

THE NORTHWEST REPORT

July 2013

For Manufactured Home Community Owners, Operators and Investors

NEWS AND TRENDS

Although the escalating commercial real estate recovery may reinforce the sense that “it’s back to business as usual,” to those responsible for recruiting listings in the commercial real estate industry, 2013 hardly seems like business as usual anymore. More and more brokerage firms are actively recruiting new brokers who possess highly specialized experience and skillsets capable of understanding and addressing the real estate needs of investors across the technology, finance, REIT, multi-family and CMBS industries.

Few specialize in manufactured home community listings and sales, and at NW Park Brokerage we continue to be a leader. NW Park Brokerage has grown significantly in the past 18 months, with streamlined new marketing initiatives, a growing list of exclusive clientele pre-qualified and ready to act quickly when a property comes on the market, and the best seasoned advice for owners in the industry. Business is strong, interest rates are beginning to rise and we are **actively pursuing new listings** to satisfy our client’s pent-up demand for quality manufactured home communities throughout the West.

Manufactured home communities continue their trend to produce a significant return on investment. Two cases in point: 1). United Mobile Homes (NYSE UMH) occupancy rose from 77 percent to 81 percent, with a strong increase in demand for rental units. Revenue rose from \$10.8 Million in Q1 2012 to \$13.4 Million in Q1 2013, Net Operating Income (NOI) rose from \$1.75 Million in 2012 to \$4.15 Million in Q1 2013. 2). Sun Communities (NYSE SUI) just released its Q1 2013 REIT results. Occupancy rose from 80 percent to nearly 90 percent, year-over-year revenue growth was up 24.4 percent, year-over-year Net Operating Income (NOI) rose 22.7 percent, revenue went from \$83.1 Million in Q1 2012 to \$103.4 Million in Q1 2013. NOI went from \$11.5 Million in Q1 2012 to \$14.1 Million in Q1 2013.

NEW OPTIMISM FUELS MANUFACTURED HOUSING GROWTH

New manufactured home shipments are increasing and new home inventory (especially “aged inventory”) is decreasing throughout the West. The increase in activity bodes very well for manufactured home community operators as it should translate into higher occupancy and eventually an increase in revenue. Even though sales are up year-over-year they are still at about half of what they were in 2006, when the gradual downturn took a dramatic turn for the worse. The largest improvement is in high population urban areas and in retirement areas across the Sunbelt.

A lack of used manufactured home inventory in the counties near the oil shale drilling and in the southeast makes it more difficult for owners who do not have the funds to purchase new homes in order to boost community occupancy. Improved stability in operations, more providers of financing and low interest rates are drawing new investors to manufactured home communities. Well priced properties with good underwriting are selling quickly and brokers are in short supply of larger, well maintained communities to satisfy the investment appetite of their clients.

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ANCILLARY REVENUE OPPORTUNITIES

Are you maximizing your income with your telecom service provider? Are you getting all you can from it? It's your land and your financial investment! Industry experts estimate that of the over 35,000 manufactured home communities nationwide only 8-9 percent of them are receiving any income from telecom provider partnerships. Also, if you are lucky enough to be in that 8-9 percent group, how do you know the money you get is the correct amount? You can hire a communications consulting company who will work on a contingency basis to help negotiate income sharing arrangements with your digital TV provider. Residents must pay their cable bill directly to the cable provider in order for this program to work.

There are companies who specialize in working with community owners to establish income sharing arrangements with digital television providers. Since 2009, when the FCC switched all over-the-air TV channels to digital, the entire business model has changed and digital television is the future, viewed on the internet, video-on-demand, and wireless tablets. It is time well spent to contact a seasoned professional who knows how to approach this discussion with your local digital television providers. Approaches can include a cooperative, portfolio approach, defining compensation in a contract and comparing it to those proposals from other providers, establishing long term revenue assurance knowing you are receiving the maximum income available, and the skills and contacts needed to deal with large scale service providers.

One such company is The Communications Consulting Group. You can contact Christopher Merrell of CCG at (561) 671-9996 if you want to learn more about maximizing your telecom service provider income. CCG has a proven, ten-step process guaranteed to establish this arrangement.

INTEREST RATES STILL LOW BUT INCREASE SLIGHTLY

According to published reports rates for manufactured home communities rose slightly in the past week. Premium pricing has the 5-year fixed rate at 3.809 percent and 7-year fixed rate at 4.359 percent. Lower rates are available for communities with low-leverage loans and loans equal to or over \$2,500,000. Par pricing, low closing costs and step down pre-pays are available on loans over \$10,000,000 with 90-day rate locks, no reserves and a full 30-year amortization (no balloon). Initial applicants must include a rent roll, 2-years plus current YTD operating reports, borrowers financial statement (with schedule of real estate owned), executive summary with pictures of the subject property, and the past two years tax returns. Experts predict rising rates but no drastic increases this year.

MARKETING NEW AND USED HOMES

One of the most important parts of successfully operating a manufactured home community is being actively involved in home sales. The vast majority of MHC's have a moderate vacancy rate that requires the owner to be active in purchasing and selling new and pre-owned homes. Many onsite managers are under the assumption that home sales are not their responsibility – WRONG. Every manager should be hired and trained in sales and marketing and they should **clearly** understand that a key part of their job is to constantly be promoting the community and the homes for sale in the community **daily**. No one is in a better position to fill empty sites than the manager, who is in daily contact with the public and existing residents who can be a valuable source of referrals.

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Resident referral programs should be in place – isn't it worth giving a resident one or two months free site rent in exchange for a referral that fills an economic vacancy? Absolutely.

Advertising homes for sale is tricky business nowadays. While free websites such as Craigslist can sometimes generate a lot of calls, they can also generate a lot of un-qualified buyers.

Newspapers that have an online component, home seeker magazines, local realtors, dynamic signage and open houses are just a few of the ways to attract buyers. If you have a community that has significant auto traffic, open houses generally create a "buzz" and may attract the perfect buyer, who could be someone already impressed with the community and driving through it looking for homes for sale.

The next, and most important step is to understand how you sell a new manufactured home. Many buyers get used to seeing the low prices of "used" homes and have "sticker shock" when quoted prices for a new manufactured home. Have your new home factory rep help you develop a "features and benefits" sales talk that demonstrates to potential buyers the real difference between an older "mobile home" and a new, highly efficient manufactured home. The new homes are much closer in quality to a site-built home than most people realize, at a fraction of the cost. Drywall painted interiors, solid wood cabinets, new appliances and other components backed by their manufacturers, fiberglass shingle roofs and hardi-plank cement siding are just a few of the features found in a new manufactured home. Coupled with an interest rate much lower than used "mobile homes" and you have an affordability feature seldom presented in a positive way to potential residents. New homes are an easy sell if you know how to sell them, and sales training for onsite managers is the most important training they can get in this tough marketing environment.

REGIONAL UPDATE

In Oregon the Manufactured Housing Landlord & Tenant legislation passed smoothly and without opposition. The bill consisted primarily of improved language regarding responsibility for trees on home sites and improvements to existing language regarding sub-metering. The Coalition bill had language that "fairly and clearly" allocated the responsibility for tree maintenance in a realistic manner. Landlords are in a better position than residents to obtain and afford good liability insurance, since it is a standard cost of doing business. As a result, normal maintenance for trees on a resident's site remains with the resident. However, if the tree has certain features that make it a "hazard tree" then the responsibility shifts to the landlord, unless the resident planted the tree.

No progress was made for either side on the "right of first refusal" issue for tenants and industry observers are expecting a small but active group of proponents will re-introduce legislation to give residents a clear "right of first refusal" in the next Legislative session. Community owners are ready to fight this effort.

In Washington the 2013 Legislative session was considered a "draw". No bills harmful to the industry passed, although the budget drafts are still up in the air. Passage of HB 1493 which would eliminate taxes on abandoned homes looks good right now. On the other side, intensive lobbying by the Attorney General's staff helped kill the manager training bill.

Manufactured Housing Communities of Washington (MHCW) encourages every community member to attend their local Unit meetings. Each Unit meets regularly and has a representative on the MHCW Board of Directors.

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These local meetings are a prime source of information for the attendees and they are the best way to stay informed with every changing laws and regulations that have an impact on your manufactured home community. Contact MHCW at (800) 345-5608 and ask Ken Spencer or Theresa Hermanson to send you a schedule of meetings and application for membership if you haven't joined the association already.

NATIONAL AND STATE DATA

Manufactured housing production increased once again during May 2013, according to the latest just-released statistics. May 2013 numbers indicate HUD code manufacturers produced 5,622 homes in May, an increase of 7.8 percent from the 5,211 homes produced during May of 2012. Cumulative 2013 industry production now totals 23,795 through the period of January to May 2013, a 5.1 percent increase over the 22,640 homes produced during the same five month period in 2012.

The rebound in manufactured home HUD code production began in August of 2011. Beginning with the rebound and through May of 2013 the top ten states for manufactured home production are:

Texas 19,143 homes, Louisiana 7,788, Florida 4,861, Alabama 4,411, North Carolina 4,357, Kentucky 3,887, Mississippi 3,812, Oklahoma 3,185, North Dakota 3,165 and Tennessee with 3,117.

In the Pacific Northwest, the average sales price of a new multi-section manufactured home is \$83,300 and the average sales price of a new single-section manufactured home is \$41,700. Multi-section home sales count for 84.7 percent of all manufactured home sales in the West, with single-section home sales at 15.3 percent.

UPCOMING EVENTS

WESTERN STATES SUMMIT
Hotel Healdsburg
Healdsburg, CA (Sonoma Wine Country)
July 21-23, 2013
Contact Sheila Dey
(916) 448-7002

MHI ANNUAL MEETING
La Costa Resort
Carlsbad, CA (near San Diego)
Hotel Reservations (800) 438-9217
September 29th to October 1st
Contact MHI

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COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

**GEORGE ALLEN'S 22nd ANNUAL
INTERNATIONAL NETWORKING ROUNDTABLE**

Hilton Chicago/Indian Lakes Resort
Bloomington, IL
Hotel Reservations (800) 334-3417
September 18-20, 2013
Contact George Allen
(877) 633-4764

**NATIONAL COMMUNITIES COUNCIL
FALL LEADERSHIP FORUM**

Theme: "Building a Vision for the Future"
Building a Vision for the Future
October 16-18 / 2 nights
Downtown Chicago at the W. Hotel
Featured Speaker: Sam Zell
Chairman, Equity LifeStyle Properties.
Contact Jenny Hodge, VP of the National Communities Council
(703) 558-0400

Recent Sold Property:

99 Space- Excellent Quality Manufactured Senior Community
Near Salem, Oregon/ City Water & City Sewer
No Park Owned Homes, 5 Vacant Lots
Sold at \$4,000,000

Over \$500,000,000 in manufactured home community sales.

Visit our website at www.nwparks.com

For more information on manufactured home communities for sale or an assessment of your community call Bill Jackson of Northwest Park Brokerage at 206.652.4100 or email Bill at: billj@nwparks.com

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