

Turning Trailer Courts into Communities (Part 4)

by Doug Ottersberg, ACM, MHM

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Now that we've found our acquisition candidate and have come to a preliminary meeting of the minds with the seller, we need to spend some time and money to see if we want to take the "relationship" further. Before we get too deep into the process, there are five items we should be aware of and think about as we progress.

1. Is this *really* a deal?

Many of us are attracted to the turn-around challenge because compared to many other community investment opportunities, they may seem to be the best bargain price wise, and offer us the most potential for upside. As with any venture, we must begin by evaluating the potential strengths and weaknesses.

We need to always ask ourselves several questions when looking at a turn around MH Community:

- "What caused this community to get this way?"
- "Is this a community with the Right Things Wrong?"
- "Can I remedy the situation?"

Remember, it's easier to bring a property up to par with the neighborhood than it is to bring the neighborhood up to the property.

The critical areas I would be concerned about at first are these:

A. The Local Economy

- No matter how good a deal may seem, the thing that makes it truly so is the local economy.
- You want to be sure there are enough jobs close by so that decent people can afford to pay decent site rent!

B. Other Housing Options

- You need to understand what are the other options are in the housing market.
- How you compare to them. (Entry Costs, Carrying costs, lifestyle, etc.)
- Is there a demand for leasing a home site in a land lease community, based on either lifestyle or economic choices. For example, in many areas of the country, land is still relatively inexpensive and local zoning rules haven't erected terrible obstacles to putting your manufactured home on a couple of acres. If this person can get into this type of home ownership for little money down and obtain long term permanent financing at favorable rates, many times this is cheaper than buying a home with chattel financing and leasing the home site. This can drastically effect the amount of site rent that can be charged and whether there is any demand for those sites.

C. Can the Project Support Itself?

Once we determine that there is indeed an economy as well as demand to support the project, then we should look at the community itself.

- Determine what right things are wrong.

- Physical Items such as infrastructure repair or replacement, landscaping, home site re-configuration, etc. (This area should be of particular interest. It seems that many of communities I have looked at over the last several years are priced as if they were new, taking nothing in to account for the fact that the infrastructure is 20 to 30 years old and that sooner or later, someone is going to have to replace it. Although the cash flow may be the same from old or new infrastructure, contemplating having to replace items such as sewer or water lines some time in the future can effect what one would be willing to pay for a property today.)
- Administrative Items, such as little or no management.
- Estimate what it will cost to remedy the situation.
- Based on what the current owner is asking us to pay for the privilege of taking over their headache:
 - Determine if the community can support itself financially as it currently is, or will it have to be subsidized.
 - Determine if there is anything we can do to address the problems and still "swing the deal."
 - Will the property meet my investment criteria? (Return on equity, cash flow, dent coverage, etc.)

2. My presence is required

- You can't know what is going on if you don't spend a significant amount of time on site, at ALL hours of the day and night. Actually staying in the community really puts you in touch.
- Residents' seeing you there DOING things goes a long way in the attitude adjustment department.
- Management by walking around works!
- Don't rely on managers to do everything. You need to know as much or more about your property than they do! Digging up a few broken water lines or snaking a plugged up sewer at 1:00 am can really give you an appreciation for the community, the residents and the management requirements you just can't get any other way.

3. Planning is one of the keys

- Evaluate the property, Make a plan to get it where you want it, and DO IT! What are you going to do to solve problems, and increase the value of the property? In this example, one way to increase profitability would be to sub-meter and charge for the water, since we found out that most of the competition does NOT include water in the rent. We could also even consider charging for sewer, trash, etc.
- Involve the residents but always lead by example!
- Give everyone plenty of advance notice of how you expect things to be. Issue new leases, guidelines, etc, and visit with each resident if possible.
- Follow through!

4. Knowledge is the other key

- Take advantage of your state Association, MHI, and especially the [Accredited Community Manager Program](#) offered by MHEI, and the MHM program offered by [George Allen](#).
- Seek out other owners and managers in your area and take them out for lunch, coffee or a beer. Don't re-invent the wheel! Ask for their help and suggestions. You will get both! It's also a great way to find contractors, etc.

- Attend as many classes and seminars as you can. Buy every book you can find on the subject.

5. Do it right the first time

- When you do a project, the lowest bid isn't always the best way to go. The difference between doing it right the first time and doing it over is usually not very much, and in fact is usually cheaper.
- Don't be like the folks that put the property into the condition it's into today. Leave it better than you found it for the next owner.
- All though rental units may be needed in the market area and great moneymakers, I don't recommend it. Resist the temptation! Bringing in units to fill vacancies is fine as long as you sell them and carry the paper. This can be faster than working with retailers. Depends on market and you.

Remember, do it right, or do it over!

Due diligence

Now that we've considered the preceding five items, we are either go or no go. If it's a go, we proceed to our due diligence checklist. This is where we verify that everything is in order.

Due diligence is a very important and very time-consuming part of the process. I have learned so much just from going through this process and, while it can be tedious, it can also be a lot of fun!

Sitting in someone's home or office going through their "stuff" gives you an opportunity to get to know each other better and to establish a certain level of trust.

You can also pick up on some good ideas, like the time I re-did all my files after sitting in someone's office and seeing how they did things. (They picked up several things from me as well, so it goes both ways!)

The purchase contract

After the due diligence is done and we've assimilated more information than we've ever wanted to know about something, now it's time to "get engaged," assuming all is well.

To simplify things, this is the stage where we go over any concerns we have with those of the seller and put our agreement down on paper.

This is an area where you want the very best representation available on your side, ESPECIALLY on your first several deals. Let's face it, even a small community can be worth hundreds of thousands of dollars these days. PROTECT YOUR INVESTMENT.

This may also be where you have the opportunity to do as I recently did after a comprehensive due diligence, one of the hardest things there is to do as an investor. WALK AWAY!

Of course it's easier to do it *before* we've invested a lot of time and money into the due diligence, and gotten emotionally invested as well. However, if anything doesn't meet your criteria, and it can't be taken care of to your satisfaction, be prepared to walk.

As they say, "you gotta know when to hold 'em, and know when to fold 'em." The property you don't buy could very well have been a diamond mine, but the "one that got away" will also never be the one that "gotcha."

The closing

This is where we say, "I do," where the buck stops, and the rubber hits the road. Although we are paying others to represent us at the closing (lawyer and title company), it is still up to us to check and recheck EVERYTHING. Insist that the closing documents be prepared and delivered to you for approval BEFORE the

day of closing. Once closing is done, make sure that the documents are properly recorded.

Then wait an appropriate amount of time after closing (your county recording clerk can tell you what it would be), and then try to find the docs at the recorder through their system to make sure they are indexed properly. Also, make sure the Assessor has the correct information.

Now that we have bought the place, the real fun begins. Before we closed, part of our decision-making process was to decide, once I buy this place, what am I going to do with it? Some would buy it, fix it up, and sell it for a quick profit the way a rehabber would.

I suggest that while that is one option we could consider, there are better things we can do. Why do all that work and then have to start over again? I like to think of these little communities as the gift that just keeps on giving!

If you have heard Lonnie Scruggs describe used mobile homes as "money machines," try owning the dirt they sit on! Once you've got the place into decent shape, there isn't much residents can do to dirt, and all you have to do is keep it nice. Talk about a cash cow.

In addition, we now have gained control of 50 sites that we can put our profits back into by purchasing newer homes, selling, and financing them! You now have not only created an additional income stream from that site, you've increased the value of the community by raising the curb appeal.

And as Lonnie likes to remind us, once in awhile we have folks come give us the house back, and we have to sell it again. Sometimes it gets rough, doing all that paper work again, taking more down payments, and filling out deposit slips and such!

I would be remiss if I failed to point out that there is much more to projects like this than just personal gain. We are providing a valuable community service by assuring clean, affordable housing. Many times, we can also improve the surrounding neighborhood by replacing what may be a liability into an asset. The sense of satisfaction that comes from a successful project like this can make all the hassles and problems incurred well worth it.

For those of you interested in pursuing the Manufactured Home Land Lease Community as an investment vehicle, I trust I've managed to answer more questions than I've created over the course of these four articles.

However, as this game of investing is a never-ending process of learning, I'd be happy to hear from anyone concerning anything written here or about something that should have been covered and wasn't. I also encourage you to seek out more information and to study this subject in depth!

Good luck, and above all else, have fun!

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.

For more information visit:
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