The

Mobile Home Park Manifesto

Unedited Promotional Draft | NOT FOR SALE OR RESALE

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This is an abridged, unedited promotional copy of The Mobile Home Park Manifesto. Please forgive any grammar or spelling mistakes.

The full book is completed and at the editors now. I am expecting to have a hard copy book for sale available by July 2019.

Dedication

I dedicate this book first and foremost to my father. Despite having every reason to give up on me he never did. He taught me the most important lessons in my life. That the long-term approach is always best, high-grounds and middle roads are better for your soul, love your family with no judgements or agendas, endure with your family through all of life's struggles and trust that with enough time and perspective that all lessons learned through failure will play to your eventual successes.

I must also mention my darling wife, my 3 ambitious boys and my very few best friends that have made each day better than the last since their arrival in my life. Without them my life would have less purpose.

And, lastly, to the conmen, the misguided, the advantage takers, the haters and the balloon poppers. If it wasn't for you, I would not have learned to adapt as well as I have. You have made me stronger and wiser and no amount of schooling could have given me a better education in perseverance and what not to do in times of desperation.

Authors Note:

A word about balancing morality and greed, capitalism and empathy.

This industry is capable of making a poor person into a rich person, whatever that means to you. I was once poor, extremely poor, pulling food from dumpsters kind of poor. I worked relentlessly every week. I have an excellent education and for what felt like ever I was stuck in a cycle of barely scraping by. It is a terrible situation to find yourself in. It adds an uncomfortable layer of full-time stress to your life. It creates health challenges, emotional desperation, familial problems and can feel never ending despite doing everything you can to turn the tide. Thankfully, I have a much more stable and secure situation today, in part because of the MHP industry.

I mention this because you as a park owner are essentially taking on a responsibility to the families in your park who may find themselves in a similar situation. You are providing them with one of life's most basic needs, housing. What you earn from your investment is coming directly off the backs of what is often time the poorest people in our great country. You need to be aware that they are looking to obtain a better life as well. These tenants are not just a paycheck to you, and you would be wise to always respect that.

They are living in your park and giving you what is likely 30-50% or more of the money they earn. Many are living on a fixed social security check or making $7-$12 an hour. There is nothing inherently wrong with instituting a rent increase, laws of supply and demand will dictate your success. However, just because you can do something doesn't mean you should do something, and I would implore you to really evaluate if you need to charge a $50-$100 increase on rent during the first few years.

I am an empathetic capitalist; I believe that money when used appropriately can be the one thing that can truly help to turn someone’s life around. Capitalism in its purest sense can create amazing opportunities for people at all income levels but it can also create an environment of greed and entitlement. Empathy helps to moderate the negative aspects of what capitalism creates.

I do not want to get rich on the backs of poor people. I do not want to teach you how to do that either. I do want to help as many people as I can through whatever means I can, achieve purpose and success with their efforts. I believe that the more people I help, the easier it will be to achieve my personal financial goals. Yes, it may take much longer, but the effects of using a “How can I help add value to what you are doing?” approach will avoid a negative stigma about achieving wealth when working with lower income families.

Too often you will turn on the news to hear about a park in some town you have never heard of that is forcing it tenants to vacate for a new higher income housing development project. One side of the field calls it progress, the other calls it exploitation. Even more frequently it is reported that the new owner is going to raise rents significantly despite many of the tenants being on a fixed income. Again, there is nothing wrong with charging more rent, especially if you are improving the park, but if these improvements are just bare minimums to justify an increase then you may find yourself in a position of uncomfortable defense as bad press from a local newspaper can be a real landmine to deal with.

The rental markets in most locations have been rising so fast over the last decade that most people on minimum wage cannot afford them anymore. This has helped the MHP world by creating a large enough delta in apartment rent prices to economically justify a substantial lot rent increase. Even after a significant increase the lot rent is still far below what an apartment would cost. This creates the motivation and justification from an investor to aggressively raise the rents. The tenants that own their own mobile home are all too aware that moving their home is nearly impossible despite being a "mobile" home.

Rent increase thresholds are being matched with the cost to move the home. An owner can mathematically justify an increase which can easily be $50-$100 a month. As a statement of fact, an average singlewide home can cost $5,000-$10,000 or higher to move, if it can be moved at all. The owner occupant most likely can't afford to move the home. Being out of other better options they may choose to stay and pay because the home they own could never be sold for a profit. It is likely further restricted by a lot lease that won't allow an owner to move the home out of the park, and most times they can't even get back the equity they have in the home through a sale.

This unfortunate "trap" is being exploited by investors. If this continues unbridled, there will likely be a slew of new federal and local regulations that hamper the industry. As an empathetic capitalist I am all too aware of delicate balance between a free market and the need for some regulations. Capitalism will continue to organically devour itself through its justified actions when left unrestricted. In this fashion, regulation is actually capitalism's friend and works to maintain a consistent evolution of any industry.

It is not a matter of if, it is a matter of when will the government get more involved in this industry. The regulations in place so far have been a knee jerk reaction to other aspects of the economy at the time they were enacted. With the resentment of the middle and lower class about the factors that caused the Great Recession still very pronounced, it is highly probable that tighter regulations are coming.

It is already happening; many states are starting to institute rent controls on mobile home parks. Oregon became the first state in the nation in March 2019 to enact rent control that limits any increase to more than 7% of inflation in any 12-month period. This is going to become more common place as news circulates rent increases of 50%-100% as have been the norm over the last 3-5 years with no end in sight.

As the division between the “haves” and the “have nots” continue to deepen, the local politicians are going to be forced to understand that a large voting portion of their constituents are eventually going to demand some protections for affordable housing. Eventually they will be heard. As an industry, we all need to be mindful of this and create a system that will enable our tenants to achieve more in their lives while still creating an avenue of wealth for those investing in MHP.

All of us in the industry, from the single park owning Mom & Pop, to the major investment firms, need to work together to create a unified image of helping our client base, not taking advantage of them. It would further be reasonable to enact our own industry standards of fair practices and policies now as a preemptive action to ward off further and likely tougher regulations.

We can all still achieve our financial goals. Regulations can help, especially practical ones that we can help create. Greed and exploitation are archaic reminders of our nation's checkered past, it is not rewarded the same in today's society, nor should it be. We can institute policies that can help our tenants achieve more and in doing so we can help promote a healthier industry image that will garner more tenants creating more wealth for MHP investors.

Introduction:

Mobile home park investing might be the last thing you ever thought of investing in. It likely wasn't even on your investment radar until the last couple of years. The MHP niche is one of the last real estate verticals that still has all the right fundamentals for a highly profitable situation. If you are looking for a painless brainless easy-peasy investment, you might want to return this book and get a refund. MHP investing is not for the faint of heart and many have lost in this game, but many more have made millions in a very short time by following some simple yet uncommon rules.

Achieving near 20% returns in year 1 happen every day, in year 2 north of 30%, and final exits can be more than 3-5 times what you have in to it in just a few years, if done properly. The risk exposure however is high and often you will need to bring a good amount of capital above and beyond the purchase price of the park to fix all the deferred maintenance and the general "ugly" on your new investment.

It is my goal that this guide provides its readers useful and actionable insight to operating a mobile home park. This book has been created for simply one thing, to help you be more successful in the MHP world. I know I wish I had bought a book on it when I bought my first park in 2004 because I probably wouldn't have bought that particular park.

I have been a salesman for nearly my entire life, starting in grade school. I would buy candy at wholesale prices and sell those gumdrops and lollipops to my fellow students for above retail value. As an adult I have been a mobile home park owner and operator, a commercial real estate broker for nearly 2 decades, and a lifelong entrepreneur. I have had successful businesses in Shiitake farming, Cannabis Industry Direct

Investments and traditional property management in some of the hardest hoods in the south. I have found my purpose through helping others achieve financial freedom through being the best advisor that I can be. I have helped countless clients acquire and dispose of their investment vehicles over my career and take pride in being one of the most informed brokers in my industry.

If you are thinking of entering the MHP world or if you are already well immersed in the industry, I want to help you. I want to see you succeed. I want to help you achieve financial freedom. I want to be so useful to you that I am your first call for anything MHP related. I have been through more transactions, more market cycles, more ups and downs than your typical commercial broker, because I am not typical broker, I am a tried and true advisor for the MHP industry.

By the end of this book you should have a more comprehensive understanding of the industry, the tools to navigate the industry and the know-how on implementing winning strategies from day 1. There is a steep learning curve in this business, and I aim to help you achieve a stable footing in what is currently the wild-west of real estate.

It is not too late to still get a good deal. The industry is still ripe for the picking if you know where to look and how to negotiate. Don’t be tricked in to jumping in to just any deal as all deals are not created equal. By the end of this book you should be able to confidently evaluate a deal and recognize the opportunities and pitfalls of each deal. And, if you still need more help, please do not hesitate to call me for no nonsense guidance. I have never, and likely never will, charge anything for my advice or guidance. The advisory services I provide are free so don’t be afraid to contact me. Like I said earlier, I want to be so useful for you that I am your first call for anything MHP related. Good luck and good hunting!

Chapter 1

Why would I want to invest in a "trailer park"?

That's an excellent question. Maybe you shouldn't. You might want to run for the hills. But it could be the single most lucrative investment you'll ever make. I don't mean in a get rich quick way or to imply that its easy, because nothing is easy in the MHP world. This business was best described to me years ago by one of my early mentors as "A daily kick in the nuts!" And he wasn't lying. It is. But the returns justify the efforts when done correctly. Oh, and for the record, we in the business now prefer to call it a mobile home community. Trailer parks are being vacated in masses; mobile home communities are thriving like never before.

What I do mean is that in this particular business model, there are many macro-economic factors that play well for the industry as a whole that have yet to be capitalized on by the masses. A conservative estimate of people living in mobile homes is roughly 20-25 million people or 6% of the US population. That number is expected to continue growing in the coming decades. However, developing a mobile home park is nearly impossible in most primary markets today, creating real value in the zoning alone for MHP.

Some other notable mentions are: high yields, various streams of uncapitalized income, relatively low operating expenses, potential to be a hands free investment when done correctly, numerous barriers to entry, barriers to new development, the "working poor" population reaching a critical mass, and nearly no affordable housing has been developed in the past 2 cycles despite the largest delta ever recorded between the haves and have-nots. And recently, although yet to be proven, the introduction of a short-term tax incentive called "Opportunity

Zones" that can accelerate the returns from percentages to multiples.

Developers are busy building Class A apartments like never before and because of debt constraints that prevent building affordable housing, the marginalized worker needs a different option. While its true that as of today we are seeing historic low levels of unemployment it hasn't really helped the bottom of the ladder since those wages have stalled for over a decade after adjusting for inflation.

These factors should play into your decision. All markets are based on supply and demand, and in todays environment, a cautious investor will come to acknowledge that MHP investing may be a great tool for profitability and additional yield, while providing much needed affordable housing, and limited exposure to risk despite the stigma attached to MHP investing.

Here are the top 5 MHP markets with the highest percentage of residents living in MHP:

- South Carolina - 19 percent
- North Carolina - 16.8 percent
- New Mexico - 16.6 percent
- West Virginia - 16 percent
- Alabama - 14.7 percent

http://www.statemaster.com/graph/hou_per_of_hou_uni_tha_are_mob_hom-housing-percent-units-mobile-homes

The United States NEEDS low income housing

This is not an "alarmist" statement. It is a statement of fact. 46 million people in the US live in poverty. There is not a single county in the US that can currently provide 100% of its low-income housing needs. I have “borrowed” the following unfortunate housing facts from the internet:

- There is an affordable housing crisis. Communities across the country are facing low-income housing shortages – there is not a single county in the United States that can fill 100% of its low-income population’s need for safe, affordable housing.
- 46 million people live in poverty in the United States. This number has increased 38% over the last 13 years – the highest rate in almost 60 years.
- More than 11 million Americans now pay more than half their salaries for their monthly income for rent. This rate has increased more than 30% over the last five years, which is also a record high.
- 15 million children (or 21% of all children) live in families with incomes below the federal poverty level.
- Poor housing and poor health are tied together, especially with children. When homeless or low-income families have to comprise on housing, their health declines.
- In order to afford a modest, two-bedroom apartment in the U.S., renters need to earn a wage of $20.30 per hour. In six states and the District of Columbia they need to earn more than $25 per hour.
- US minimum wage is $7.25/hour. A renter would need to work 90 hours per week to afford a one-bedroom rental home at the Fair Market Rent and 112 hours per week to afford a two-bedroom.
- On average, there are only 28 affordable housing options for every 100 extremely low-income households.
- 50,000 veterans are homeless in the United States and 1.4 million are considered at risk of homelessness

(https://www.monroegroup.com/about-us/affordable-housing-statistics/)

None of this acceptable, but it is where we are today. Mobile home investing can help alleviate this.

Higher than average (much higher in fact) cash on cash returns

Its not every day the average guy can get in to a quality deal with a high yield. However, in this industry higher yields are a dime a dozen. Typically, higher yields equate to higher risk, so you should be cautious when looking at deals that are north of a 10% cap rate on lot rent.

Of the 36 mobile home parks I sold in 2018, the average cap rate on lot rents was about 8.50%, but that doesn't account for rental income from rental homes, late fees, pet fees, home sales, rent to own contracts, fines and application fees. And don't be fooled into thinking that it is chump change. Often times, especially in park owned home communities, that can be easily be another $25,000 or more on a smaller 50 lot deal. This presents an opportunity to dramatically increase cash-flow.

If you are fortunate to find a deal that can be financed, either through a bank or by the seller, the cash on cash returns are often in the mid to upper teens for C class parks. Although debt is more available today than it was even 2 years ago it still remains a challenge in this industry. Lenders are still very cautious to loan money on this asset class and for good reason, which we will talk about in a later chapter.

Not to point out the obvious, but nearly all MHP deals have below market rents than can generally be increased as soon as you close, but you need to be cautious in doing so. As I pointed out earlier these tenants are already strapped for cash and a steep increase might have adverse consequences. In some cases, you can negotiate a rent hike as a condition of closing to further increase your yield. For reference, of the deals I sold last year, the average lot rent was a measly $227 dollars a month. Increasing occupancy is also a major part of the upside equation and with the deals I sold the average occupancy was 75.33%. Most markets average 90%.

What this should be making clear to you is that there is a lot of meat left on the bone for you to carve off. It is literally there for the taking if applied responsibly. All you need to do is work for it. Easier said than done though, as with most things in life, if it was easy everybody would be doing it.

Recession proof – No, not really, but more resilient than most

Nothing is recession proof, but this asset class definitely has many advantages over other traditional real estate investments. The premise being, no matter how hard the economy gets people will always need a place to live and often times will need to downgrade their home to something that is more affordable considering the dramatic effects that transpire during a difficult downturn.

The great recession was the worst we have seen by all measures in the last 50 years. It devasted communities, left new housing projects vacant and decimated employment, especially at the lower end of the work force. Millions of people lost their homes due to layoffs, being over leveraged, dramatic pay cuts and increased costs for nearly everything else.

I personally owned a mobile home park during the downturn. I bought a park in 2005 and had anticipated that I would sell in

2010. I definitely overpaid but the cash flow made sense at the time. Being averse to high leverage loans, I financed the deal with 50% down, and that may have saved me from losing the park further down the line at the deepest point of the recession.

2008 changed everything. Before I knew it, we were all feeling the pinch. Banks completely stopped lending money and I was all to aware that my loan would be due in 2011. This was scary. I was lucky, I was able to retain most of my tenant base and even luckier that I had prospective tenants calling me day and night looking for cheap housing. I was able to improve my overall tenant base; however, I was not able to raise rents for a few years. In fact, my rents at the time stayed flat from 2008-2012 and each new vacancy that occurred was a little terrifying.

By the end of the downturn, I had managed to sell off 100% of my park owned homes and convert them in to lot renters. In 2012, I raised the rents. In 2015 I sold the park and recouped my investment. Although those 4 years were extremely difficult, I managed to get out unscathed. My story is typical of countless other owners during that time. Knowing that my little park in a very tertiary market of eastern Tennessee was able to withstand tremendous outside pressure really made me appreciate the resilience of a mobile home park.

Uncapitalized income streams!

As I mentioned earlier, unlike all other real estate verticals, with MHP investment we do not capitalize numerous streams of income. Only the most valuable income stream, lot rent income, is capitalized. Rental income from park owned homes (POH) is calculated in a different way, which I will get to in a minute.

Just a few short years ago it was common place to just include the POH in the purchase price that was strictly limited to the lot rent value, but it was a buyers' market and all markets were just getting out of recovery from the recession.

In contrast, before 2008 and as far back as I can remember, MHP like apartments capitalized all income and used a higher cap rate, typically north of a 12% cap rate.

Moving forward to the last 4 years or so, as more buyers entered this field a sellers' market began to take hold. Now owners demand additional value for the inventory. In early 2016, I decided to start using a gross rent multiplier (GRM) on the income above the average lot rent for that park after adjusting for condition and age of the homes.

At first, the primary buyers in the industry were not all too pleased to see this as it was a pivot from the way parks had been selling for years. Sellers were very open to it and my listing book began to explode. My first sale using this GRM model took some time to explain to buyers the merits of this equation. A few weeks later, one of my buyers decided to take the plunge and accepted the offering at full price. We closed 60 days later. Almost immediately, the rest of the buyers began to fall in line and a sellers' market ensued.

GRM's for the past 3 years have also been on the rise, starting with a 1 GRM on that first deal to today where they typically average 2-2.5. Quality homes in quality parks have sold for as high as a 6 GRM. What that equates to for a seller is a higher sale price but still leaving more than enough room in value for a buyer to double or triple his value in those homes if he chooses to sell the units to a resident.

For example, let's say that you are considering purchasing a park that has 10 POH that are all fairly uniform in average shape with a mid-1990's vintage. The parks lot rent is $250. The average POH rent is $600 including lot rent. The POH rent is $350. Since you have 10 of them, the monthly rent is $3500 and since there is 12 months in a year, you have $42,000 of income from those POH above lot rent.

That $42,000 using the example above is worth about a 2 GRM equaling $84,000.

If that income had been capitalized and blended in to the cap rate of let's say 8.5% using a 40% expense ratio, then those homes would have been worth $296,470. Clearly as a buyer you want to make sure that the POH income is not being capitalized or blended in to the lot rent expense ratio.

So, if you paid $84,000 for 10 homes, your price per home is about $8,400. Chances are, the home in the condition it is and with the tenant in place, is worth $15,000 or so to the current tenant or a new tenant, assuming you are willing to finance it, which I recommend. With some improvements it could be worth $20K or more.

What that means to you, you can sell the homes for double what you spent and remove the headaches of POH maintenance while you are converting the rental tenant in to a lot renter. Further improving your overall value. Typically, owners will also raise the lot rent portion of their payment which escalates the parks valuation to even higher numbers. This comes in to play whether you are a long-term holder looking to refinance or if you plan to flip the park as soon as the RTOs have seasoned.

Glenn's Golden Rule: Time-Value-Headache Equation

You will run across many investors with many so-called rules to investing. There are literally over 30,000 books on Amazon that can teach investment techniques. I have heard everything under the sun at this point and still hear new ones daily. From never buy this type of thing to only buy this type of thing. For me, its much simpler.

To me, cash is king. And I would rather stock pile my earnings rather than invest in something I think can only get an average return on. In fact, I will usually pass on a deal even if the returns are above average. Outside of family, nothing brings me more comfort than having a pile of cash stuffed away in a liquid account. I have been through enough downcycles and hard times that I would rather miss out on yield if it means not having enough cash on hand if hard times strike again or if a truly spectacular deal pops up. That said, if I know I have enough insight into a particular concept and feel like I want to dip my toes in that investment pool, I boil it down to 3 things. Time. Value. Headache.

Time – How much time will it take me to earn the returns that I need. In other words, how long will my hard-earned cash be tied up. I can't stomach long-term investing, so for me if I can't make my money in 5-7 years, I likely won't do the deal. And if I am in a deal that long, it better be worth the wait.

Value – How much value can I add to my initial investment to hit the returns I desire. Meaning, if I am buying a value-add deal at a low initial return, what do I need to do and how much is that going to cost to get to that value. If I invest $100,000 into a deal, I am expecting to earn at least 3 times that over seven years, ideally in 5 years.

Headache – How much brain damage will I have by the time I get to my $300,000 in 5-7 years? Was the years of effort and

$200,000 worth it? Most of the time for me it is not. This is the main reason I tend not buy investments. Most deals require way too much brain damage for me to distract myself from my family and primary work.

That said, I think it is imperative more than ever to have a well-balanced portfolio that produces cash flow while having at least a years' worth of living expenses set aside. Bluntly, you should not be investing if you don't have a year's worth of living expenses set aside above and beyond what the investment will cost.

I don't know about you, but I have a lot of financial responsibilities regarding my family. I have a wife, 3 kids with one in college, 2 mortgages and a heck of a lot of responsibilities that seem to grow every year. Having confidence that I can continue to provide for them even in the toughest economies is more important to me than earning another few bucks that may never materialize.

When I was 25, I thought I had earned enough cash to quit the rat race. I had just earned my largest commission check from brokering a deal in Miami and had for the first time in my life earned a six-figure payout. $127,000 to be exact. Needless to say, I was naïve. Back then I had very few financial obligations and knew that I could leverage that check into what I wanted to do. Which was farming and being a landlord, both of which I had confidence in my abilities to procure a living. But no one expected 2008, and there was no way I could have foreseen the next 5 years of hustling as hard as I could just to stay afloat and not lose everything.

It was during this period of time I came up with my golden rule. Never again would I allow myself to be caught off guard with little to no cash on hand. Unfortunately, at the start of 2012 I barley had enough savings to fix a flat tire much less make a good investment. I made a conscious choice to cut all the fat out of life and make some dramatic changes. I stepped down from running my farm and mushroom business, I hired a proper property manager to handle my MHP, and I concluded that I needed to get back to brokering full-time. I picked up my family and moved us off our beautiful rustic farm and moved to Atlanta in hopes to regain my fortunes.

I tell you this, so you understand how important it is to always be prepared for a downturn. You just never know what is around that corner that can jam you up for a while. I missed out on so many good purchase opportunities because I had no cash on hand. It was all tied up in my farm and park. I could have bought 3 of my farms and 3 of those parks if I had not been so eager to buy something just because I could. Even though that cash wasn't earning anything on paper, it could have earned so much more than it did if I just held out a little longer.

If you like what you have read so far and want to read the entire book arriving July 2019, please go to my website at www.themhpexpert.com/contact *and shoot me a message to reserve a copy of the official book "The Mobile Home Park Manifesto" now. - Glenn*