

MH Weekly



*News & Views for Active
Manufactured Housing Business Participants & Investors*
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Mobile Home Park vs. Apartments for Investment

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by Dave Reynolds

1. There has always been and will always be a need for affordable housing. The typical mobile home park is just that... affordable housing.
2. It is typically accepted that the average operating expenses for a mobile home park are usually around 35-40% of the gross income as compared to apartments which have in the 50-60% expense ratio. One of the biggest advantages of mobile home park ownership is not only this decreased operating expense margin but the reasoning behind it.

Mobile Home Parks in which you rent the land to the home owners have a much lower turnover ratio as compared to apartments. In most cases, once the home is moved into your park, that home will stay in there for 25+ years and when people are ready to move they will just resell the home in the park and you will have a new homeowner.



Dave Reynolds

The biggest reason for the low home turnover is that it costs so much to break down, move, and set up a home. In most cases this is going to cost at a minimum of \$2,000 for a singlewide and \$4,000 for a doublewide. In an apartment, your renters can pack up and leave in the middle of the night.

In most cases a mobile home will not move out in the middle of the night (especially legally). There are those cases where someone will hire someone to come in and move a home in the middle of the night but it is rare.



I actually had someone who was a few months late on rent, decide to hook up to their 14 x 70 home with their ¾ ton pickup in an attempt to move it down the road a few miles to a different park. They made it out of the park with the home but about a mile down the road the mobile home separated from the truck and they not only flipped the home but destroyed a truck. All of this to avoid about \$800 in lot rent.

3. When you raise the rent by \$10, \$15, \$20 or more in a mobile home park, it is less justifiable for a renter to spend several thousand dollars to move their home to save \$10 or \$20 per month. In addition there is no guarantee that the mobile home park that they move their home to will not follow suit with a rent increase of their own.
4. Another reason for the lower operating expense ratio for mobile home parks is that you are not responsible for painting, cleaning carpets, fixing windows, and all the fun jobs of the apartment maintenance personnel. You are typically only responsible up to where the home connects to your utilities and the maintenance of the common areas.
5. As far as depreciation, apartments have a large value attributable to the building itself and the building portion is generally required to be depreciated over 27.5 years. However, for mobile home parks, the depreciable costs are typically the roads, water lines, sewer lines, electric poles and so on. These are considered land improvements and are typically depreciated over a period of 15 years. This increased depreciation over the first 15 years is a major tax benefit for many investors.

- 6. Another hidden benefit of mobile home parks are the barriers to entry for competition. In most areas of the country, it is difficult to get the proper zoning, meet all the requirements to build a new community and actually make a profit. Face it, once you get all the permits and licenses and have the curbs, roads, driveways, utilities, pads and everything else built out, you will have a carrying cost until you actually get enough homes into the project to break even, let alone start making a profit.

Mobile Home Parks are in limited supply and the barriers to entry as far as costs, regulations and government restrictions make developing new parks unfeasible in most areas. State and local governments restrict new mobile home park developments for many reasons, including: bad reputation, existing owners allowing parks to deteriorate, less property tax base to fund schools, police, fire, and other government services.



- 7. Another benefit of mobile home parks is that in most cases you have individuals that own their own homes and will tend to take care of the home as well as their lot. Since you are renting basically the land and the utility connections, there is not near as many things that your renters can do to cost you major repairs. Sure they may flush things down the sewer and let the water run, but they will not be putting holes in the walls and floors or spilling things on the carpet as they will in your apartment rentals. You rent the land and do not have to fix leaky kitchen faucets or toilets.

- 8. Another benefit of owning mobile home parks is that you are often in a good position to buy and sell new and used mobile homes. You can often buy homes that people sell in your park, in nearby parks, repos, or even new homes from the manufacturers and place them in your park and sell them at a profit.



Depending on the situation, you may be able to sell them for cash, on terms, or with new financing. As the park owner, every time you sell a home and fill a vacant lot in your park you have just increased the monthly lot rent income as well as the value of the park.

If each occupied lot is worth an additional \$10,000 then in addition to the profit from the home sale itself you have just made an extra 10k in equity.

A mobile home dealer makes money on the spread between the purchase and sale price and thus needs to have good profit margin to stay in business. As the park owner you can live on a much smaller or even a break even on the home sales and thus save your buyers thousands of dollars.

Excerpt from

Mobile Home Park Investing

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For the past decade, Dave Reynolds has been involved in most aspects of the manufactured housing industry, from buying and selling mobile home parks to running the industry's most popular website for buyers and sellers of Mobile Home Parks, MobileHomeParkStore.com. Mr. Reynolds has authored several books and cd's on investing in and operating Mobile Homes and Mobile Home Parks. If you are looking to buy or turnaround a mobile home or park, he is available for consultation at 800-950-1364

