

An Investment Overview Mobile Home Parks

**A Focus on Cash Flow & Capital Growth
with Recession-Resistant Real Estate**



Mobile Home Parks

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Introduction

Our firm specializes in mobile home parks (or, in the latest versions, manufactured home communities). For over 25 years, we've helped our partners, clients and affiliates looking for stable, high cash flows, safe investments and net worth growth.

It's no secret that mobile home parks have been the target of savvy investors for many years. Recently, this sector of the real estate universe has garnered greater interest. Several articles appeared in the Wall Street Journal, The New York Times and Bloomberg Reports about "parks" as a niche with unique investment features. Investors from all walks of life interested in value, cash flow, and growth, have been attracted in droves.

The following is an introduction to this real estate sector and key features, many of which do not exist in other property types. [At the end of this overview](#), there is a [Cash Flow Example](#).

Before going further, here's how I started, 25+ years ago... I was working with a real estate investment company in Portland, Oregon, focused on apartments and self-storage properties. After three years with the firm, where I was in charge of property acquisition, a jump in interest rates brought on a recession, resulting in increased unemployment. Uncertainty pervaded the investment community. Vacancy levels increased in apartments (and most other property types) resulting in reduced cash-flows, with many properties experiencing serious problems in terms of their performance and ability to meet their financial obligations.

In contrast, mobile home parks were doing fine. No vacancy issues, no cash-flow problems. A business associate and I decided to buy a 72 lot community for tenants 55 years and older (a "55+" park). We formed a limited partnership and bought it. The park was 100% occupied; all rents were paid on time when many other types of real estate were feeling the pain of the recession. We then bought another park containing 49 lots, also 100% occupied.

Since that time, our team has been involved in the purchase of 100+ communities (both mobile home parks and RV parks) in 13 states, from 49 spaces to over 1,000 lots. Those parks are worth more than one billion dollars. Many have changed hands over the years, several sold to large Real Estate Investment Trusts (REITs) and others to private investors.

Today, the demand for mobile home parks flourishes, from coast-to-coast, bringing in many new smaller investors, as well as some of the country's largest investment companies.



Traits of Mobile Home Parks (occasionally, Manufactured Home Communities and Trailer Parks)

The investor/park-owner, owns the land and improvements (streets, fencing, landscaping, portions of the utility systems, clubhouse, swimming pool, and so on) and tenants generally own their homes. Residents pay rent for the space (or lot) where their home is sited, and for the use of the facilities.

Investors focus on these assets for several reasons:

- In many areas, the demand for home-sites exceeds supply, so vacancies are few.
- The tenant leases the lot, however, at the same time, is a “home-owner”; they have an interest in maintaining the value of their investment. (There is an exception to this, where the park-owner owns homes, to maintain high occupancy and enhance the return on investment).
- If the tenant fails to pay the rent, the property owner can secure the rent owed against the home, and obtain it, if rent goes unpaid. This level of security is not generally found in other investment properties.
- Although homes can be moved to another lot, they are not very “mobile”. Costs of moving and setting up the home in a new location can run up to thousands of dollars, so homes are sold in place, maintaining high occupancy and consistent income.
- Land use restrictions and local economic environments have made it difficult to get zoning for parks, creating a significant “barrier to entry” (a hindrance to building a competing property nearby). In contrast, most other property types do not have this barrier against competition.
- Mortgage loans and financing rates for these communities has been favorable, as lenders are aware of the low risk associated with this asset-class.
- Operations and maintenance issues are generally less than other property types, (where substantial improvements and buildings require on-going care, up-grades and renovations).

From Trailers to Manufactured Homes

Affordable housing has changed over decades. The beginnings of the modern manufactured home originated with small travel trailers in the late 1920's, then evolved into defense-worker housing in the 1940's, to trailers, to mobile homes of the late 1950's to 1980's, then the highly systematized factory-built homes of today. These are generally all referred to as "mobile homes."

Manufactured homes are constructed per the HUD Code (Department of Housing and Urban Development), produced in a controlled factory environment, minimizing waste, eliminating the effects of weather, maximizing efficiency and quality-control, using computer-aided techniques and built to strict standards. This evolution has attracted major investors - Warren Buffet's Berkshire Hathaway firm has made major investments in manufacturers (and home-lenders).

When completed, the homes are transported to their destination where they're set up, connected to utility systems and ready for occupancy. A single section home today might be 14 feet by 76 feet, totaling 1,064 square feet. Double-section homes are common, with typical homes of 28' by 60' (1680 square feet) with many much larger homes.

Parks developed decades ago are populated by older, smaller homes, which are often upgraded and renovated at reasonable cost to extend their life and ability to provide affordable housing.

The Evolution of the Mobile Home Park

As Americans discovered travel by car to warmer winter climates, trailer parks appeared in California, Arizona, Florida and other vacation areas. This provided for an inexpensive home while "leasing" the land, instead of buying it, keeping the cash investment small. Over time, real estate developers established parks across the country for vacation homes, as well as communities in towns and cities, expanding the affordable housing stock.

Today, there are approximately 50,000 mobile home parks in the country, varying in size from just a few lots, to over 1,000 per community. Prices range from a few thousand dollars per lot, say, \$7,000 where rents are very low, to well over \$100,000 per site in costly housing markets. Likewise, rents can vary from the low \$100's per month, to \$1,000 or more in the very expensive locales.



Types of Parks

There are two major types of parks; the vacation/destination or retirement park, and the local home-town community. These are further categorized into age restricted parks for people over 55 years, and "all-age" parks ("family" parks). These vary in quality and age, with older parks offering much-needed affordable housing option. Newer parks have fewer homes per acre of land; the modern manufactured homes look like "stick-built" housing that was constructed at the home-site.

The location, age, quality of homes, improvements and amenities (clubhouse, pool, golf course, activity director) influence the rent levels in a park. The same features also influence the value or price of a park, while other economic factors influence its value, both to the resident and investor.

Plain-looking parks, with older homes, bring higher returns to the investor, while the "high-end" communities have lower financial returns; just as it is in the world of apartment investing, where splendid complexes are pricy and pay lower returns to the investors.

Many parks, particularly older, neglected properties, offer considerable "up-side" in the value, where good management and smart investment result in more significant, often "double-digit" returns to the investor. Vacant spaces offer more opportunity, as bringing in homes to either sell or rent can result in really large increases in cash flow.



Investment Attributes

Major factors of an investment include the quantity, quality, and viability of income. This can be applied by the following in the mobile home park sector:

- **Stable Income** – Due to expensive costs to relocate and demand for spaces (lots) in many markets, turnover is far less than apartments.
- **Lower Operating Costs** – A small area of the property is improved with buildings, so maintenance is limited to roads, common areas, community-owned structures and utility services. Tenants usually own their homes and are responsible for the upkeep, so management and maintenance staff are limited. Turnover is not usually a major issue; for example, apartment turnover may be 50% or more per year, while parks might average 10% to 15% per year.
- **Recession Resistant** – In an economic downturn, affordable housing becomes more important, compelling more people to seek out less costly housing options. Larger numbers of people seeking affordable housing benefits the park-owner during a down-turn or recession.
- **Increasing Returns** – High occupancy with low operating costs provide attractive, predictable cash flows. Rent increases usually are made yearly, while controlling expenses results in growth cash flow.
- **Appreciation** – The limited supply of parks has become significant as the “baby boomer” generation ages and seeks retirement areas, while housing costs in general have increased the number of people looking for affordable housing. Good management, upgrades with capital to invest wisely, and increases in rent add value to the property.
- **Tax Benefits** – It is sometimes a surprise to the investor that mobile home parks offer substantial tax benefits. The amount of depreciation available in this property-type is similar to apartments and other improved real estate. This leads to potential tax-sheltered cash-flow in the early years of ownership of the asset.



Investment Considerations

The purchase of a property considers its current income, cost of operations, occupancy, income growth potential, location, condition, financing, and demographic factors.

The financial returns (cash flow and yield) varies with these communities. For instance, a high-end park for retirees might return 5%-7% in cash-flow on the investment, while a lower quality park, can yield 9% to 12% or more. Parks can be bought for "all-cash", which typically results in lower returns than when using "leverage" (getting a loan for part of the purchase price). A typical deal might have a loan of 60% to 75% of the purchase price, with a cash down-payment making up the balance.

Parks can also be "land banks" - the value of the land can increase over time, when a change of use to a shopping center, hotel site or other development results in the land becoming worth more for redevelopment than to continue its use as a park.

Depreciation is also a valuable benefit of ownership; there is a significant portion of the asset that can be depreciated (roads, underground utility systems, signage, fencing, lighting systems, clubhouse, and others). Much of the income can be sheltered from income taxes as a result.

These factors lead to an acquisition of a property that will generate several benefits. Effective management resulting in increased net income can lead to substantial profits.

The selection of the right buyer, the timing of sale, and property preparation are important factors in maximizing profits at the time of sale.

This fact is that affordable housing is an important socio-economic issue now and into the future. This property type provides a needed option for starter homes and lower cost housing to many people. The mobile home park will help satisfy part of the need, and continue to be a desirable and profitable investment for many years to come.



Cash Flow Example

Take a look at this for a basic overview of a deal. There are many variables but the components of an investing in this arena are the same. There's always opportunity to improve the results from a well-selected property in the right market, with bright ideas, hard work and smart operations.

The Gold Mine Mobile Home Park			
Deal Summary			
Price	\$4,000,000	Spaces/Lots	150
* Capitalization Rate	8.2%	Price Per Space	\$26,667
Income Projection			
Number of Spaces	150	Gross Income - Year	\$540,000
Rent per month	\$300	Less: Vacancy	<u>-\$36,000</u>
Vacancies	10	Adjusted Gross Income	\$504,000
Funds Required		First Mortgage Loan	
Price	\$4,000,000	Loan Amount	\$2,800,000
Mortgage - 70%	<u>\$2,800,000</u>	Interest Rate	5.25%
Down Payment	\$1,200,000	Loan Amortization Years	25
Other Costs	<u>\$50,000</u>	Loan Payment Per Year	\$201,347
Total Investment	\$1,250,000		
Cash Flow Projection - First Year			
This Section Forecasts the Result for the First Year of Operating the Park			
Gross Income - Year	\$540,000		
Less: Vacancy	<u>-\$36,000</u>		
Adjusted Gross Income (AGI)	\$504,000		
Less: Expenses at 35% of AGI	<u>-\$176,400</u>		
Net Operating Income (NOI)	\$327,600		
This Section Shows the Financial Result After A Full Year			
Net Operating Income (NOI)	\$327,600		
Less: Loan Payments (12 months)	<u>-\$201,347</u>		
Cash Flow	\$126,253		
Return on Investment (ROI)	10%		
* Capitalization Rate is a real estate financial measurement determined by dividing the Net Operating Income (NOI) by the Purchase Price.			

In this example, note that the first year cash-flow is 10%. The following year should improve after a rent increase is implemented, and vacant spaces begin to become occupied. If half the vacant spaces get "filled", the income goes up by \$18,000. This increases the return by 1.5% to 11.5% per year. More data can be provided on all of this. Contact Lee@parkbridgecapital.com. We look forward to helping with your investment into the world of mobile home park ownership.

Conclusion

These communities offer the opportunity to own real estate that focuses on a secure and low-risk investment with consistent cash-flow, while providing much-needed affordable housing. In fact, as housing costs rise, and economic conditions become difficult for many households, this housing type becomes even more attractive to those looking for affordability in their home.

A smart strategy backed by years of experience in acquisitions, financing, management and sales, can yield plenty of secure, increasing cash flow and profit for the park investor. We're here to serve you. Contact Lee@parkbridgecapital.com with comments, questions and to get a successful investment plan implemented.

About the Author

Leon (Lee) D. Meekoms - Managing Partner and Founder of Parkbridge Capital Group, a real estate investment and advisory firm (offices in the Tampa Bay area and Portland, Oregon). Lee has been involved in this sector for over 30 years.

He and his team have been involved with the purchase of more than 100 mobile home communities and RV parks throughout the country, with current value in excess of \$1 billion. He has arranged or participated in lending relationships for over \$300,000,000 in long-term financing for many communities, including the first CMBS (commercial mortgage-backed securities) loans in the US in 1991.

He has been a guest speaker for other professionals in the park business, at industry events on the topic of analyzing and evaluating communities for investment.

Lee is a principal in Parkbridge Capital Group (real estate investment activities) and Parklane Real Estate Services, a full-service property management firm; Lee's partner in the management firm, Dora Steed, was a senior executive for some of the largest park investment firms in the US, overseeing more than 300 communities, involving 400+ staff and parks ranging from 60 spaces to 2,000+ spaces.

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Across the US, from the Northwest, to the Southwest, to Texas, Florida, New England, and points in between, affordable housing appeals to an increasing number of people. An excellent choice for both tenants, and for investors helping to provide for this need.



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PARKBRIDGE CAPITAL GROUP

Mobile Home Parks Manufactured Home Communities and RV Resorts

The Following is a Partial List of Our MH & RV Parks Deal History

Park	Location	Lots	Park	Location	Lots
King Village	Portland, OR	129	Carriage Cove	Daytona Beach, FL	418
Glenwood Park	Medford, OR	156	Shady Road Villas	Ocala, FL	188
Indian Bluffs	Portland, OR	100	Paddock Park South	Ocala, FL	130
Holiday Village	Vero Beach, FL	128	Sweetbriar	Lewes, DE	140
Ranchland	Vero Beach, FL	107	McNichol Park	Lewes, DE	93
Em Ja Ha	Phoenix, AZ	115	Aspen Meadows	Rehoboth Beach, DE	200
Pacific Village	Medford, OR	82	Camelot	Rehoboth Beach, DE	302
Northgate	Reno, NV	211	Pine Tree	Deerfield Beach, FL	316
Clairmont	Portland, OR	188	Windmill Manor	Bradenton, FL	292
Sans Souci	Tacoma, WA	252	Silveridge	Mesa, AZ	690
Colony Park	Modesto, CA	187	Mesa Regal	Mesa, AZ	1795
El Dorado	Portland, OR	181	Rolling Greens	Ocala, FL	1084
Royal Villas	Portland, OR	243	Country Meadows	Plant City, FL	736
Columbia North	Vancouver, WA	83	Countryside North	Vero Beach, FL	646
Creekside	Grand Rapids, MI	165	Greenwood Village	Long Island, NY	552
The Landings	Daytona Beach, FL	436	Fairview Manor	Tucson, AZ	233
Orangewood Shadows	Mesa, AZ	478	The Resort	Mesa, AZ	792
Hearthwood	Portland, OR	104	Southern Palms	Eustis, FL	1133
Thunderbird	Olympia, WA	120	Royal Holiday	Hemet, CA	199
Bowman Hilton	Tacoma, WA	160	Eden Roc	Hemet, CA	291
Holiday Palms	Mesa, AZ	187	Laguna Lake	San Luis Obispo, CA	290
Plantation at Lantana	W. Palm Beach, FL	214	Sunflower	Sun City, AZ	1107
Pickwick Village	Daytona Beach, FL	432	Fun-n-Sun	Harlingen, TX	1486
Pine Lakes	Prescott, AZ	316	Meadowbrook	San Diego, CA	332
Medford Estates	Medford, OR	244	Santiago Estates	Sylmar - L.A, CA	303
Harbor Oaks	Leesburg, FL	253	Rancho Mesa	El Cajon, CA	158
Indian Oaks	Rockledge, FL	211	Boulder Cascade	Las Vegas, NV	299
Riverbend	Portland, OR	220	Sherwood Forest	Orlando, FL	769
Lakeside Village	Salem, OR	220	Tropicana Palms	Las Vegas, NV	532
Lamplighter	Melbourne, FL	639	Sierra Lakes	Sacramento, CA	228
Val Vista	Mesa, AZ	1016	Continental Manor	Santa Ana, CA	258
Heritage Village	Portland, OR	445	Fiesta Village	Mesa, AZ	172
Carefree	Phoenix, AZ	175	Brentwood West	Mesa, AZ	350
Desert Skies	Phoenix, AZ	130	Floranda	Delray Beach, FL	95
Hillcrest	Clearwater, FL	281	Havenwood	Pompano Beach, FL	120
Holiday Ranch	Largo, FL	150	Palm Beach Traveler	Lantana (Palm Beach), FL	105
Sunrise Heights	Phoenix, AZ	200	Western Hills	Davie, FL	405
The Meadows	Chico, CA	212	Orange Blossom	Davie, FL	101
Cielo Grande	Mesa, AZ	275	Triple T	Glendale, AZ	177
Camelot East	Sarasota, FL	434	San George Estates	Medford, OR	175
Camelot Lakes	Sarasota, FL	534	White Sands	Apache Junction, AZ	69
Brook Garden	Buffalo, NY	426	Quail Run	Apache Junction, AZ	103
Gettysburg Estates	Cincinnati, OH	197	Friendly Village	Tucson, AZ	97
Olympia Glade	Grass Valley, CA	173	Cherry Blossom	Portland, OR	76
Windsong	Indianapolis, IN	268	Knoll Terrace	Corvallis, OR	212
Gold Dust & Gold Days	Apache Junction, AZ	79	Rosewood	Eugene, OR	159
Superstition Mobile	Apache Junction, AZ	50	Springbrook	Newberg, OR	125
Five Seasons	Cedar Rapids, IA	389	Park Place East	Mesa, AZ	172
Naples Estates	Naples, FL	484	Rambling Hills	Columbia, CA	56
May Manor	Lakeland, FL	295	Palm Shadows	Donna/McAllen, TX	450
Shenandoah Springs	Thousand Palms, CA	1816	Paradise Park	Pharr/McAllen, TX	443

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