Buy Your Park 101

By David Loop, GSMOL Vice President for Resident Owned Communities

BUY YOUR PARK 101

WHY DO IT?

- To stabilize your monthly housing expenses over the long-term.
- To secure the value of your homes.
- To make your homes easier to sell.
- To avoid problems if local MHP rent stabilization is ever lost or compromised.
- To build your park into a community and improve your quality of life.
- To make certain that your park will never be closed or changed to another use.
- To take control of your economic future.

WHY SO FEW?

- Approx. 200 Resident-owned MH Parks in California.
- First California park converted to resident-ownership in 1972.
- Few MHP resident groups and park owners ever consider the idea.
- Few MHP groups have leadership and organization.
- Biggest challenge: getting residents and park owners to understand how it works.
- Must be a good “deal” for the resident group *and* the park owner, or it will fail.

WHICH OWNERSHIP MODEL IS BEST?

- The resident-owned corporation model.
- Residents form CA nonprofit mutual benefit corporation.
- Corporation owns the park's real estate.
- Corporation sells memberships to residents (one membership per household).
- Participation required to close escrow: about 70% of the park's households.

RESIDENT-OWNED MHP
FORMS OF OWNERSHIP

Subdivision

Individual lot (“parcel”) ownership

Used mostly in 1980s and 1990s – rarely used today

Attempts to subdivide often fail - lack of participation - lots too expensive

Limited Equity Housing Cooperative (LEHC)

MHP real estate owned by residents' nonprofit corporation (public benefit)

Resale price of memberships limited by cooperative corporation's bylaws

Mortgage financing from government or “affordable housing” sources

These funds subject the residents' corporation to regulatory agreements

Regulatory agreements can extend for years beyond mortgage term

Advantage: member "buy-in" is inexpensive

Disadvantage: regulatory "strings" come with affordable housing mortgage $.

Disadvantage: member rents high because 100% of purchase price is financed.

Nonprofit Mutual Benefit Corporation

MHP real estate owned by residents' nonprofit corporation (mutual benefit)

Resale price of memberships is set by local market

Mortgage financing by multifamily commercial lenders

Advantage: avoids affordable housing regulatory "strings"

Disadvantage: member "buy-in" is relatively expensive

WHAT STEPS LEAD TO PARK OWNERSHIP?

Choose a qualified park purchase consultant for your group. He or she will analyze and structure the transaction, arrange mortgage financing for your nonprofit corporation, and represent your interests in negotiations with the park owner;

Communicate in writing with your park owner. Let him know your resident group is interested in buying the park, and able to do it. The message is: your group (1) would like to buy the park; (2) will pay a premium price for it; (3) has sources of mortgage financing, and (4) may be able to give the park owner capital gains tax breaks that no other buyer can.

If you can get the park owner to the negotiating "table," then:

Incorporate your residents' association (RA) as a California Nonprofit, Mutual Benefit Corporation. When the purchase is complete, this corporation will own the park;

Issue RA memberships; inform all residents on all details; sell RA memberships to participating households. The goal is to be inclusive, to help any interested resident join the RA.

Perform property due diligence to determine the condition of the park infrastructure (electric, water, gas, sewer, road systems, etc.);

Complete the transaction. Elect the RA Board of Directors. Hire a property management company to handle day-to-day operations. Close the park purchase escrow. Begin operating your park as a resident-owned community.

SOURCES OF MORTGAGE FINANCING

Conventional Financing

Banks
Commercial "multifamily" lenders
Federal Home Loan Mortgage Corporation ("Freddie Mac")

"Government" Financing

U.S. Department of Housing and Urban Development (HUD)
California Department of Housing and Community Development (HCD)
City and County government sources

Seller Financing

First and second mortgages carried-back by the park seller
Can be part of seller's tax planning (deferring income using an installment sale)

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RSO's and ROC's: The Connection

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This article is about the connection between **rent stabilization ordinances** ("RSO's") and **resident-owned MH communities** (ROC's). The connection: having a local RSO gives you a better chance of converting your park into a ROC.

RSO's. RSO's are local laws that prevent park owners from raising rents unfairly, while allowing them a fair rate of return on investment. More than 100 California cities and counties currently have RSO's. RSO's keep your rents affordable, and secure your equity in your home. And as I'll explain below, RSO's have another significant effect: they make it easier for your resident group to buy the MH park where you live.

If your city or county doesn't have an RSO, you and other local MH owners should organize and work toward getting one. An RSO is "the" thing that will protect your economic future as an MH owner.

ROC's. ROC's are manufactured-home parks where the homeowners have "bought out" the investor-owner. Out of California's 4,500 MH parks, approximately 150 are ROC's. In most cases, ROC's are owned and operated by resident-created nonprofit corporations. This "corporate" approach works better than the "subdivision" approach (a membership in the ROC corporation will cost far less than buying your "lot").

Two Effects of RSO's. Obviously, an RSO stabilizes your rent. Its second effect is less obvious, but very important. *An RSO stabilizes the market value of local MH parks.* To understand why, first consider how a MHP's market value is calculated.

What's That MHP Worth? MH parks are income-producing properties. The value of a MH park is calculated by using the "income" appraisal method. An appraiser takes the property's net annual operating income (all rents collected in a year, minus that year's operating expenses), then divides that number by a capitalization rate. The capitalization rate is the rate of return the property should generate, based on its net income. 6% is a typical capitalization rate for a California investor-owned MHP.

Three Step Logic. (1) An RSO limits how much park owners in a city or county can raise rents. (2) This also limits the net income those parks produce. (3) In turn, this limits the market value of the MHPs in that city or county.

Another RSO benefit - Discouraging Predatory Investors. If you can get your hands on a copy of the *WMA Reporter* magazine, check out the advertisements regarding MHP's for sale. Note that some of these ads say in bold type, NO RENT CONTROL. This is a not-so-subtle dog whistle that says: "Investor, buy this park! You can make lots of money! Raise rents as you please, while also increasing the park's market value!" But "aggressive" investors typically buy MHP's in areas without rent stabilization. They can make more money (quickly and easily), by buying parks in areas without MHP rent stabilization laws.

Being the Best Buyer. At the end of the day, an owner selling their MHP has one big question: "How much will you pay me?" Of course, the buyer who will pay the most usually gets the property. In 2016, a northern California park owner had his 150-space MHP on the market. The park's homeowners wanted to buy it. The owner was asking $13 million for the property. After some number-crunching, the homeowners and their financial consultant told the owner, "We can afford $11 million, no more." The owner thought it over for a while. Then he accepted the homeowners' $11 million offer. The homeowners' corporation bought the park and became its owner and operator.

But why accept $11 Million? Because no one would pay more. This MHP is protected by a local RSO. This means no investor-buyer could aggressively raise rents to increase the park's income and market value. To an investor-buyer, the park was worth no more than $9 million. So, the local RSO made the park's homeowner group the *Best Buyer* for the property.

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

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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.

ALIMUR MHP
Soquel, California

147 Sites (134 occupied, 13 vacant)

Sold to residents' nonprofit corporation Jan 2016
Participation in Park Purchase 63%

Sale Price $11,000,000 ($74,830/site)

First Mortgage
By Park Seller
$10,000,000
5.3% fixed for 10 years
15-year term

Second Mortgage
None

Membership "share" loan pool (from 3rd party lender) $500,000

Membership Price $12,000/membership (147 Memberships Offered)
Member Rent under lease with residents' corporation $555/mo
Rent under County Rent Stabilization Ordinance, average $371/mo

Notes:

Non-Participants remain under County RSO

Park Seller purchased option from Buyer to develop 13 vacant sites

Association Financial Consultant: Deane Sargent, PMC Financial Services, Medford, OR

Association Attorney: David Loop, Aptos, CA

BLUE PACIFIC MHP
Aptos, California

99 Sites (all occupied)

Sold to residents' nonprofit corporation Nov 2011
Participation in Park Purchase 84%

Sale Price $5,550,000 ($56,000/site)

First Mortgage
Red Mortgage Capital
HUD-guaranty loan (207 Program)
$5,650,000
3.25% fixed/40 year term (fully amortizing)

Second Mortgage
None

Membership "share" loan pool (from 3rd party lender) $200,000

Membership Price $10,000/membership (99 Memberships Offered)
Member Rent under lease with residents' corporation $557/mo
Rent under County Rent Stabilization Ordinance, average $360/mo

Notes:

Non-Participants remain under County RSO

Purchased through settlement of failure-to-maintain lawsuit

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