

Turning Trailer Courts into Communities (Part 1)

by Doug Ottersberg, ACM, MHM

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We find out we aren't trees

Early in our investment career, my wife Ana (then girlfriend) and I bought the now infamous book *Deals on Wheels* by my good friend Lonnie Scruggs. After a frustrating period of time working our local market area (which at the time was Los Angeles), and only putting one deal together, I told Ana it seemed the community owners and managers treat these properties like their own private playgrounds, and they weren't letting us play!

About this time another good friend and mentor, Jimmy Napier, heard us utter the complaint I'm sure we've all heard at one time or another, "it doesn't work where I live." He assured us that we weren't trees and that we could certainly move to somewhere it would work. Right then and there we decided that whatever it took, we were going to acquire our own playground. We immediately put out the word to our financial family, (the friends we had met at various classes and seminars), and sooner than we could believe, my business in LA was sold and we were moving out of state to take over our own "private playground". (Oh and we took some time off to get married, too!)

The "Ideal" investment

If you've never heard the ideal investment explained, this is how I sold the idea of giving up my "job" to buy a community to my prospective bride.

I = Income: And enough to live on if we needed to!

D = Depreciation: At least for 27.5 years

E = Equity Build-Up: Everyday, our residents go to work for a check (so we don't have to) and they in turn give us a check to pay the bills, and amortize the debt. Big debt isn't bad or scary as long as we don't have to pay for it.

A = Appreciation: By buying a property with the right things wrong, fixing those things and increasing the cash flow, we can force appreciation instead of waiting around for it to happen!

L = Leverage: By selling my business for what we could get FAST instead of waiting to get "what it was worth" we were able to get enough money to move and end up controlling a valuable asset for less than 10% of it's value. We made back the "loss" on the business sale the day we closed on the community!

Turn a "Trailer Court" into a Mobile Home Community

The universal law of business success is simple: find a need and fill it. That same principle applies as we look for small communities to purchase. The latest statistics say there are approximately 55,000 manufactured home communities nationwide, and 85% of them are under 100 sites! We determined there were basically three levels of communities:

- **Individual Grade:** 100 Sites Primarily mom and pop type owners and individual investors
- **Investor Grade:** 101-199 Sites Primarily well funded individuals and regional investors
- **Corporate Grade:** 200 + Sites Primarily large national companies with multiple property portfolios

Your level of experience and available capital dictate the level you will (or at least should) start out in. If the big bucks aren't interested in the smaller properties, isn't that where we should be focusing? There's a need to fill with our specialized knowledge! As we looked at different properties we found there were subcategories, no matter the size:

Manufactured Home Communities: Usually newer, city utilities, paved roads, newer homes, large sites, some amenities, good to excellent management

Mobile Home Communities / Parks: Usually older, not always city utilities, not always paved roads, older homes, smaller sites, no amenities, little to some management

Trailer Courts: Some folks say they're kind of like pornography, hard to define, but you know it when you see it!

Each property has its own unique characteristics, though they all can have the same types of problems. There are abundant opportunities to move a property up the ladder to the next higher level. **FILL THAT NEED!**

Small local investors own most of the trailer courts and individual grade communities, usually Mom & Pop that have owned it for years and are probably tired of dealing with it. This is most noticeable by large amounts of vacancy, deferred maintenance and an overall "tired look". There's no curb appeal at all, and in fact sometimes it might be downright scary looking! Many of these older owners just might be willing to give a younger investor a chance so that they can take it easy and enjoy their years of hard work. **FILL THAT NEED!**

It's also a great opportunity to take what we've learned from Lonnie to fill vacancies and to fill another local need by providing financing on homes for people that really need it. By updating a community where those older homes may be found, we can continue to provide those residents affordable housing and us a great return. More important, we are also helping to make the town or city, and certainly the local neighborhood a better place for everyone. Don't think your hard work will go unnoticed. Remember that whatever you put out comes back to you ten fold.

In addition to the ideal characteristics noted above, by purchasing a community, we now had a long term cash generator. We also controlled the home sites and could finally start stocking our new "ranch" with some of Lonnie's "cows"! Another thing that made a new bride feel a bit more secure was that it provided us a place to live. (It was hard to explain to her family and relatives why she was marrying this unemployed homeless person, which was exactly what we were when we got married.) I'm sure you'll all be happy to know we are both still gainfully unemployed! The thing that made the biggest impression on us was the opportunity to force appreciation by buying a "trailer court" with all the right things wrong, and just by cleaning it up, improving the image and raising the cash flow we could turn it into a neat and clean mobile home community.

Next time we'll get into some basic things to look for and how to start working the numbers.

Doug Ottersberg, ACM, MHM is a private investor focusing on affordable housing, primarily Manufactured Housing Communities, renting and financing manufactured homes and land. He serves on the New Mexico Manufactured Housing Association Board of Directors as a Community Representative where he is involved in educating Community members and assisting the Association's lobbying efforts on behalf of the industry. He also volunteers in the local school system as a Mentor teaching financial literacy. Doug and his wife Ana decided that if Real Estate Investing didn't work where they lived that the best thing to do was quit their jobs and move. They have been happily unemployed ever since.

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