THE SURPRISING JOY & PROFITABILITY OF MOBILE HOME PARK INVESTING

Discover What Warren Buffett and Sam Zell Learned about this Powerful Opportunity Over a Decade Ago (No, you haven't missed the boat)

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MY MAMA ALWAYS TOLD ME TO STAY AWAY FROM TRAILER PARKS. DID YOURS?

She told me nothing good happens there. I think I even heard her use the word "trailer trash." (I'm not proud of that.)

My dear mother and father passed away several years ago. And after a lifetime of working hard at a well-paying job, dad left us about enough money to cover their funerals. Along with some hefty credit card bills.

I'm grateful for the life they gave me. But my parents weren't great investors. In fact, they knew nothing about investing. And this was a handicap to me. Especially when I made my first few million dollars at age 33.

I knew nothing about investing.

And as a result, I confused investing with speculating. I launched into several years of binge-speculating (though I told people I was "an investor"). And it cost me dearly.

I actually had a chance to invest in a mobile home park back in those days. I swiftly turned my nose up at that opportunity. And I can imagine that you might have the same reaction.

Though I don't know if I would have had the humility to listen in my mid-thirties, I wish I would have had access to the wisdom of Robert Helms from the Real Estate Guys. Robert said:

> "Live where you want... and invest where it makes sense."

I'm going to tell you why I was so wrong about mobile home park investing. And if you've shared a similar bias, I hope to convince you to open your eyes to this powerful and profitable niche.

What do Warren Buffett, Charlie Munger, and Sam Zell Know... That Many of us Missed?

I should have caught onto this years ago. I heard that these investing giants were heavily investing in manufactured housing around the turn of the century. But I guess I thought I had a better plan.

Why is a Multifamily Author Not Investing in Multifamily?

I'm the author of three real estate investing books. My book on multifamily investing (The Perfect Investment – Create Enduring Wealth from the Historic Shift to Multifamily Housing) has sold quite well, and I'm regularly thanked by people who told me of the impact this book had on them.

But I feel a little sheepish at those moments. Especially if they ask me where I'm investing at the moment. I typically tell them I'm not investing in apartments, at least not right now, then my mind races toward how I'll defend investing in something better than "the perfect investment."

On a podcast last year, I told the host I might call my next book "The Perfecter Investment."

I was joking.

He didn't get it.

It was awkward.

Anyway, I've been watching the multifamily investment world for many years, and I've come up with several types of investors that have pushed multifamily into an overheated state. Or at least to a "new normal" level that I find uncomfortably **un**profitable.

These include international investors, institutional investors, 1031 exchange investors, IRA investors, and those who are following gurus and a few wolves in syndicators' clothing.

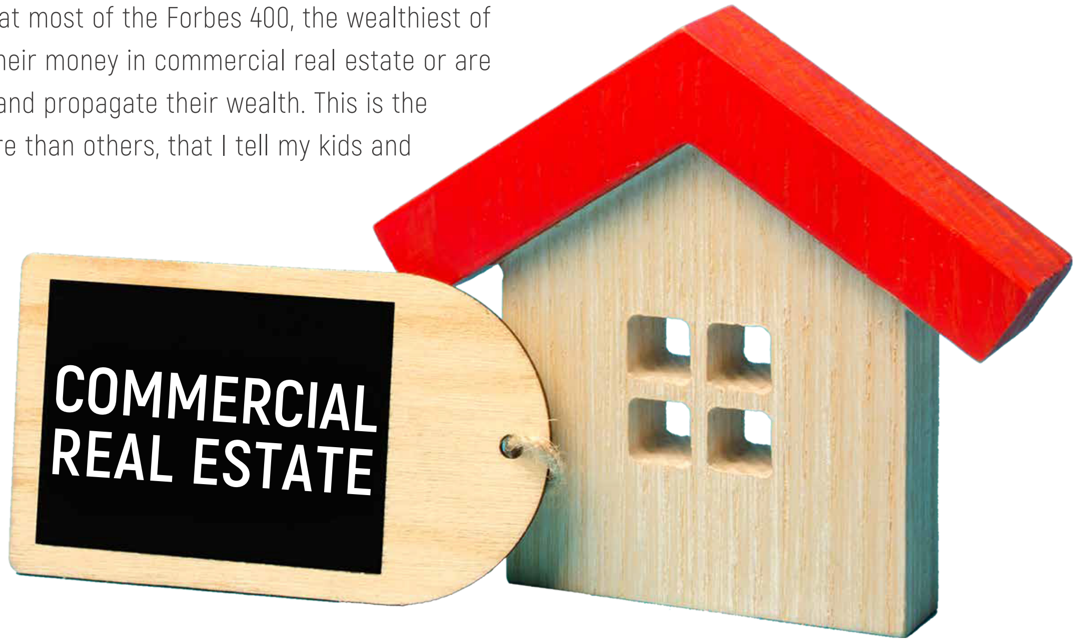
One of the core issues is the record low interest rates we've been experiencing for over a decade now. These low rates are partially behind the deeply compressed cap rates (high prices!) that we're seeing, and while this phenomenon is affecting mobile home parks as well, there is a significant advantage that mobile home parks have as we'll see in a moment.

The Power of Investing in Commercial Real Estate

Before we jump into the details of mobile home park investing, I want to take a moment to discuss why I love investing in commercial real estate. As opposed to residential real estate.

This is one of the key takeaways from this report, and it applies to self-storage, manufactured housing, multifamily, and all types of commercial real estate. This is where the lightbulb went on for me, as it has for so many others.

There is a reason that most of the Forbes 400, the wealthiest of the wealthy, made their money in commercial real estate or are buying it to sustain and propagate their wealth. This is the singular reason, more than others, that I tell my kids and others that...



If I would have known about the power of commercial real estate to grow my income and increase my wealth, I would never have done anything else.

If I was still in my twenties I don't know if I would have had the humility to listen to my mid-fifty's self. But you can listen. You're likely younger than me, but regardless of your age, I hope you will read this carefully and consider what I'm saying.

The value of a commercial real estate asset is unlike the value of residential real estate. Residential real estate is generally valued based on comparable properties. No matter how nicely you fix up your home, Chip and Joanna Jr., your value will still be limited by the homes in the neighborhood.

NOT SO WITH COMMERCIAL REAL ESTATE.

The value equation for commercial real estate is:

VALUE = NET OPERATING INCOME ÷ CAP RATE

Buyers of stabilized commercial real estate are buying an income stream. Yes, they're also buying bricks and sticks and sheet metal and rivets. But they're generally focused on the income stream.

So, your mission… if you choose to accept it… is to (drumroll… drumroll please) …

Increase the Numerator and Compress the Denominator in the Value Equation.

Yep, it's that simple. Well, maybe not simple, but certainly straightforward. Increasing the numerator consists of increasing revenue and driving down costs (resulting in higher Net Operating Income). And decreasing the denominator is about compressing the Cap Rate.

We'll continue this discussion in a moment, but first let's talk about ideal sellers and buyers in mobile home park investing. This is where this sector really shines.

Finding the Right Seller: The Joy of Frag/men/ta/tion

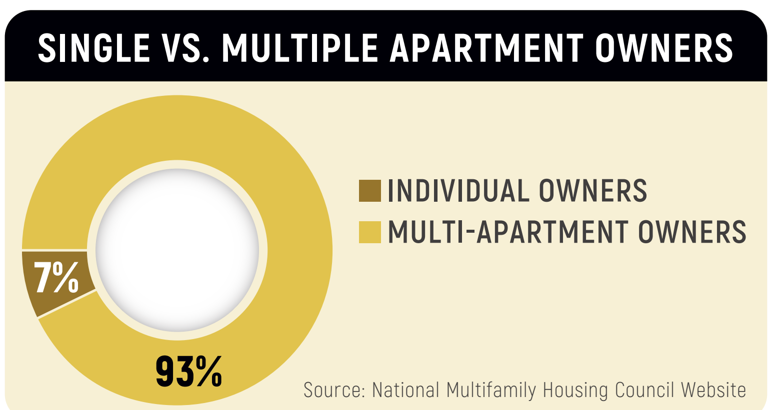
About 93% of multifamily properties above 50 units are owned by companies with multiple assets. This doesn't mean they're all well-run. But it means that, in general, the operators have wrung most of the value out of them.

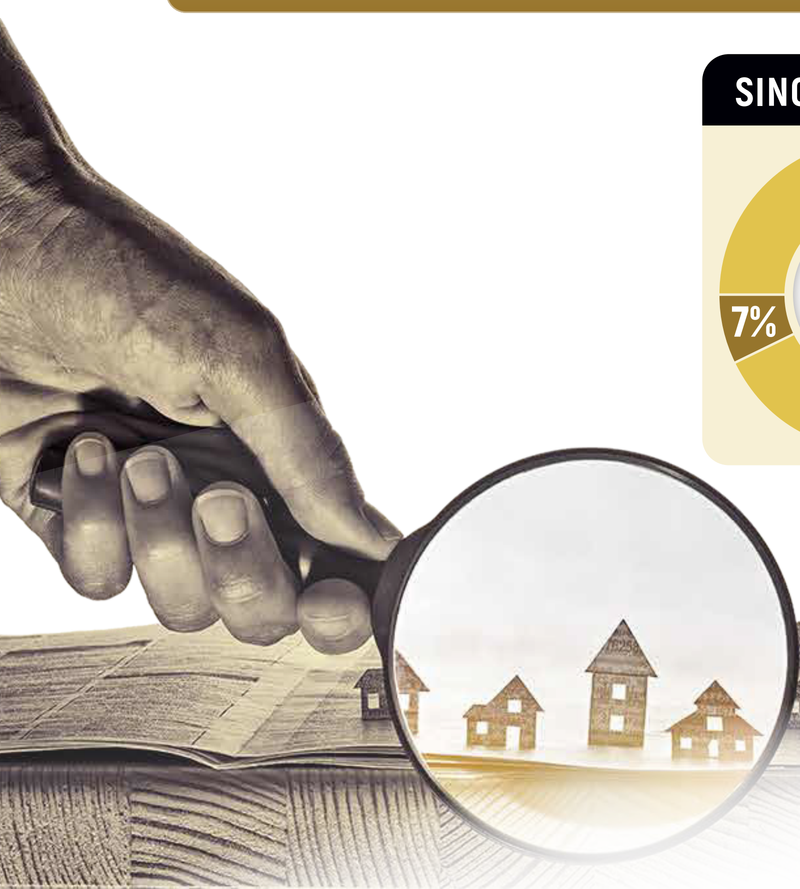
Value-add opportunities in multifamily are few and far between these days. It's very hard to find a well-located, mom-and-pop run apartment complex with lots of upgrade opportunities. Which means they're being acquired with very little margin of safety, a risky proposition at this point in the cycle.

Buffett would probably be selling apartments right now (if he owned them). Multi-billionaire Sam Zell recently unloaded over 23,000 of his apartment units. Investors beware!

By the way, Zell is the largest owner of mobile home parks in the nation, with an estimated 150,000 pad sites.* Last year, Zell paid a whopping $50.35 Million for a single park in the Everglades. The 100-acre park has 612 pad sites, so that breaks down to $82,280 per pad. This park was originally purchased by the seller for $1.6 Million in 1971. Do you think Zell knows something many of us missed?


SAM ZELL





*Source: Mobile Home University

CONTRAST THIS WITH MOBILE HOME PARK OWNERSHIP.

There are about 44,000 mobile home parks in the U.S. It's estimated that about 90% of these mobile home parks are owned by mom-and-pop operators.

It's a highly fragmented ownership base, and this is a big deal for you and me as potential investors in this asset class.

This means that a typical mobile home park owner doesn't have the knowledge, or the desire, or the resources to increase income and maximize value.

THEY REALLY DON'T NEED TO. After all, many of these owners have owned these parks for a generation. Or more. They live there. (Or they live at the beach.) They know the tenants. Their goal is to minimize hassle and keep collecting checks. They are (often) debt-free, and their costs are minimal.

CAPITALIZING ON THE MOM & POP OPPORTUNITY

LIMITATION OF "MOM-AND-POP" FACILITIES:

- Little or no online presence and no online marketing
- Limited hours for customers to access facility
- No after-hours management assistance
- Little or no online leasing or payment options

THE NET EFFECTS ARE:

- Missed lead opportunities
- Sub-par customer experience
- Overall inferior facility and product offering for customers

Many of them are ready to sell and move on.

THIS COULD BE YOUR OPPORTUNITY.

If you – alone or through an investment partnership – can acquire a well-located mobile home park like this... at a fair price... you may have the opportunity to transform it into a well-run, profit-churning, value-maximizing ROI machine.

Finding the Right Buyer: Enter the Institutionals

This is a great time in the history of this real estate sector. Because there are still deals out there. Mom-and-pop owners abound.

But it's not just the sellers. There is another factor on the other side of the equation. It's the institutional buyer. As I write this, there is an unprecedented increase in interest among institutional buyers in this sector.*

I'm talking about Real Estate Investment Trusts (REITs), life insurance companies, private equity firms, and family offices. A friend said he recently attended a manufactured housing conference and he was surprised to see representatives from these types of firms at an unprecedented level.

*Source: PBS.org

They want to add these assets to their portfolios, so you'd think they would be our competition. But that's not the generally the case.

You see, institutional buyers aren't interested in hassle. They don't want the risks and headaches and uncertainties of upgrading a mom-and-pop to a stabilized asset. So they are willing to pay a premium for stabilized assets.

Assets that are upgraded.

At market rents.

At close to full occupancy.

And this is our opportunity.

If we can acquire an under-performing, mom-and-pop owned mobile home park in a decent area, it can be upgraded and stabilized. Rents can be brought to market. Occupancy can be maximized. Capacity can often be augmented. Utilities can be passed back to tenants. Ancillary income can be added.

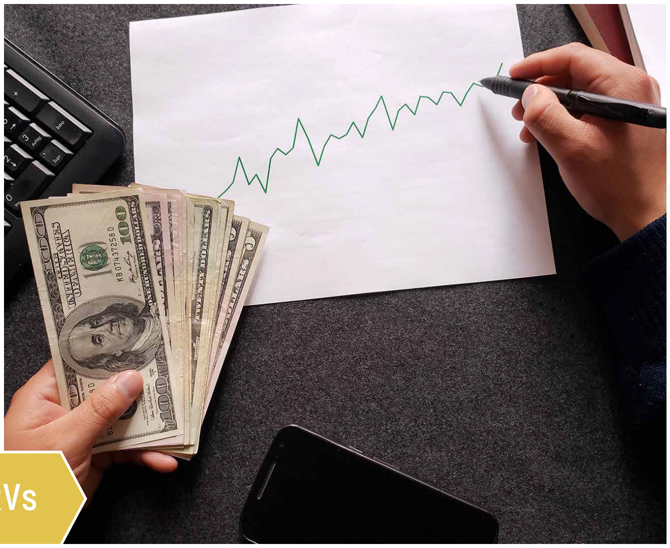
Applying the Value Equation – Part I: Increasing the Numerator

THIS IS WHERE OUR COMMERCIAL VALUE FORMULA COMES IN. REMEMBER THAT...

VALUE = NET OPERATING INCOME ÷ CAP RATE

This formula works beautifully for all commercial real estate, but it's particularly powerful in cases where there is a lot of meat left on the bones, which is the norm when acquiring well-located assets from mom-and-pop operators.

Let's take a look at an example. (Note that I'm rounding the numbers in this example for easy math. These figures should not be relied on in any way if you're making an investment decision.)



Wellings Capital Income Fund[1] invested in a mobile home park acquired from a mom-and-pop owner. When the asset manager arrived on-site, he noticed that the park was cluttered with quite a few extra cars.

And work trailers → And boats → And RVs

He saw an opportunity to clean up the neighborhood and make a profit at the same time. He had an acre of weeds near the front that he had paved. He added a nice fence. And a gate with an electronic code.

Then the property manager told everyone with an extra car (or two or three), a boat, RV, or work trailer that they had to park and store these vehicles inside the new fenced area. When all of the park vehicles are stored, the property manager will go to the community and advertise paid boat and RV storage.

This paved area cost the operator about $100,000 to construct. There are no significant ongoing costs to maintain it. When fully rented out, this lot will provide the operator and investors with about $10,000 per month in additional income.

Let's look at how that will play out for investors. $10,000 per month is $120,000 annually. That is a very healthy 120% annual ROI on this addition to the park, and most investors would be thrilled with that.

*Past performance is no guarantee of future returns
1. Wellings Capital Income Fund I was only available to accredited investors and is no longer open for investment

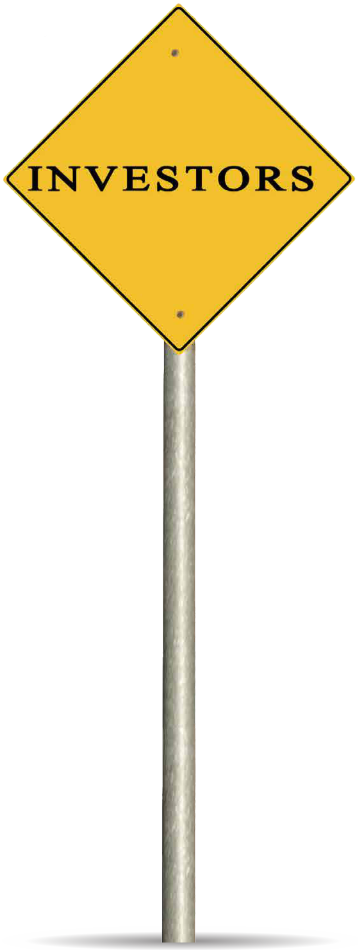
But it's so much better than that!

LET'S APPLY THE COMMERCIAL REAL ESTATE VALUE EQUATION AND ASSUME A 6% CAP RATE.

VALUE = NET OPERATING INCOME ÷ CAP RATE

IN THIS CASE

INCREASED VALUE = $120,000 ÷ .06 = $2,000,000.



That's a Two-Million Dollar value increase for a $100,000 investment. And that's the power of owning value add commercial real estate.

But wait... it's even better than that!

Don't forget leverage.

Assume this mobile home park was acquired for $5 million. And assume for a moment that the debt on this park came in with leverage of 60% LTV (loan-to-value). That would mean that this asset was originally acquired with $3 million in debt plus $2 million in equity.

This value-add to the property, when fully realized at the time of sale or refinance, could move the equity needle from the original $2 million... all the way to $4 million.[2]

So this one change could double the value of investors' equity!

And this equity appreciation doesn't include the significant income and value bump potential from a dozen or more other changes this operator will make at this park.

This paid parking area also cleans up the park, making it more friendly for new quality tenants, and more conducive to reasonable rent increases.

Do you see why I love commercial real estate investing? Do you see why I love acquiring mobile home parks from mom-and-pop owners?

2 There is no guarantee that these results will be achieved

Part II of the Value Equation: Cap Rate Compression

Let's assume we acquired a shoddily-run mobile home park for $3 million with 66.7% leverage. That's $2 million in debt plus $1 million in equity.

Now assume that you take the actions to upgrade this park to franchise-level standards. Now it's fully stabilized and could be a target for acquisition by an institutional buyer. This could result in cap rate compression, which could significantly increase the value of the asset and the equity.

In the example above, I assumed increased income with a constant cap rate. In this example, let's assume constant net operating income and a compressed cap rate.

Assume the asset is acquired at a 7.5% cap rate, which is fairly typical for acquisitions from mom-and-pops these days. And assume that the institutional buyer offers to purchase your stabilized asset at a cap rate of 5.5%. How will this affect the purchase price and value of the equity?

BY NOW YOU KNOW THAT

VALUE = NET OPERATING INCOME ÷ CAP RATE

NET OPERATING INCOME ÷ 7.5% = $3 MILLION
PURCHASE PRICE.

Therefore, the income must have been $225,000 at the time of your purchase.

Now assume that constant income of $225,000 (it would actually be more at stabilization) and divide it by your new cap rate of 5.5% at the time you sell to a REIT.

$225,000 ÷ .055 = $4,090,909.

This means that a cap rate compression of two points results in an increased asset value of over 36%.

FROM $3 MILLION TO OVER $4 MILLION.

This is great, but again, don't forget how leverage impacts the potential value of the equity. The increase in value doesn't go to the holders of the debt. The bankers missed out on this one. The increase of $1,090,909 goes to the equity holders. $1,000,000 in original equity has now grown to a theoretical value of $2,090,909.[3]

3 There is no guarantee that these results will be achieved

The cap rate change alone has doubled the value of the equity in this example.

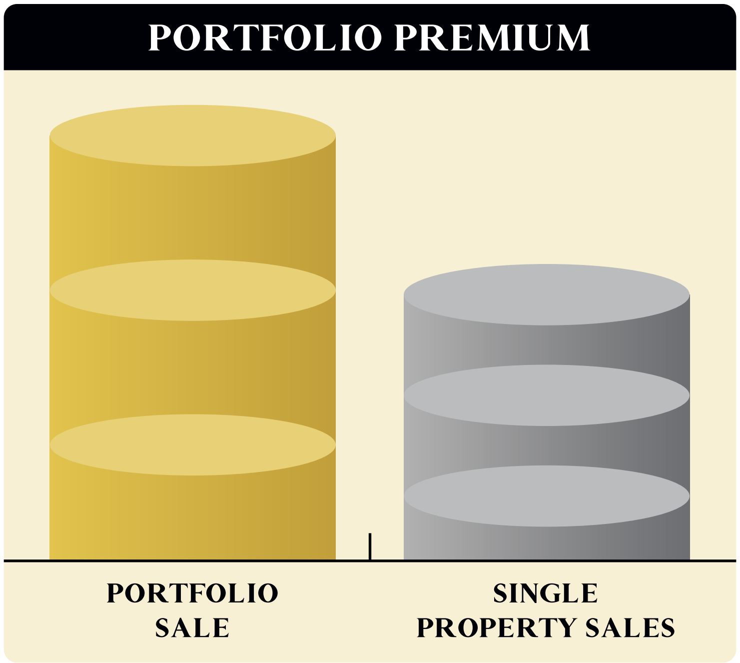
That's the power of buying from a mom-and-pop… and selling to an institutional buyer… with safe leverage.

Now imagine taking the last two examples and combining them. Increasing the numerator while compressing the denominator. Which is completely achievable. And then throw in other measures that a professional operator takes to upgrade and stabilize a property. Like…

- Bringing rents up to market level.
- Increasing occupancy.
- Renting sheds and carports to tenants.
- Passing back utility costs to tenants.
- And adding ancillary income like billboards, cell towers, ATMs, and renter's insurance.

These actions and more are standard practices by professional mobile home park operators. This is all achievable and so are the corresponding returns we are discussing here.

By the way, if an operator can put together a portfolio of professionally-run mobile home parks, you will increase your opportunity to procure an even more compressed cap rate. It's a fact that amassing a well-run portfolio will make you a better target for a REIT or another institutional buyer.



This is all well and good, but what about competition? What if a new mobile home park comes in next door and steals all of your tenants?

Well, that's unlikely. In fact, that's another thing I love about the mobile home park sector…

Supply & Demand Inequity - Unique Among All Asset Classes

The mobile home park asset class is the only one I know of that has a shrinking supply every year. Even though the demand is stable. And perhaps even increasing annually.

It's an established fact that the number of mobile home parks in the US is shrinking every year. City planners and "respectable" neighborhoods don't want them around. As cities expand around them, mobile home parks are an unwanted eyesore with a small contribution to the tax base, and the land can sometimes be repurposed for better use.

It has been estimated that about 100 mobile home parks disappear from the map every year. But only 10 new ones are constructed to take their place. That means about 2% of the supply evaporates every decade.*

Orlando's population has boomed for decades.
"Within metro Orlando, the population of mobile homes has dwindled. Orange, Lake and Lake Counties had 84,632 mobile home licenses in September 2014 – down 5 percent from five years earlier."

Orlando Sentinel

orlandosentinel.com/business/os-mobile-home-parks-20141109-story.html MHP's - the new darling of investors

In California, park owners must provide residents with notice at least one year in advance of closure plans. But such provisions don't stop parks from closing. Nearly 4,800 mobile home lots were closed in the state between 1995 and 2014.

citylab.com/equity/2015/09/the-other-affordable-housing-crisis/406405/

The supply of mobile homes in Austin, TX dropped 18 percent from 2000 to 2010, according to a 2013 affordable housing study commissioned by the city.

statesman.com/NEWS/20171103/Residents-feel-a-squeeze-over-mobile-home-costs

Esther Sullivan, a sociologist at the University of Colorado, estimates that 85 mobile home parks closed in Harris County (Houston), Texas between 2002 and 2011.

statesman.com/NEWS/20171103/Residents-feel-a-squeeze-over-mobile-home-costs

*Mobile Home University

Shrinking supply is another powerful benefit of this up-and-coming asset class.

Yet the demand for mobile home living is not shrinking.

THE AFFORDABLE HOUSING CRISIS IS REAL.

The number of low-paying jobs is on the increase. Especially in light of health care laws passed under the prior administration. Incomes have simply not kept up with the rise in housing prices.

I made about $11 per hour in two different summer jobs during college. That was over 35 years ago. I know of college graduates… almost four decades later… who are getting that same pay. (And I'm not indexing for inflation.)

Did you know that about 10,000 people are turning 65 each and every day? Shockingly, studies say that six out of ten of them have $10,000 or less saved for retirement.[4]

Though they don't have savings, many of them have equity in their homes, and this equity can often be traded in for a mobile home in a decent park. With significant savings in the form of personal property taxes and lot rent. And the freedom that comes along with this change.

It's not just low-income folks that take this route. The father of one of my best friends was a highly respected doctor in Southern California. He recently retired. When he traded in his job for leisure, he also traded in his expensive home for a mobile home and lot rent. And more flexibility to travel and relax.

My friend's father also gets…

His own yard	A parking space steps from his front door	A sense of community (most apartment dwellers don't know each other)	Greatly reduced property taxes

The growing demand and supply inequity is another reason I love mobile home park investing.

4. https://money.com/retirement-savings-survey/

Sticky Tenants

Mobile Home Parks have one of the stickiest tenant bases of any real estate asset class. No, I'm not talking about guys with Velcro suits (though it could include those people – I'm not one to judge).

Imagine this scenario. You're renting an apartment. You prefer renting, and you plan to rent for years to come. You get a notice that your rent is going up by 6%. You're paying $1,000 per month, so this is a $60 increase. That's $720 this year, and it will probably go up again next year.

You may move to avoid that rent hike.

Your ability to get out of the lease will be a simple matter of not signing a renewal. And getting a moving truck for a day.

Now imagine you're living in a mobile home park. You're paying $400 per month in lot rent. A new operator takes over, beautifies the park, and raises the rent up to the average market level at $424. A 6% increase.

Are you realistically going to pay a home-mover about $5,000 to move your mobile home a few miles away or across town... to save $24 per month? (You could pay double that amount to move a doublewide.)

It's highly doubtful.

That's another great aspect of this business. Once you acquire a tenant, you're likely to keep that tenant.

If you live in a home… and you have to downsize… you may move to a smaller home. Or an apartment. Or a mobile home.

But where do you go if you're in a mobile home and you have to downsize? The next step could be under a bridge.

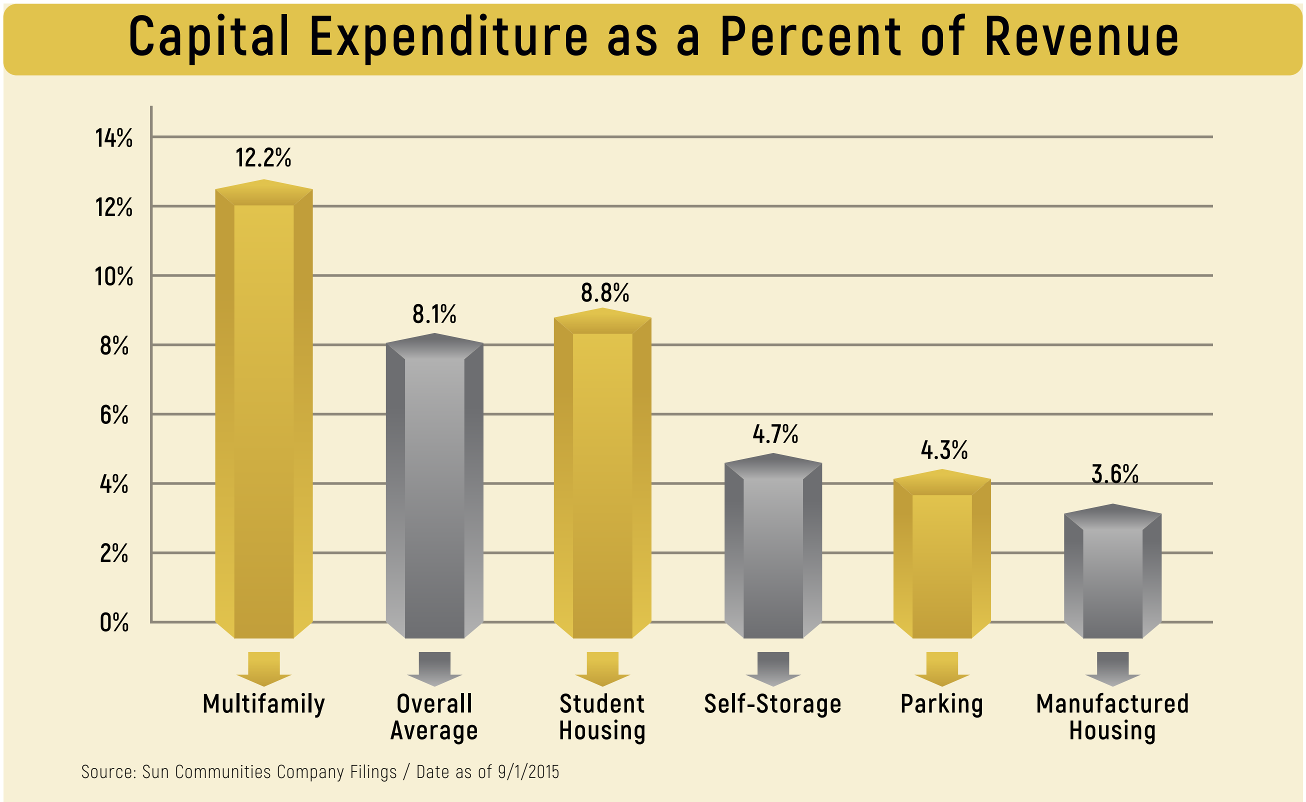
Mobile home park operators and investors love sticky tenants!

Lower Cost per Unit and Lower Capital Expenses

Real estate author and podcaster, Brandon Turner, has made a massive turn in his real estate investing strategy. He is eagerly acquiring mobile home parks. One of the aspects he loves is the ability to spread risk. He can spread the same amount of capital over far more units. Diversification lowers his risk.

Mobile home parks also have the lowest cost for maintenance of all of the real estate sectors. As well as the lowest and perhaps most predictable capital expense requirements.

The issues are fairly predictable, and with no toilets and other hassles endured by other real estate types, it is well-suited for operators who want to minimize their hassles and expenses. Our firm just paid a $107,000 bill for a water main break in a townhome community we own, so this is an especially sweet benefit to me right now.



Brandon also said that he is tired of dealing with contractors. After years of flipping homes and building a rental property portfolio, he has had his fill of lazy, lying contractors that don't follow through and who can make his life, and his tenants' lives, pretty miserable. (Of course, many contractors aren't this way.)

Owning a manufactured home community is essentially owning dirt and infrastructure. This means limited requirements for contractors, and a typically limited scope of work when one is required.

As someone who has spent decades dealing with unexpected maintenance, high capital expenses, and unreliable contractors, I love this aspect of mobile home park investing.

Joint Stakeholders

I love the structure of mobile home park management.

Our company owns apartments. We are 100% responsible for the interior and exterior of the buildings occupied by the tenants.

When I owned a number of mobile homes over the years, honestly, it didn't go well. I was the owner. The tenants were just… tenants. They had no significant motivation to take good care of my depreciating asset. And they often didn't.

In a professionally structured mobile home park scenario, we as the park owners own and lease dirt and infrastructure to tenants. The tenants own the homes. They have the motivation to care for them and keep them up.

Park owners are joint stakeholders with their tenants. This joint responsibility is the ideal real estate investment scenario in my experience.

Less Competition – The Stigma of Mobile Home Park Investing

Let's face it… mobile homes… trailers… have a stigma. Maybe you still have it. I've been there. I get it. But like I said earlier, Robert Helms has taught us well. Live where you want. And invest where it makes sense.

Along with the ever-widening supply and demand imbalance, this has been a great advantage to those of us who have already discovered mobile home park investing. While this is still true, this advantage will eventually slip through our fingers as more investors at all levels are discovering this previously hidden asset class.

Financing

Up to almost 40,000 of the 44,000 U.S. mobile home parks are owned by those who built them. Or by small-time owners who inherited or acquired them. Some of them date back about half-a-century. These owners recall the difficulties they had getting them financed. They likely got no financing at all.

So, when these owners are approached to sell their parks, they are often amenable to owner financing. They may even believe that is their only option to sell them. (And this could be true if their occupancy is low or their records so poor that the bank won't touch the deal.) This can be structured as an installment sale, which can provide significant tax benefits to both sellers and buyers.

The opportunity to get significant owner financing can mean less hassle, less uncertainty, and less hurdles to jump for the mobile home park operator. Owner financing is also non-recourse, which is a great debt structure for the operator.

But here's the truth about mobile home park financing...

While these parks were hard to get financing for in decades past, the situation has flipped now. Sam Zell's big play into manufactured housing has turned many banks' opinions to favorable status.

Large banks now love to finance mobile homes. Freddie Mac and Fannie Mae programs offer lower interest rates and better terms than similar programs for other asset classes like multifamily and self-storage.

> "Risk is relatively low for manufactured housing lenders. Second only to self-storage, the asset class has one of the lowest rates of default."

Hunt Mortgage Group Managing Director Josh Messier

One of the best ways to grow wealth is to safely refinance lazy equity and put it to work in a second investment. This is one of the goals of most high-powered real estate investors. Freddie Mac and Fannie Mae programs allow and even encourage this. One of the operators my company invests with has debt structures that allow for two supplemental loans in the first five years of ownership.

This means that operators could grow the income and appraised value for say three years and pull out a nice chunk of safe equity for investors to get back (tax-free). And they could do it again just before the five-year mark.*

Investors who are able to obtain all of their principal back find themselves playing with house money. They have zero left in the game and their ROI is now infinite since any number divided by zero is infinity.

*Past performance is no guarantee of future returns

By putting that untaxed equity to work in a second investment they are able to keep earning returns from the first investment and have the opportunity to potentially double their returns by investing the principal again. This can really add up over a decade or two, especially when Uncle Sam doesn't have his hand in the till.

And speaking of tax benefits...

The Surprising Tax Benefits of Mobile Home Park Investing

Before I looked into it, I assumed that mobile home park investing probably offered little in the way of tax benefits. We all know that dirt is not depreciable and owning a piece of land is owning a non-depreciable asset.

But this is yet another aspect of this investment sector that I was dead wrong about.

One of the operators we invest with explained how a mobile home park's value could be segmented for the basis of depreciation. He explained that the raw land may hold only about 30% of the value in a mobile home park. Most of the other 70% would be tied up in infrastructure (like paved roads, parking, utilities, a pool, clubhouse, and landscaping).

As my friend explained this, I couldn't imagine there the last 35% could be. He went on to say that the last 35% could be chalked up to goodwill. Really? Yep, goodwill.

*Past performance is no guarantee of future returns

So, the depreciation basis in this example could be...

30%
Land.
Non-depreciable

35%
Infrastructure.
Depreciable over 15 years on a straight-line basis

35%
Goodwill.
Depreciable over 15 years on a straight-line basis

So, 70% of the asset's value could be depreciable over 15 years at an equal annual clip. This means that 4.66% (in this example) of the annual income would be covered by depreciation.

(0.70 ÷ 15 = 4.66%).

But that's the situation if the park is owned with all cash. Our friend, safe leverage, can provide a benefit here again. If the park is conservatively leveraged at 60% loan-to-value, that number can be multiplied by 2.5 (1 ÷ (1 – 0.60)). So, with 60% debt, this 4.66% depreciation coverage could expand to 11.66% (4.66% * 2.5).

This means that an investor in this mobile home park who earns 11.66% in annual cash flow may have a zero in the income line of his or her K-1. And any distributions less than 11.66% could actually generate a taxable paper loss to this investor. Annually, for up to 15 years.*

And there is also the opportunity to accelerate depreciable losses through a cost segregation study, which would likely allow many infrastructure items to be depreciated over less than 15 years.

And there are also Section 179 opportunities, which allow even more tax deductions in the year of a capital expense. Bonus depreciation that is provided under the tax reform bill could mean the tax write-offs in year one are staggering. This is true whether you own and operate a park or invest passively (assuming you do that right – see below).

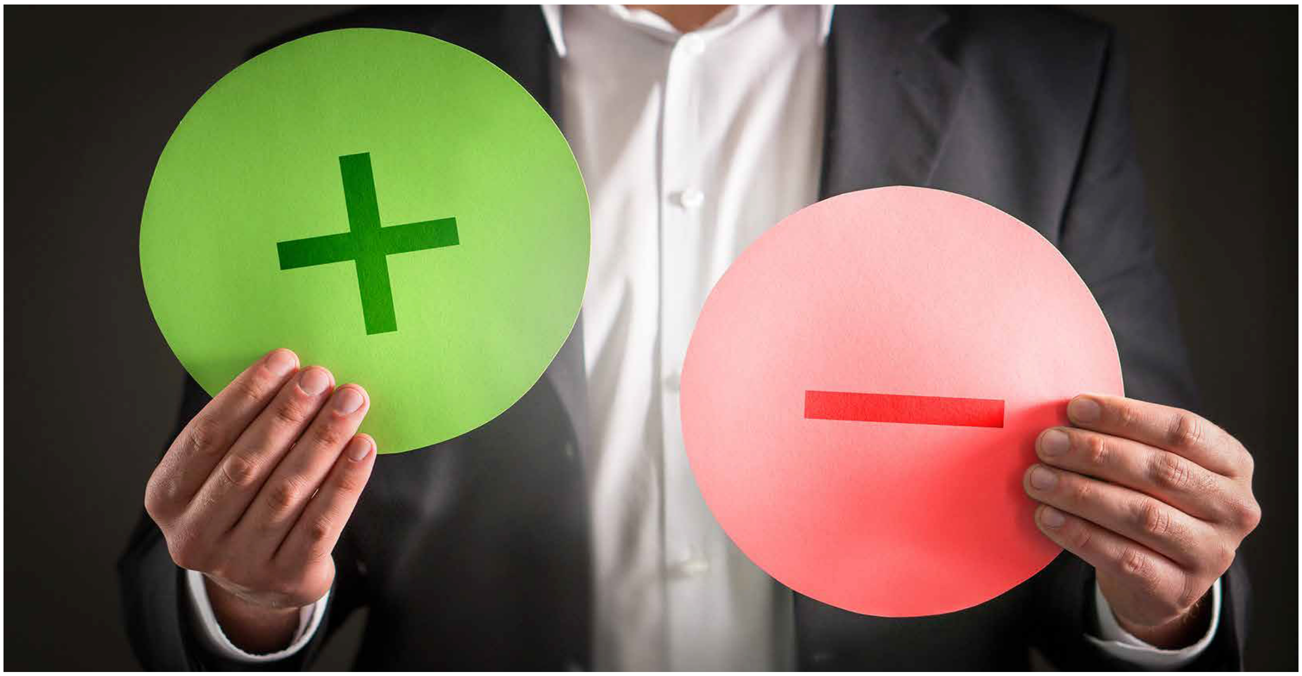
And investors may have the opportunity to do a 1031 exchange or a 721 exchange to kick the capital gains can down the road even further.

Note that these savings accrue to the direct owners of real estate. So please be sure to invest in a syndication or a partnership structure that passes through profits, depreciation, losses, etc. directly to you as an investor. (Ask your operator if you'll get a K-1 or a 1099. Look for the K-1.)**

*Hypothetical results may not be achieved
**Consult your tax adviser to determine if these situations are appropriate for you.

Downsides

Every investment has both pros and cons and mobile home park investing is no different.



First of all, mom-and-pop-owned mobile home parks can be hard to deal with. They may even be hard to locate. Some of them are not listed on Google Maps. And when you locate a park, it may be hard to track down the owner.

Sometimes, when you find the owner, they'll wink at you and tell you that they collect a lot of their rent in cash and they'll show you their notoriously sloppy handwritten books. It can be really hard to get a handle on how much they're really making and what your potential income may be. Banks aren't a fan of this either.

Of course, these issues may be an advantage to an experienced operator who knows how to spot value and can see through all of this haze.

Another potential problem is the social pressure on mobile home park owners these days. A recent HBO show with comedian/news commentator, John Oliver, characterized mobile home park owners as being greedy and taking advantage of tenants.* He focused on a few comments made by one or two operators and provided very little in the way of fact-checking.

*Source: Rolling Stone Magazine

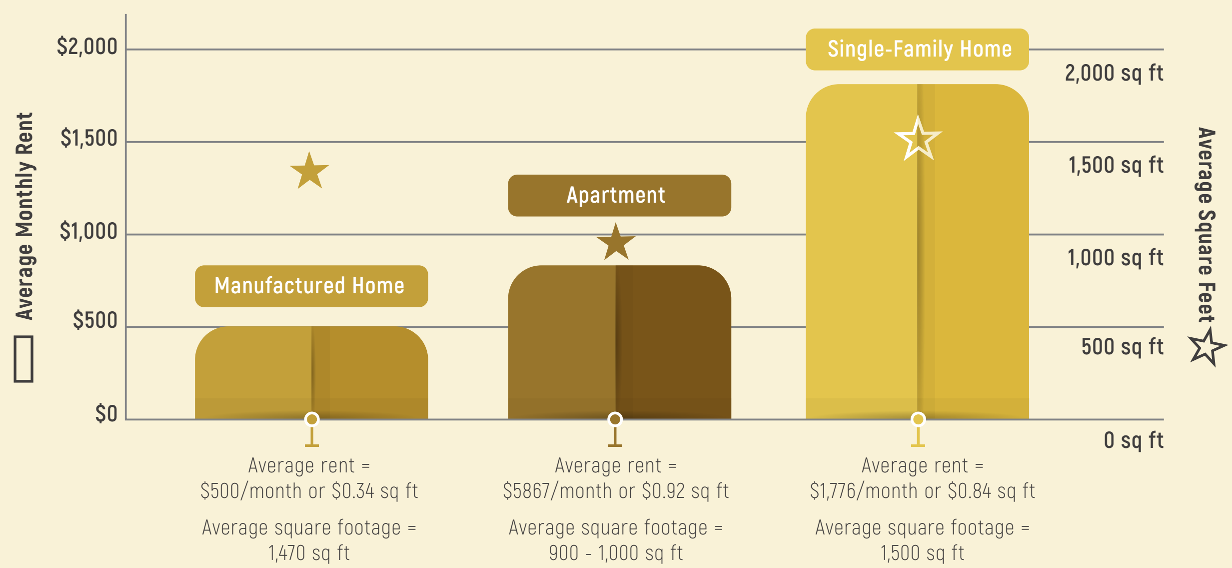
An anti-business author and reporter, Gary Rivlin (not a comedian like Oliver), was preparing an expose' on mobile home parks. He had written scathing articles and books on other topics, and it was expected that this one would be no different. He attended a mobile home park investor conference then he actually lived in a mobile home park for a while. No one expected this outcome...

This reporter actually became a big fan, and he reported positively on mobile home parks in his March 2014 New York Times article. He said that every single person he spoke to in the park spoke positively about the park's new owners and the improvements they had made. Even in the face of rent hikes.

Check out this graphic showing the comparison between living space and cost for mobile homes, apartments, and rental houses.

Comparing Manufactured Homes to Multifamily and Single Family

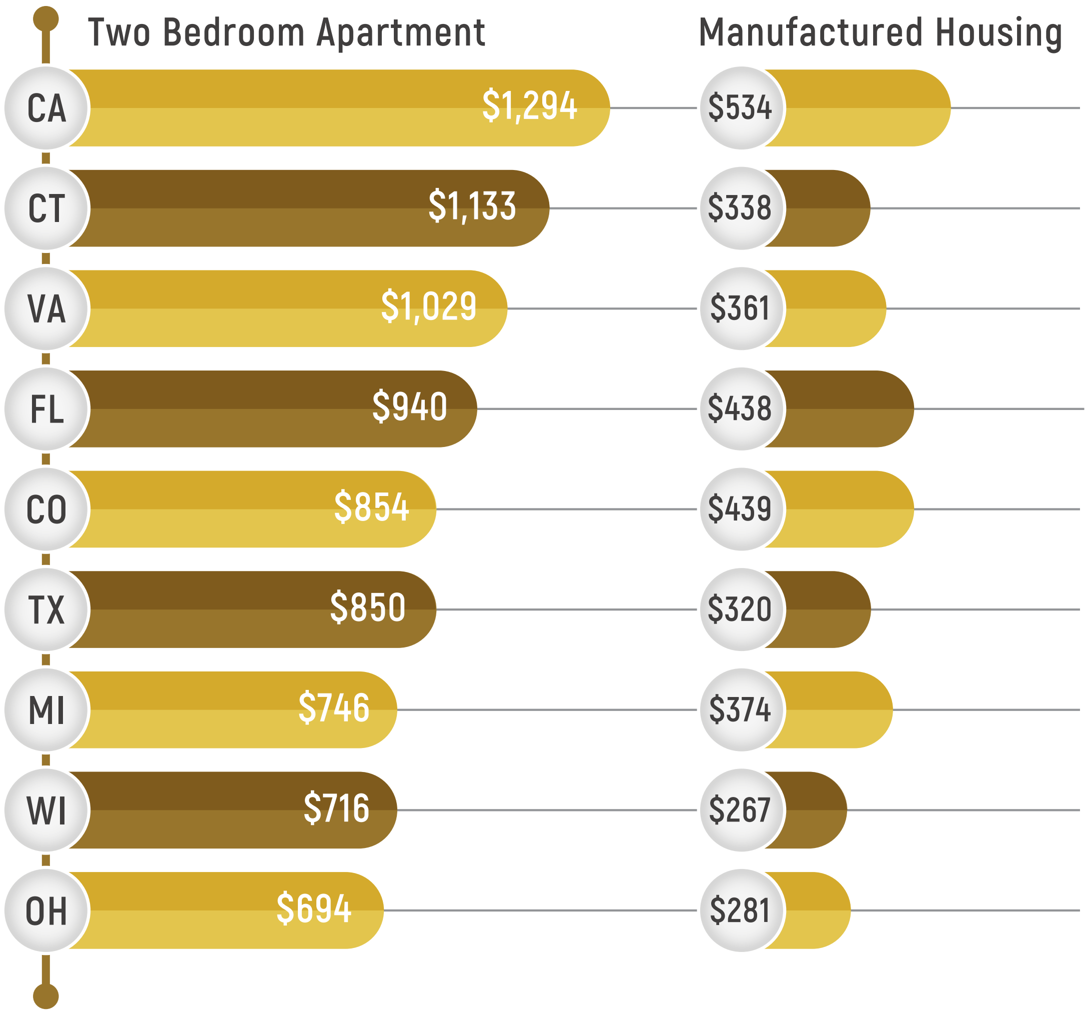
A manufactured home provides approximately 40% more space at approximately 60% less cost per square foot.



Source: MH Quick Facts and Apartment Guides, Bankrate.com

And check out this HUD data comparing rents for a two-bedroom apartment vs. lot rents for manufactured housing in nine states. An apartment is almost triple the cost of lot rent in my state, and it's more than triple in places like Connecticut. Plus most mobile homes have three bedrooms.

Average Fair Market Rents in Selected States



Source: Duke University, US Department of Housing and Urban Development, Data Comp

As I stated earlier, other downsides include pressure from the community (not in my backyard!) as well as local planning and zoning folks who would often rather see higher taxes from a piece of land that is utilizing public services like schools, roads, and utilities.

It can also be challenging to fill empty lots at a mobile home park. Mom-and-pop owners don't often have the resources nor a desire to advertise vacancies or buy homes. This is actually an opportunity for a professional operator who takes over since they can often fund new homes for those lots then sell them to tenant-buyers. But that doesn't mean the lots will be filled with owner-tenants right away.

How Did Mobile Home Parks Fare During The Great Recession?

Years ago, a financial planner told me that planners and investors were always looking for an investment that did well in good times and continued to do well in bad times. He said that untold millions or billions of dollars would quickly flood an asset class like that.

You have just discovered that asset class.

- Sticky tenants.
- A growing supply and demand inequity.
- The need for affordable housing.
- A fragmented ownership base.
- The longstanding stigma.
- The lack of institutional investors.

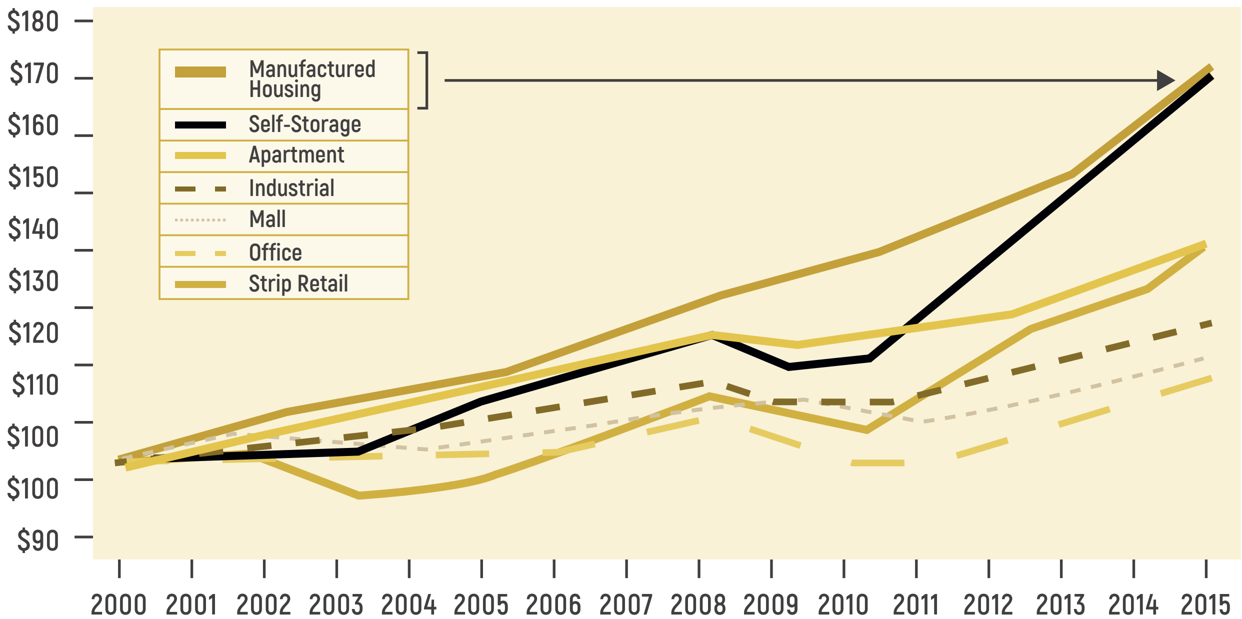
Translates to...

Steady demand and profitability in all economies.

My friends, if you've read this far... or skipped down to the end... I'm excited to leave you with the bottom line. Which should be exciting for those of you who survived or recall the recent Great Recession.

Check out the growth in Net Operating Income from the manufactured housing sector compared to other asset classes from 2000 through 2015. While I obviously appreciate the growth, I think the surprising stability of this sector through the recession is even more encouraging.

Same-Property NOI Growth



Source: SNL Financial "Indexed Same Store NOI Growth Publicly Traded REITs." Assumes $100 starting point

Long before investing in mobile home parks, I built and operated a multifamily facility. Then I helped build a Hyatt hotel. And I wrote a book about apartment investing. Then I fell in love with self-storage.

But I couldn't honestly look at this data and ignore perhaps the bottom line of what I, and most of my investor friends, want most in an investment...

A stable, predictable, tax-advantaged, income-generating, appreciating real asset that performs consistently in up and down economies.

If you see what I see in this under-appreciated asset class, and if this is what you're looking for, too, perhaps this is report is the dawning of a new day in your investment career.

Note that according to this graph, manufactured housing experienced no dip whatsoever...
Do you want to learn more? Contact us now at... Contact info@wellingscapital.com | 1-800-844-2188

P.S. You may read this report and think, "Yeah, right. It sounds good, but I'm not in a position… nor do I have the desire… to buy a mobile home park. I can't see it happening."

I was talking with a prospective investor recently. She was an American living in Europe who was struggling with the thought of owning and operating real estate from across the Atlantic. She was trying to buy duplexes or single family homes.

After talking through what it might look like for her to invest passively instead, in a syndication, the lightbulb suddenly turned on for her. She exclaimed:

> "Why should I work harder than I need to… to make less than I could?"

This lightbulb moment has happened to many of our investors, and if this rings true for you, we would love to hear from you.

Contact us now at info@wellingscapital.com | 1-800-844-2188

> "I would rather earn 1% off a hundred people's efforts than 100% of my own efforts."
>
> JOHN D. ROCKEFELLER

ABOUT THE AUTHOR

Paul Moore is a successful entrepreneur, investor, author of **The Perfect Investment – Create Enduring Wealth from the Historic Shift to Multifamily Housing (2016)**, and co-host of the wealth building podcast *How to Lose Money.* A founding partner in Wellings Capital, Paul's investment philosophy points investors toward long-term stable investments that yield satisfying multi-generational outcomes.

After graduating with an engineering degree and then an MBA from Ohio State, Paul entered the management development track at Ford Motor Company in Detroit before departing to start a staffing company with a partner. Paul was finalist for Ernst & Young's Michigan Entrepreneur of the Year two years straight before selling this firm to a publicly traded company.

Paul later entered the real estate sector, where he flipped over 50 homes and 25 high-end waterfront lots, appeared on HGTV's House Hunters, rehabbed rental properties, built new homes, developed a subdivision, and started two successful online real estate marketing firms. Three successful developments, including assisting with development of a Hyatt hotel and a successful multifamily project, led him into the commercial real estate arena.

Paul is a featured guest on numerous real estate podcasts, and is a regular video and blog contributor to BiggerPockets. Paul and his bride of 32 years live with their four children in Central Virginia. Paul's firm, Wellings Capital, manages multiple commercial real estate funds that give investors access to the historic returns and tax savings of commercial real estate.* They also have a desire to raise awareness and funding to fight human trafficking and rescue its victims.

Past performance is no guarantee of future results