It took several months of building relationships with them to get to a point where they would respond in a timely manner. Dave and his wife were hands-on owners of the park for most of the time they owned, which included doing just about everything you can do in a mobile home park. They rehabbed mobile homes from top to bottom, fixed leaking sewer lines under the homes, learned not to mess around with electricity, and learned the biggest lesson of all, which was: when running a mobile home park, you should be in the lot rental business and not the home rental business. Dave and his wife took a lot of pride in fixing up the homes; however, many times after rehabbing a home – and spending $2,000 on materials - they would get a resident that would come in, and they would eventually stop paying their rent. They would end up evicting them, and getting a home back that needed another complete rehab.

That extra $200 on top of the lot rent made no sense in the overall scheme of things. After repeating this process a few times, it suddenly occurred to them that they should sell the homes either for cash or on payments. As soon as Dave and his wife started this program, they had a completely new park and ran out of things to do; it was wonderful! The net operating income grew, and they were able to refinance the park, pay off other debt, and acquire another larger park. After about 3 years, it was time to sell this park and move on. Dave and his wife purchased the park for about $250,000 and sold it for $470,000. Unfortunately, the new owner has not operated the park very well, and it is looking a lot worse now than it did before they bought it 15 years ago. Armed with a new business model of turning around the parks, increasing the lot rent, passing through the variable costs (utilities), and using park owned homes as a means of filling lots (not as an additional income source), we were ready to launch into a career of investing in mobile home parks.

BUILDING EXPERIENCE

As soon as he had Glenhaven turned, Frank began looking for park number two. His next park took him to Ft. Worth; parks number three and four were in Longview, Texas, and park number five took him to Oklahoma City. With each successful park came new challenges, new opportunities, and a repetitive set of strategies that worked. It became apparent pretty quickly that the best segment of the business was to buy parks that had great basic "bones," but were horribly mismanaged. "Like a puzzle, I quickly saw what you can fix in a park and what you can't. The goal became to find that raw product and avoid the bad stuff." The bad stuff included private utilities, master-metered gas and electric, certain neighborhoods and geographic locations. "The State of Louisiana was a real eye-opener for me, as I found that the assumptions that had worked well in Texas, Oklahoma and Missouri didn't work at all in Shreveport and Baton Rouge. I soon realized that the U.S. is a big place, and certain markets are just better than others. I re-focused on the markets that were working for me – basically the Great Plains and Midwest," said Frank.

While Frank was building his portfolio, Dave was following suit. His second park was a 50-unit mobile home park with 50 RV sites in Fort Morgan, CO. This park was on private water and had a lagoon sewer system. That lagoon system scared the heck out of him, and before he really ever had to understand it or learn to operate it, a buyer pulled in in his RV and started asking about buying the park. We didn't really think he was serious, and we threw out a figure, which would basically double our down payment. The buyer didn't flinch, and about 45 days later, they had sold the park. Armed with this extra cash, Dave bought a few parks in Texas, which included a park in Palestine, Alice, and San Antonio. Dave operated the parks in Palestine and Alice for a few years, but immediately flipped the park in San Antonio for a profit.

In addition to really learning the business in Limon, this set of 3 parks provided a big learning experience for Dave. The experience taught him that you have to do proper due diligence on parks before you buy them, or you can be burned big time. The park in Palestine was on a private sewer system that was failing. That mistake cost about $200,000, and fortunately, the park operated well, or the loss would have been hard to handle. The park in Alice was on well and septic; the septic was fine, but the well was a constant problem. Fortunately, the price we bought it for overshadowed the cost of the new well, and we made a profit on the park; however, it is not easy to sleep at night when your well is failing and the tenants have to drink bottled water. While the San Antonio park worked out well for Dave, it did not work out well for the person he sold it to. The people that sold it to Dave altered the survey, showing that the park was not in the flood plain. However, they came to find out the park was in the flood plain and flooded quite often. Many lawsuits later by Dave's buyer against the City of San Antonio, the surveyor, the seller, and the title company, he ended up all right. He's now left with a park that has a hard time getting residents, as their homes are truly mobile since the floods wash them away every few years.

After all of these issues that Dave had no idea existed in mobile home parks, he learned the diligence process the hard way, and was able to avoid these issues going forward. He focused on only purchasing parks that were mismanaged or undervalued, rather than having a lot of flooding or private utility issues.

While Frank and Dave were busy buying and operating parks, a bigger shift was taking place in the industry. One was the growth of Affordable Residential Communities, and the other was the new mobile home mortgage program, brought out by Greentree Financial. These two factors would have a huge impact on Frank and Dave's portfolios, and set in motion some even more important learning experiences.

ARC, as Affordable Residential Communities is known, was an industry "roll-up" strategy by Scott Jackson and Thomas H. Lee Investments. The concept appeared to have been to build the largest mobile home park portfolio in the U.S., and then to take it public. In the process of buying more parks than anyone ever had before, and trying to hit the numbers that the investment bankers wanted to see, ARC began to raise rents at a furious pace. "All we had to do was keep our rents $10 per month lower than ARC. Since ARC had so much domination in some markets, we could claim that we were the cheapest park in the market. If they raised their rents $80 per month, we'd go up $65. Our rents were flying upwards, and ARC paved the way for the giant rents that we have today," said Dave, "This made mobile home parks suddenly much more valuable. In addition, ARC was excellent at public relations, and they started to make the asset class seem desirable to more lenders and mainstream investors. "You have to give ARC credit for the modern attractiveness of mobile home parks," said Frank, "Before they came on the scene, parks were still considered the ugly step-sister to apartments and other forms of commercial real estate. ARC succeeded in making them sexy, especially to those who had never even looked at them before."

Another trend that transpired during these years was the boom and bust of chattel lending on mobile homes. Greentree Financial had brought a product to market, which allowed mobile home buyers to get up to 30-year mortgages with low credit scores and low down payments. This paved the way for millions of lower-income families to buy mobile homes. By 1999, sales had soared to 400,000 units per year, with an estimated 300,000 units going into mobile home parks. "We had dealers that were bringing 5 to 7 homes per month into some of our parks. Every park owner looked like a genius, because all you had to do to fill a vacant space was have a working phone number" said Frank. Like the recent stick-built mortgage disaster, the mobile home crash was inevitable. Customers who could not make the payments were defaulting on these new homes almost immediately. Repos became so severe that it overwhelmed the market. Greentree, CIT and other mobile home lenders all crashed and withdrew their programs. "I had sometimes as many as 30 repos in a single park at any given time. We could buy some of these homes with $30,000 mortgages for $1,000 from the lender, as they could not even find enough employees to manage the case load," said Dave. This "repo mania" forever soured Frank and Dave on parks that were dependent on new homes. "Once you realize that the only people who have the $5,000 to move a mobile home are the lenders, you suddenly get a lot more comfortable with the older homes that are paid for and can't be foreclosed on," said Dave.

LESSONS LEARNED

There are key lessons that were learned by Frank and Dave during this time period:

- Due diligence is the key to success. When you perform good due diligence, you change the playing field from gambling to investing. "The difference between the successful park owners and the failures is who did great due diligence before buying, and who did not – period," said Dave. Frank and Dave used this lesson to produce the first industry due diligence guide; it's the very same resource they use themselves.

- You must think about your exit strategy before you buy, and stay away from parks that don't allow for a quick and easy exit. Anyone can buy a park, but only a good buyer has thought through the strategy to get it turned around and, equally important, to get it re-financed and sold. You can't just focus on the numbers. "There are 20% cap deals that we pass on because there's no way that you'd ever find a buyer down the road. The last thing we want is a park that we are stuck with forever. Many buyers get suckered into bad deals because they look at price only. A park in the Sahara desert is not a good deal at any price," said Frank.

- The sweet spot of the mobile home park industry is the "affordable housing" niche, which means total payments to the customer – for lot and home – of around $500 per month. This is what families earning $30,000 per year and less can afford; and that's 50% of all U.S. households. "As you go north of $500 per month, the demand falls exponentially," said Dave. "That's why we avoid markets with $700+ lot rents; even if they own their home free and clear, they still can't afford to live there. We don't want to compete with fancy condos and stick-built homes – nobody is going to live in a mobile home when they have a better option. We deliver what the customers want, which is a nice, safe place to live for around $500 per month – and that's why we have so much demand."

- The best way to buy good deals is for the buyer and seller to work as a team. "We call this win/win deal making. Both the buyer and seller feel like they made a good deal. When deal killers pop up during due diligence and financing, it takes the buyer and seller as a team to often overcome them. The win/lose method that is promoted in many books is a recipe for disaster. If you want to rip off the seller, then you're probably not going to be buying many good parks. Those sellers know they have a good quality property and won't be pushed around. Only the lousy parks have sellers that can be bullied, because they know that their park is illiquid," said Dave. This "Golden Rule" approach is why Frank and Dave have received so many good deals over the years. Many of these sellers come via recommendations from other sellers or brokers. It's also why Frank and Dave have such a high success rate of getting deals closed.

- Beware of homes with mortgages on them. Banks are the only ones with the money to move a home out of your park. “New homes make great eye candy to spruce up a park – and we like a good mixture of new and old homes to make the park look desirable,” said Dave, “ but we avoid parks with a pile of new homes that are highly leveraged. After the chattel melt down, we learned the lesson the hard way, and saw many owners get destroyed. Old homes, properly maintained, are our favorite resident.”

- Many people are trying to build a product that Wall Street likes, as opposed to what the customers like. This was the problem with ARC; they wanted a sanitized community that looked good on the cover of an annual report, but the customers wanted something less that they could afford, and have their own privacy and looser regulations. “Mobile home parks cater to lower income families and individuals,” said Frank. “You can’t expect these people to drive fancy cars and have outdoor seating from the Frontgate catalogue. They are hard-working, and don’t have a lot of money and time to keep their property at 100% of its potential. But these are not important issues to them. They care about privacy, safety, and good schools, so their kids have a shot at a better life. The crazy thing is that these types of parks – sometimes ugly – make much more money than the fancy kind. That’s why we tell people, when asked how many stars our parks are, that we have 5-star cash flow.”

PREPARING FOR THE BIG OPPORTUNITY

By 2004, Frank had built a portfolio of around 2,000 lots, and things were running smoothly. But suddenly, a new trend popped up. The surge in California real estate values had led to a large volume of sales, and the creation of a ton of 1031 exchange buyers. Suddenly, flush with cash, this group began searching through the mobile home park listings, and the prices became too good to pass up. "Back in 2004, all you had to do was list your mobile home park on MobileHomeParkStore.com, and you would get 10 calls per day from people wanting to buy it. The cap rates were at historic lows, and the financing was incredibly easy to obtain. You could get conduit debt all the way down to $250,000 from LaSalle Bank in Chicago. I had never really thought about selling out, but how can you make sense of keeping assets that are selling at low single-digit cap rates?" said Frank. The turning point came with the sale of his largest park in north Texas. "When I sold our biggest asset at a 4% cap rate, I knew it was time to liquidate everything. Next thing you know, I'm driving Californian buyers from the airport out to our properties two or three times a week. I had about 28 parks, and by 2008, they were all sold. I couldn't then find any parks that I wanted to buy, as the cap rates were completely unappealing, so I ended up with not a single park by 2008.

Meanwhile, Dave continued buy and sell mobile home parks all over the country. In the 10 years leading up to 2010, he had purchased over 60 mobile home parks, and had built his portfolio up to about 17 parks at that time. Dave purchased some books and attended some info-marketing seminars, which gave him a lot of ideas that would not only help his park purchasing business, but also the growth of his other businesses. He was always looking to have multiple streams of income that would continue to pay dividends, even if he was out of town for two weeks looking for parks to buy. As far as finding mobile home parks to purchase, it was not uncommon for him to send out 50,000 to 100,000 direct mailers every year to his mobile home park lit. As he constantly repeated this over and over, year after year, many of these park owners had a thick file of Dave's marketing materials in their file cabinets. He still receives calls today from letters and postcards he sent out years ago. In addition to acquisition and management of parks, he continued to build MobileHomeParkStore.com, and launched into a few other niche websites (RVParkStore.com, SelfStorages.com, and OutdoorBillboard.com). These were 4 industries that intrigued Dave, and have similar returns and business models.

Dave and Frank met at a mobile home park seminar where they were speaking, and when Dave heard that Frank had the background in billboards, he asked Frank to write a book on investing in billboards. Frank didn't think it would be well received out there, but when Dave started sending him monthly checks, they started to discuss compiling more information on billboards, as well as their separate careers in mobile home parks. They both felt like most of the current material on mobile home parks was not based on experience, and was more hype than real life. They decided they would write down all of their experiences - both good and bad - to educate others interested in the business, or those who were struggling. It was amazing how different our management styles were in the beginning, but how similar they ended up being as we progressed through our careers. With all of our new educational products, one might think that we were writing and teaching our ways out of the business by educating our future competitors. The reverse has turned out to be true. Many of our students that have gone out and purchased a park, but many more that have brought deals to us that we have purchased. In addition, many of these students have invested and/or partnered with us as we ramped up into accelerated acquisition mode.

THE BREAKOUT

By 2010, Frank and Dave had been watching and waiting for several years. They knew that something had to give – there was no way that low cap rates and easy financing could not end in a meltdown. Dave was managing his existing parks, and was constantly calling Frank and telling him about the latest deal he was buying. Frank would respond with something like, "That seller is crazy to sell at that price," or "How did you find that deal?" After about 5 or 6 of these phone calls, Frank, who had been spending his time writing books about real estate, became intrigued with how the gears had suddenly begun to re-align.

"Suddenly, I was starting to see cap rates rise and seller's prices come down - virtually overnight," said Dave. "Lending seemed to return along with it. We knew that it was only a matter of time before everybody else saw that it was becoming a buyers' market. We had to move fast."

To keep up with the amount of capital needed to take advantage of this market, Frank and Dave forged a new concept: doing Reg D 506 offerings to build the war chest necessary to make a bold run at buying parks at a cyclical bottom. They named these funds the "Alumni Funds" and the "Affordable Housing Community Fund" series. They pay out a 10% preferred dividend, and then split all profits over 10% on a 50/50 basis. "This structure proved to be enormously popular," said Dave, "as it gave people the opportunity to invest directly with us, and to enjoy the majority of the benefit, without having to actually find, negotiate, finance, perform due diligence, turn-around or manage the actual parks. Unlike a single park purchase, the fund gives the investor risk diversity spread over a portfolio of parks."

At the same time that fundraising began, Frank and Dave re-tooled their park deal pipeline to account for the shift in the market. "We were finding that brokers, who had been the worst source of deals for years, were suddenly our #1 factor for deal flow," said Dave. "We increased our volume of calls and emails to brokers, and had them bring deals to us first. Of course, by owning MobileHomeParkStore.com, we had an advantage on new listings; we also had a person doing full-time cold calling to park owners. We started hitting industry lenders to look for REO possibilities." Amazingly, at that time, nobody else was doing these things, and the quality of deals that were coming in was incredible. "We were suddenly buying deals that we had looked at years earlier - for 25-50% less than before," said Dave.

Frank and Dave also narrowed their park search to more northern markets. "We had learned – and are still learning – the difference in park residents in the north versus the south. They pay better, behave better, and have a lower operating cost," said Frank.

They also pioneered a new method of managing parks. These are built on an entrepreneurial platform, in which small squads of parks are managed by fairly autonomous District Managers, who are well paid, and are often groomed from the best park managers. "We have a District Manager and a District Coordinator – kind of a sidekick that is in our central office, and focuses on the bookkeeping and collections on the parks – for every park. These two individuals manage the on-site Park Manager, and complete the projects that each park is assigned to make it more profitable, such as cutting costs," said Frank.

The results of that breakout have become legendary. Frank and Dave are now the 28th largest owners of mobile home parks in the U.S., with over 7,000 lots in 17 states, comprising over 70 parks. That's not the fastest growth rate in the U.S. – publicly held Equity Lifestyles (ELS) holds that honor. They're not even number two, as AMC of Canada takes that spot. "It was never our goal to be the biggest mobile home park owner," said Dave. "Our goal was to buy great deals that offered a high rate of return. It could have been 1,000 lots or 10,000 lots. There is little efficiency in the size of a park portfolio. So we're just a collection of great deals under one roof."

The family of funds has never missed its 10% preferred dividend. "We buy these deals with good returns already built in, so it's never been a struggle to hit our minimum threshold," said Frank. "In most cases, we have a going-in return rate over 10%, and then the turn-around is built around trying to increase that. The goal is sometimes 20%+, but the minimum output is 10%+ day one, or we don't but it."

Of course, putting together one of the largest portfolios in industry history has been testing from a time perspective. "We can't really delegate the park selection, negotiation and due diligence," said Dave. "So we've been putting in 80+ hour weeks for over two years now. These types of buying cycles only come around once or twice in a lifetime, so we can't let it pass without 110% effort."

THE MODERN AFFORDABLE HOUSING INDUSTRY

Today's mobile home park industry is dramatically different than it was when Frank and Dave began. Below are the changes – and improvements – that today's mobile home park investors enjoy:

- Greater pressure than ever before on affordable housing. In a nation in which the median home price is over $200,000, around 50% of the population has a household income of $30,000 per year or less. The only detached housing option for this 50% are mobile homes. Warren Buffett did a speech on this last year, in which he described the growing rate of household formations, but with nowhere to live that they can afford. This is probably why he bought Clayton Homes, which is the largest owner of mobile home manufacturing and note servicing.

- The ability to perform due diligence via the Internet, while saving days of time in person and on the phone, is extremely useful. Their favorite websites for this purpose are www.bestplaces.net, www.city-data.org, www.zillow.com, Google maps and street-view, and www.rentometer.com. When Frank and Dave started, none of these things existed.

- Greater respect and understanding of the niche. Mobile home parks have grown up, and now command respect from investors and lenders who used to shun them. Two names that have helped enormously are Warren Buffett, whose Berkshire Hathaway is now the largest owner of mobile home manufacturing and loan servicing in the U.S., and Sam Zell, who heads up Equity Lifestyle, the largest owner of parks in the U.S. With these two individuals at the top of the industry, it's hard for people to question the legitimacy of this asset class.

- Greater respect from city and county governments, who realize the necessity for affordable housing. They also recognize that mobile home parks are superior to lower-income apartments in both aesthetics and quality of tenants.

- The ability to fill lots by buying homes "factory direct" from the manufacturers. In the old days, you had to buy a home from a licensed dealer, regardless of how you were and how many you wanted to buy. Today, virtually all manufacturers allow you to buy direct and save the dealer mark-up, which can be huge.

- Not having to compete with a zombie buyer who is just intent on growth regardless of the price. ARC is not buying any more, and nobody else has stepped in to try and replicate their riches to rags story.

- Higher rents that make even smaller deals worthwhile. Over the last decade, mobile home rents have roughly doubled – and so have values. Today's rents average about $250 per month, while 10 years ago it was more like $150 per month. The great benefactor has been the park owner.

- Customers who could not pay their mortgage have already blown out, and those homes have been repossessed. The percentage of new repos has reduced enormously, as that product has been re-sold over time. You don't have to fear the repo man like park owners did a decade ago.

- More materials and writings on the industry, which allows for detailed discussion, so that owners do not have to feel isolated and alone. There is a forum on www.MobileHomeUniversity.com, where you can post questions 24/7. Similarly, you can read the Journal or the daily new stories on the industry. Now, you don't have to be alone when you buy a park, as there is a built-in support network of other owners.

The industry has never been healthier, or better positioned for advancement.

PREDICTIONS FOR THE FUTURE

Below are Frank and Dave's predictions for the future of the mobile home park industry. Some are rosy, and some are a bit more depressing, but here are the true facts and observations.

- The mobile home park asset class will continue to outpace all other forms of commercial real estate in return on investment.

- The mobile home park industry will continue to have the lowest loan default rate of any type of commercial real estate.

- The mobile home park industry will continue to be more favorably received by city governments as a much more attractive option for affordable housing versus low-income apartments.

- The United States economy will continue to decline, and will create even more upward pressure on affordable housing, which in turn, bolsters mobile home parks. Currently, 50% of American households live on $30,000 per year or less. This percentage will increase more every year.

- City governments will continue to block the new construction of mobile home parks, due to the fanatical pushback of potential neighbors. Nobody wants a trailer park next to his or her house or business.

- There will be a severe correction in the business model for parks that try to move from affordable housing and compete with stick-built housing for the more affluent customer. If, given the option of a mobile home or a stick-built home or condo, all sane customers will opt for the stick-built or condo. Mobile homes only work when their price is significantly lower than the other housing options. Many of these operators are currently masking their failure by buying up the abandoned homes in their parks. At some point, lenders will discover the shell game, and the day of reckoning will occur. Expect these parks to take massive losses in value, as the lot rent and home values are re-set to work within the affordable housing niche. One of the markets best positioned for this correction is Denver, in which lot rents often exceed $700 per month, and you can buy stick-built houses for less than the lot rent.

- The unpopular SAFE Act will be repealed for mobile homes.

- The manufacturers of mobile homes will realize that the biggest source of customers in the U.S. are park owners, and they will design models that are even cheaper and more stripped down, all to fit the affordable housing genre.

- New advancements in pipe replacement and road surfacing will make the aging park infrastructure easier and less expensive to repair and replace.
- The combination of lower incomes for well-educated younger generations, and the potential for popular cultural chic, will create a new affordable housing option – mobile home parks that are filled with a new, more hip mobile home product, which elevates mobile homes from a lowly status to a fashionable housing model (as the industry enjoyed following WW II. This will happen, however, in only select locations – probably beginning in California.

- The failure of one or more of the current mobile home manufacturers, who realize that sales are never going to go back to pre-2000 levels, and throw in the towel.

- Further decline of mobile home retailers, who can't make any money and finally retire.

- The advent of factory-direct buying for all mobile home consumers, supported by regional manufacturer show centers. Loyalties to dealers have been holding back this logical step, but at some point, the manufacturers are going to have to let the dealer network die.

- The failure of one or more of the largest park operators, who have too much debt and failing business models, which are based on upscale homes with excessive lot rents and home prices. Nobody is ever going to pay $70,000 for a mobile home, or $700 lot rent on a long-term basis. Many of these parks will not pass muster when the notes come due.

- The elimination of popular industry "gurus" who have no real-life experience. They spend all their time debating how to re-name the industry, along with other trivial wastes of time are not of value.

- The creation of a new industry organization to replace MHI, which has relied too heavily on retailers, and has never given enough attention to mobile home park owners.

- A sudden flurry of activity in the stocks of the better mobile home park REITs, as investors realize that almost all the other commercial real estate niches – office, retail, and hotel – are useless. The long-term dynamics of the other asset classes – except apartments – are terrible, and the returns will follow suit.

These predictions are based on current reality and future assumptions. Some may miss their mark, but the majorities are correct.

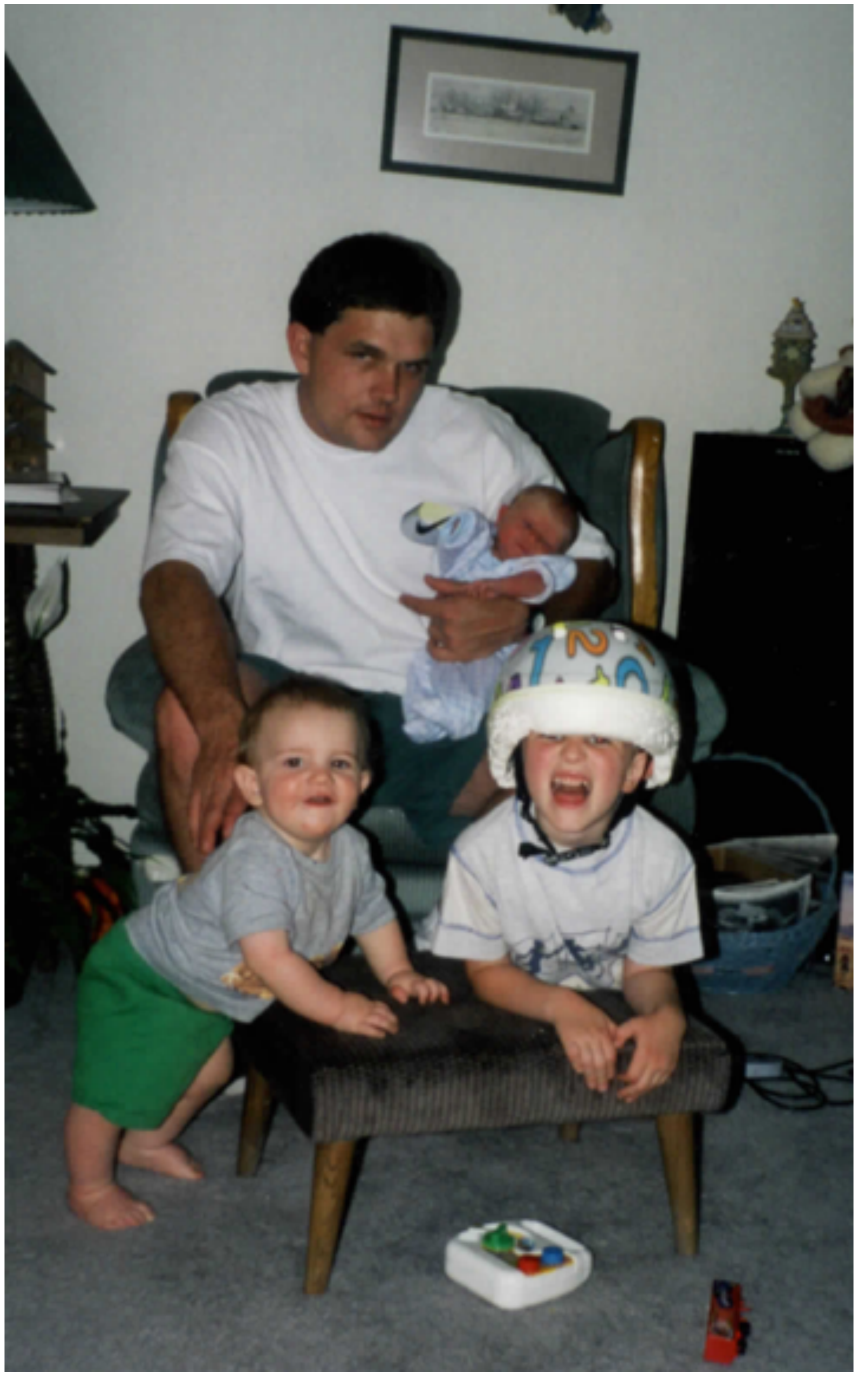
CONCLUSION

Frank and Dave have had one of the most successful careers in the history of the mobile home park industry. Part of it was sheer luck; they got into the business at the right time, when nobody cared about mobile home parks, and opportunity was all around. A bigger part was based on Benjamin Franklin's assertion that "due diligence is the Mother of good fortune." From the beginning, they recorded their mistakes and paid attention to what worked. They are fanatical about due diligence on every park they buy, and stay clear of parks that have difficult exit strategies. "We've always felt that you can control a park's performance by modeling it based on realistic assumptions," said Dave. "If we build a reasonable budget, and the park can hit that budget, then disappointment is not an option."

Frank and Dave have also been very good at predicting future shifts and trends. This has helped them to formulate macro strategies ahead of other operators. "When I sold out my first portfolio of parks," said Frank, "everybody thought I was an idiot. They thought that values were just going to keep on going forever. Nobody was paying attention to the fact that values were outpacing net income increases, and cap rates were ridiculously low. A lot of being good at following industry shifts and opportunities is not to listen to everybody else. The crowd is always wrong."

How big will Frank and Dave's current portfolio grow? Will they end up being in the top 10 in size? They don't care. "We've never cared about size," said Dave. "The industry is littered with big operators who have failed or are on the edge of failure. At some point, they lost track of the goal of buying good deals, and opted instead just to blimp up. There are no efficiencies in being large, other than risk diversity. We'd rather be highly profitable and small than giant and weak."

People often ask why Frank and Dave continue to write about and teach their popular boot camp on the industry. "We have been teaching as a hobby for our entire lives. Frank has been teaching public speaking for fun since college, and I've taught college level accounting for entertainment. When you know how to do something, it's fun to show others. It's also a form of therapy – to put down on paper what the lessons learned have been. It keeps you introspective and makes you a better park operator," says Dave.



If you ask Frank and Dave what their greatest contribution has been, they will both tell you it's been as a husband and father. "Number one on our priority list has been our families from day one," said Frank. "I plan my schedule around my daughter's school activities, and Dave does the same based on his sons' sports games. Some of Dave's best experiences were in coaching his sons in basketball and baseball."

You can always find Frank and Dave in their home offices, in their tiny towns in Missouri and Colorado, looking for the next industry shift, the next great deal, and next opportunity to fill a lot, raise a rent, or cut a cost – and you can always hear their family in the background.