

THE NORTHWEST REPORT

December 2011

For Manufactured Home Community Owners, Operators and Investors

NEWS AND TRENDS

There have been a few articles written lately about a permanent change in our industry – the manufactured home community owner who is now, and may always be, a new and pre-owned home retailer. As community owners, how do we adapt to this change in business structure? It begins with on-site management and a shift in philosophy, training and recruitment.

Today, when you are looking for on-site managers you need to analyze candidates carefully and picture them as sales managers and marketing representatives as much as you do rule enforcers and maintenance supervisors. This is easier said than done, but these people are out there and they are looking for rewarding and fulfilling opportunities. Most manufactured home communities are not huge operations, where a sales staff can be separate from on-site management. To the contrary, many manufactured home communities are small to medium sized operations where on-site managers wear several hats but the need for them to increase their areas of responsibilities and learn new skills has never been greater. After all, it is essential, *absolutely essential* that in order for a manufactured home community to remain stable, profitable and operationally sound it must have an active and successful home sales operation on site.

If you have vacant sites your only opportunity to fill those sites is to buy new or pre-owned manufactured homes and bring them to the community for installation and resale, which takes constant sales and marketing. If your community is full, you may consider operating a listing and resale operation in order to keep the community full and help to insure that resale values are reasonable and homes sell quickly. While it's not always appropriate to compare apartment complexes to manufactured home communities, one similarity is undeniable. Any successful apartment operation includes a talented leasing agent on site. In 2012 and beyond any successful manufactured home community must include a talented home sales agent or agents on-site, and those team members, along with the on-site managers must be willing to learn new skills and embrace change.

Now is a great time to recruit talented people into our industry who are part of the large pool of talented but unemployed Americans searching for employment. This is also a time of great opportunity in the manufactured housing industry and especially in the manufactured home community sector.

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INTEREST RATES ARE LOW AND FINANCING IS AVAILABLE

Commercial lenders, including GE Capital, Northwestern Mutual Life, Wells Fargo and Union Bank are very active in manufactured home community lending. The latest interest rates are hovering around 5.250% for a 10-year fixed rate, fully amortized loan, with rates as low as 4.250% for a 2-year fixed rate. Rates can be found at 4.350% and 4.60% for 5 and 7 year fixed rates, respectively. Ratios remain at 70% loan-to-value on a refinance, 75% LTV on a purchase, dropping to 65% loan-to-value on standard grade communities.

SUB-METERING - HOW MUCH IS ENOUGH? Submitted by Earl King.

How much water are you using in your community? Billing can be pretty basic but for purposes of estimates and visualization we suggest using the lowest practical denominator of how many gallons or cubic feet a day are you buying.

Divide the amount of water purchased in the given billing cycle by the number of days in the billing cycle. This will give you the total daily water purchased. Then, estimate the population in your community. Take the total number of occupied sites, multiply that by the number of people per home and you will have your total estimated population. Take the estimated population, multiply that by 55 gallons per day per person (GPD/PP) and that should give you the conservative consumption or number of gallons your community should buy per day.

Are you buying more water per day than this estimate suggests? If so, you may have a water leak. Ask yourself a few questions; How old are the water meters? What is the average amount of gallons on the registers of the meters? If you are selling the right amount to the residents and you are consistently buying more than you should, then leaks are a real possibility. If you are selling less than 50 GPD/PP then meters or billing may be the problem.

Positive displacement disc meters are proven to capture the most water across variable flow rates. Meters are designed to measure linear flow of water and should be installed horizontal. It is also proven that brass meters are more accurate than polymer meters.

Do you know how much you are paying for water per 1,000 or CCF?

The billing of water is usually for 1,000 gallon units or by a 100 cubic foot, known as a CCF. Sewer is usually charged based on the number of units purchased.

Five percent is an acceptable loss for unaccounted water because of meter errors, which are typically +/- 1 percent for the master meter and +/- 5 percent for the individual domestic meters.

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We suggest you compare and consider the following:

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- Compare your average daily water purchased from bill to conservative estimates.
- Take a 24 hour reading from the source meter and compare to conservative estimates.
- Compare actual meter read to billing average daily – are they the same? They should be close.
- If you are sub-metered ask yourself how many gallons are we selling to the residents on a daily basis?
- Are we as a community selling enough to the residents?
- Is it greater than our conservative estimates?
- How old are the meters ?
- What is the average amount of gallons on the registers of the meters?

Interesting fact. If all the world's water were fit into a gallon jug, the fresh water available for us would equal only about one tablespoon.

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CAP RATES RISE

Appraisers and lenders are reporting a slight increase in CAP rates on manufactured home communities as economic uncertainty continues to affect all real estate asset classes. While most appraisers agree manufactured home communities have held their value and continue to be highly sought after investments, declines in the value of most other commercial real estate categories has hampered manufactured home communities. Some types of commercial real estate, from bare land to retail and warehouse space have depreciated 10-20 percent or more and that has not been the case for manufactured home communities in the western United States. However, appraisers and lenders continue to be conservative in their evaluations.

NATIONAL AND STATE DATA

The Manufactured Housing Institute recently released its most current data, which covers **January through October**. Increases were across the board with both single-section and multi-section home shipments up compared with the same period last year.

Compared with 2010, manufactured home shipments for October 2011 were 5,436 new homes, up 41.5 percent from October 2010. Single sections accounted for the bulk of the increase, with shipments up 92 percent over the figures for last October. This year the industry experienced declines in each of the first seven months. August marked the first year-over-year monthly gain with the upward trend continuing in the months of September and October. Industry shipments for the year-to-date stand at 42,467 homes compared with 43,802 homes in the previous year, a net decrease of 3.0 percent.

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COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

The SAAR (Seasonally Adjusted Annual Rate) was 57,523 in October, up 5.0 percent from the rate of 54,790 in September 2011. The SAAR corrects for normal seasonal variations in shipments and projects annual shipments based on the current monthly total. Total floors shipped in October 2011 were 7,885, up 27.0 percent from the same month in 2010.

The top ten states for manufactured home shipments in October are, in order, Texas, Louisiana, Florida, Alabama, North Carolina, Mississippi, Kentucky, North Dakota, Oklahoma, and Tennessee.

Idaho plants reported production up 9.2 percent, California up 12.6 percent and Oregon down 34 percent. Washington has too few plants to be ranked.

Shipments are defined as homes built and shipped by a factory to a retailer, reflecting demand for homes by retailers and ultimately consumers. Production numbers reflect the amount of new manufactured homes built in a particular state by the factories in that state. They may be shipped to retailers or customers in their state or be shipped to other states.

RANKINGS YEAR-TO-DATE: California rates 15th in manufactured home shipments, Washington 27th, Oregon 28th, Montana 34th and Idaho 37th. The number of plants reporting production in October was 123 and the number of corporations reporting was 45, both unchanged from the previous month.

Manufactured homes represent 13.5 percent of all new single family homes sold in the first ten months of 2011.

JUST LISTED

27 Space – Family Park in Poulsbo, Washington

Located on the Kitsap Peninsula
City Sewer / Well Water
New Loan – Principles Only

OFFERING PRICE \$1,450,000
Email or call for additional information

MANUFACTURED HOME COMMUNITIES FOR SALE

73 Space Park – Spokane County, Washington

Family Park – City Services
Meticulously maintained
Offering Price \$1,825,000

New Loan, Please Call for More Information

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17 Space Park – Tacoma, Washington

Senior Park – City Services

Offering Price \$845,000

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Over \$400,000,000 in park 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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