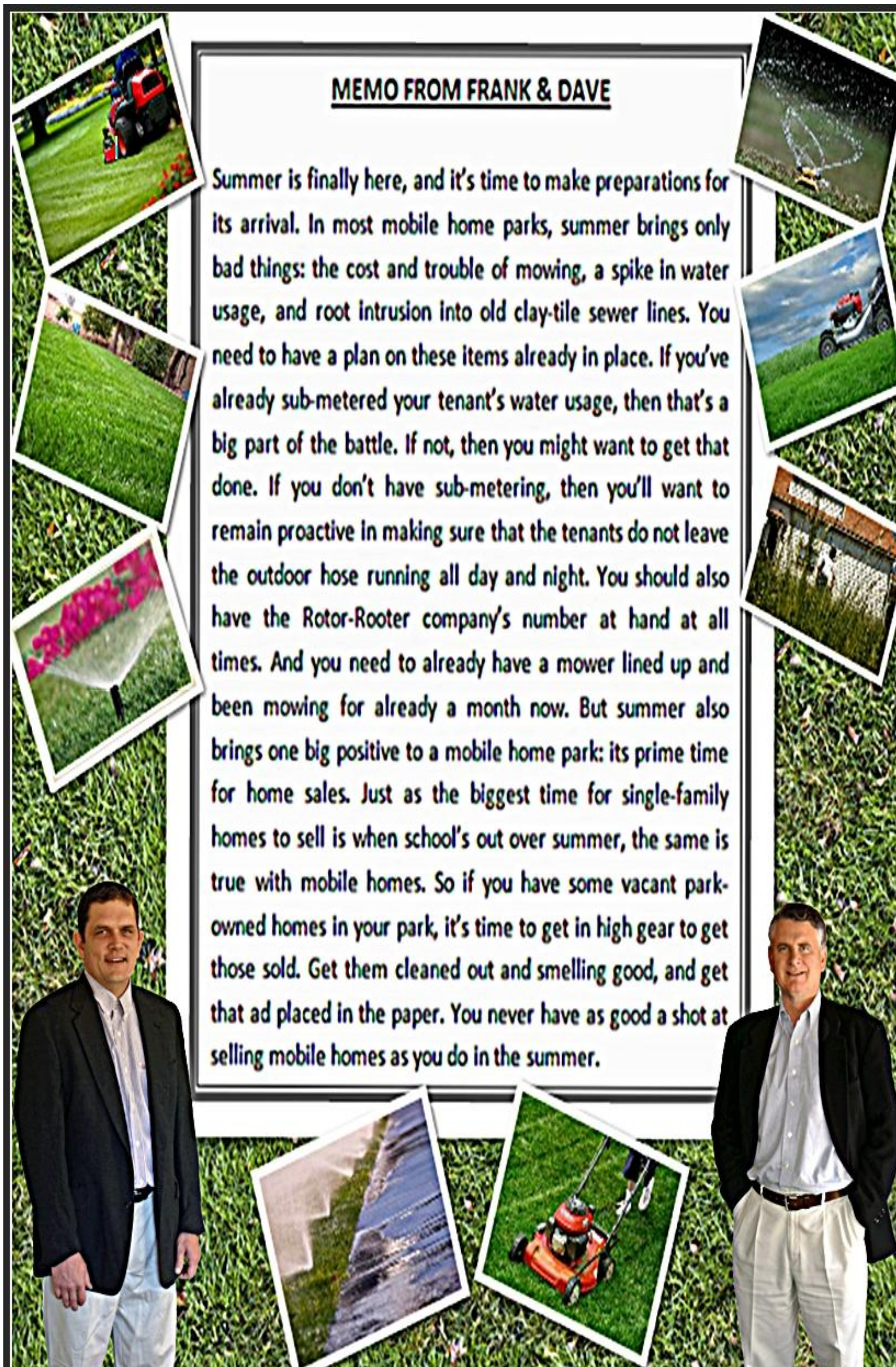
MOBILE HOME PARK MONTHLY

June 2012

The Mobile Home Park Investment Study Course includes 24 hours' worth of material that will teach you how to BUY, SELL, OPERATE, AND TURNAROUND any Mobile Home Park.



Current REIT Stock Prices as of 05/31/12

Equity Lifestyle Properties (ELS)
65.86 up 0.34
PE Ratio – 199.58

UMH Properties Inc. (UMH)
10.13 down -0.18
PE Ratio – 59.59

Sun Communities Inc. (SUI)
41.21 up 0.71
PE Ratio – 824.20

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THOUGHT FOR THE MONTH

Nathan Bedford Forrest, the top confederate general in the Civil War, had a simple business plan. He thought that everything in life works better if you "put on your bayonet and run, screaming, at the enemy". In other words, total focus and enthusiasm is your best path to victory in everything from mobile home parks to washing your car. A half-hour of fierce work is better than two hours of half-hearted pandering.

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HOW TO NEGOTIATE A MOBILE HOME PARK WITH PARK-OWNED HOMES IN IT

One of the great challenges in mobile home park acquisitions is dealing with parks that contain large amounts of park-owned homes. Often, the difference between success and failure in these parks is based on how well you can work around the vast gap between the seller's valuations of these units versus the reality of what they're worth. Many parks contain a few park-owned homes – maybe 5% of the total number of occupied lots – and in those parks the numbers are rarely large enough to kill the deal. But in parks with vast amounts of park-owned homes – such as 20% to 50%+ -- the biggest part of the negotiating process are these homes.

What are these homes really worth?

Unlike cars, you cannot just whip your NADA guide to home values and have a good handle on the value of a mobile home. Although NADA actually does produce such a reference tool, the values, in our opinion, are erroneous – often wrong by 100% either up or down. That's because mobile homes are not really valued by the consumer based on make and model. A Mercedes and a Hyundai is the same commodity if the shopper is just looking for a basic means to get from point A to point B, and most mobile home park residents see the mobile home as basic shelter, nothing more. They are not that worried about which manufacturer uses the best carpet, or cabinet hardware. So when valuing a mobile home, the key item to consider is what basic shelter is worth. At its most crude form, mobile homes have basically three different categories of value: 1) old 1960's and 1970's flat-roof and similar homes with tiny rooms – nothing more than shelter – are worth between $1,000 to $4,000, based on condition 2) 1980's round-roof and 1990's early pitched-roof homes with at least one big bedroom and a more pleasant floor-plan are worth between $5,000 and $15,000, based on condition and 3) 2000 and newer homes, with modern floor-plans and an attractive appearance are worth $16,000 to $30,000, based on condition. This general rule of thumb is hugely based on the market you are in. A mobile home in Los Angeles is worth up to ten times more than a small town in Arkansas. But this will give you an initial guide to basic mobile home values.

Mobile homes must never be valued at the same cap rate as the mobile home park.

Regardless of how you value the park-owned homes, one method is 100% wrong. And that's capping the home income in the same manner you would the lot income from the park. Let's look at a quick example of how this can ruin you. Let's assume that a mobile home rents for $500 per month, with an underlying lot rent of $220 per month. That leaves a $280 per month revenue from the home. When you take out insurance of $25 per month, and taxes of $25 per month, that leaves $230 per month – so the home makes $2,760 per year. At a 10% cap rate, that makes the home worth $27,600, right? Wrong. You've made two terrible assumptions. The first is that you have not left adequate room for repairs, vacancy and bad debt. But the more important flaw is the cap rate you have used to determine value. 10% is appropriate for lots, but it is *never* appropriate for homes. What is the correct cap rate? Well, maybe it's 20%, maybe it's 50%. But don't worry about a cap rate on the homes. You need to go with the *commodity* value shown above. You'll find $2,000 old homes that, at a cap rate, would be worth $20,000. Stick with the commodity value, or you'll get yourself in terrible trouble.

So how do you convince the seller that the $20,000 (at cap rate) home is worth $2,000?

It's really hard. But one thing that helps you out is the real economics of renting mobile homes. As you recall from the paragraph above, the real costs associated with a rental mobile home are the underlying lot rent, insurance, property tax, repair and maintenance, vacancy, bad debt, rental commission, etc. Often, when you add up these costs, they equal or exceed the revenue the home brings in. So when you split the seller's financials into two categories: 1) lot rent and its related costs and 2) homes and their related costs, often the net is zero. That means that you can pretend to give the home's value to the seller, when in fact they have already been negated in the seller's financial statement and, accordingly, the price for the park.

TIP ON HOW TO MARKET MOBILE HOMES THIS SUMMER

When you are trying to sell or rent mobile homes, the key place to advertise is in the largest newspaper in that metro area. Identify the park's location in the ad with the town in all caps. Don't put the ad in just the local small-town newspaper, or Green Sheet, or Thrifty Nickel – the readership is too low and that's not where home shoppers look. Most everybody, when looking to buy or rent a mobile home, goes to the classifieds in the nearest large city. If you skip this step, your call volume will be a fraction of what it could be. Also, don't forget about Craigslist. It's free and has a large volume of traffic, too. Summer is peak selling season for mobile homes – don't miss out on the sales rush!

BOOT CAMP ALERT!

THE NEXT MOBILE HOME PARK BOOT CAMP IS GOING TO BE IN DENVER, CO ON JULY 13-15, 2012. FOR MORE INFORMATION, CONTACT SHARON AT (800) 950-1364 OR EMAIL HER AT SHARON@MHPS.COM OR VISIT MOBILEHOMEPARKSTORE

THIS IS AN OPPORTUNITY YOU DON'T WANT TO MISS!

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<u>When you have to use that card, let them keep the homes.</u>

In the case of the most stubborn seller, who wants more for the homes than they are worth, the best approach is often to let them keep the homes and just pay you lot rent. They are then free to rent them and make the fortune that they claim they generate. Normally, the smart seller will see the bluff and give in. The dumb seller will keep the homes and then later, after losing thousands of dollars, give them back to you. Because, any way you cut it, when you subtract the lot rent, mobile homes are not a profitable endeavor.

<u>Conclusion</u>

Very few mobile home parks have zero park-owned homes. That's O.K. All you have to do is understand their values and negotiate accordingly. The key is to focus on the lot rent – that's where the money is. As for the homes, they are a necessary evil that all park –owners must learn how to work around.

<u>Rate shopping…is that your lowest rate??</u>

I've often said that if I had a dollar for each time I am asked during the year…
'So…what's your lowest rate?' A mortgage professional can tell that a client is shopping rate only. Since we work with clients all over the country and can't see you on the phone, we can tell by the questions you ask and the answers you provide.

Is it a purchase or refinance?
How much did you invest?
How long have you owned the property?
How long do you plan to keep it?…and so on provide invaluable pieces of the puzzle to help us help the client to obtain the best financing possible. Albeit the rate is important, if you get into the wrong program the rate can become secondary.

Let's start with a refinance…Just today I received a call where the client would like to refinance a property he purchased just 4 months ago. Suddenly, the property is worth twice as much as he bought it for and he is looking to get $800,000.00 cash out when he just invested $160,000.00 initially. Sound fishy?? Well, it is and that is the way an underwriter looks at it too. Most lenders require a minimum of a year's seasoning on a loan or purchase, even if you paid cash, before they will allow a refinance on a given property. It makes sense when you think about it…they want to see how well the property will perform with the new owner to insure they are a capable (translated 'profitable') operator that they can entrust to make the payments. So even with the lowest rate, this scenario could not effectively service the debt or meet lending guidelines.

Debt service is another issue with all loans. I know we're in for a challenge when I ask…
"What is the NOI (net operating income) on the property" and the borrower launches into an illustrious speech about how great the property's gross income is and how wonderful the property performs. About the third time I try to interject only to hear the sound of crickets or more of his wonderful, overinflated, accolades…I know we are headed down a bumpy road. The property must debt service the loan and if it can't debt service, then even the lowest rate in the world can't help.

Another one is the client who is looking to 'flip' (buy and sell in less than a year) property. I may have a program with the lowest available rate of anyone in the country but if it carries a 'step down' prepayment penalty, he may end up owing much more than the 'low rate' could ever save him when he goes to sell that property during the prepay period.

Oftentimes we get the client who has been paying for several years on an 'owner financed' property and is looking to get permanent financing through a conventional product. I had one last year that the lowest rate definitely applied to. The client was in his 70's and had owned the property for many years. The 'owner financing' was designed to keep the former owner 'fat and happy' with a 10 year prepayment penalty and 10% interest rate with a 15 year amortization. Needless to say, he saw this elderly gentleman coming and really took advantage of the situation. This client needed and more than deserved the very best terms possible, particularly because of the less than favorable 'owner terms'. I wish I could have been at the closing (it was out of state) when the client signed the papers for the new loan we provided with a 25 year amortization and 5% rate. It nearly doubled his cash flow and got him the cash out necessary for the property improvements he had wanted to do for many years.

Cash flow is the most important thing to the majority of our clients. I often tell new investors that it is much easier to have a 25-30 year amortized payment than a 15 year amortized payment. If there is no prepayment penalty, you can always apply some additional revenue to the principal without spending the 'rainy day' fund when the market changes, as it did in 2008. Our goal is to put the client into the best product for their needs, which doesn't always carry the lowest rate.

If you are an experienced investor, with excellent reserves and strong resume, lenders will compete all day long to get you the lowest rates. Take that same investor who is just coming out of the recession with a property that was built in 2008, failed to ramp up for a couple of years due to the economy and you'll find yourself waiting in line for an underwriter's attention and a premier rate. That's where a mortgage professional can save you time and money in the marketplace. Armed with product knowledge and the programs that will help you survive a tough economy, we can place your loan into the right product to insure you success and keep you cash flowing.

Now there are exceptions to every rule…When you have a high quality property, a low LTV (loan-to-value) and a stellar resume with the PFS (personal financial statement) with a net worth well beyond the value of the subject property, then yes, let's find the lowest rate possible! This client is looking to 'buy and hold', is not concerned with a prepayment penalty since he is keeping the property to will to his grandchildren in 30 years and is genuinely worthy of the lender's lowest possible rate and best terms available.

As always…ask yourself, "
"Would you lend money to you?"

Anita Huedepohl
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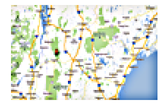
Mobile Home Parks for Sale

- New York, NY
- $4,100,000

For more information, contact Don Dunton of Dunton Commercial Properties at 603-755-3944

- Somewhere in Vermont
- $795,000



For more information, contact Don Dunton of Dunton Commercial Properties at 603-755-3944

- Elwell, MI
- 32 Lots
- $450,000

For more information, contact Leslee Smith of Michigan Lifestyle Properties at 269-420-4487

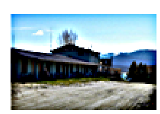
- Winter Haven, FL
- 23 Lots
- Cap Rate is 20.0%
- $399,000

For more information, contact Joe Lafleur of Marcus & Millichap at 407-557-3863

- Sarasota, FL
- Size is 16 acre(s)
- Cap Rate is 8.0%
- $9,300,000

For more information, contact Jonathon Mcclellan of Marcus & Millichap at 216-264-2023

- Granby, CO
- 29 Lots
- $1,500,000



For more information, contact Crystal Eidson of REMAX ALLIANCE at 303-378-8533