

Buy Your Park From Mom and Pop – Before It's Too Late

By David E. Loop
GSMOL VP -
Resident Owned MH Communities
831-688-1293
deloop1@gmail.com

Do you live in a family-owned manufactured-home park? If so, this article is for you. Sooner or later, the park will be put up for sale. The buyer will probably be a real estate investment partnership, limited liability company or for-profit corporation.

Manufactured-home parks are valuable multifamily rental properties, much sought after by real estate investors. These investors have lots of money to spend. Eventually, most family MHP owners will "cash out" and retire - all that money is very tempting indeed.

When the family sells the park where you live, your situation is likely to change for the worse. Rent was affordable under family ownership. But many investors view park residents as a way to make money – nothing more. Your rent will start climbing after the investor owns the park.

You'll have some protection if your area has a rent stabilization ordinance (RSO). But if the RSO allows the investor to pass-through increased property taxes (many RSOs do), your rent will go up. If the park is not protected by an RSO, your rent will increase (perhaps rapidly). You'll face two choices: (1) pay the ever-increasing rent or (2) sell your home (at a reduced value) and move. Today, many manufactured-home owners around California are facing these grim choices.

What Can You Do?

Your goal is to protect your economic future and quality of life from predatory real estate investors. You can achieve this by (1) organizing your neighbors and (2) buying the park from the family before they sell to an investor. If the residents buy the park, rents will stabilize and home values will be protected. You and your neighbors will have taken control of your housing situation.

Your Hole Card (and How to Play It).

The dictionary says a hole card is "an advantage held in reserve, for use at a strategic moment." When buying an MH park from a family, *your hole card is the tax advantage the family gets if they sell to your resident group.* To understand this advantage, first consider the family's tax disadvantage if they sell to an investor.

When an investor buys an MH park, they give the seller large amounts of cash (often, millions of dollars). Much of this cash will be a taxable capital gain for the seller. A capital gain is the difference between a property's basis (its current value for tax purposes) and the amount the seller gets for the property.

When a family sells a MH park, their capital gain can be huge. Their basis is low because they've owned the park for many years.

How can the family minimize its capital gains tax when selling the park? Answer: By selling it to your resident group using an "installment" sale. Your resident group pays for the park over time, not in one lump sum. This spreads the family's income from the sale (and their tax liability) *over time* as well. Unlike being paid "all cash," an installment sale can save the family many thousands of dollars in capital gain. The installment sale method is your "hole card." Investors don't use this method because it doesn't put enough of their money "in play" at one time.

An installment sale works like this: (1) The family sells the park to the residents' nonprofit corporation, and the corporation becomes the park owner. The park's real estate is the collateral for the family's mortgage loan to the residents' corporation. (2) Your corporation's monthly mortgage payments give secure, regular income to the family that is taxable only when they receive it. (3) The family has avoided a capital gain tax "bite" since they were not paid in full when the park was sold.

Your Action Plan.

Be cordial and businesslike with the family-owner. Send them a letter saying:

- Your resident group is interested in buying the park;
- The residents can create a nonprofit corporation that will pay top dollar for the park property;
- The residents' corporation can get commercial mortgage financing to buy the park. However, an installment sale would help the family with its potential capital gains tax problem.

Please contact me if you live in a family-owned MH park. I'll help you communicate with the owners in a way that may lead to resident park ownership. If you live in a family-owned park, but don't have time or energy to work on this, you can still help. Please give this article to another resident (or residents) who might take a leadership role, and ask them to contact me. By exploring this idea, you and your neighbors have everything to win - and nothing to lose.