Spring 2010
Volume 8 Issue 1

JOHN P. NEET, MAI

APPRAISAL & CONSULTING SERVICES FOR MANUFACTURED HOUSING COMMUNITIES AND RV PARKS

2010 Market Report

MHC/MHP Market Trends

Each year, we examine the trends of the past several years and take a look at where we are going in the near future.

Here is my take on what we have seen in the recent past, and what the industry is likely to seen in the next year.

Historically, and by comparison to alternative investments (apartments, office, retail), mobile home parks tend to offer more stable and predictable income streams over time, with lower risk but lesser potential for spectacular income growth.

A review of 512 mobile home park sales in the western United States from 2001 through the end of 2009 reveals a market that exhibited strong demand and aggressively increasing pricing through this period

(continued)

Overall Rates 2001-2009	
High	15.87%
Low	2.03%
Mean	7.45%

Annual Averages	
2005	6.70%
2006	6.27%
2007	6.37%
2008	6.46%
2009	7.08%

Source: John P. Neet, MAI (Sales Data from CA, AZ, NM, NV, UT, OR, WA, ID, MO, CO)

Prepare Your Park for the New Financing Realities

Remember 2005? Fifteen different lenders were vying for your business, deals were won and lost over a few basis points, and projections of income were more important than actual income.

Those days are gone, and they are not going to return until the next generation of smart guys takes over on Wall Street. What to do if you need financing for your park in the interim?

It is going to be a new and different world in the next several years, and lenders are going to take much closer looks at your park than in the past.

Some of these ideas will come from the FNMA book, as the giant GSE has come to dominate the market like no other time in the past. Here are some of the points that lenders are showing sensitivity to, based on my recent experience in appraising these properties.

Physical Issues

The *principal of conformity* will be the rule. Lenders will want to see a well maintained collection of post HUD standard homes on appropriately sized sites with adequate parking and an appropriate amenity package. Utilities should be directly metered or submetered, and the property needs to be well maintained. Not appreciated will be park owned rentals, substantial numbers of singlewide or pre-HUD units, vacant homes or sites, vacant singlewide sized sites, or RV's on MH sites. Trailers should only be seen in the storage yard.

Income and Record Keeping

One legacy of the FNMA dominance is the importance of record keeping in projecting the income that will be underwritten. Segregate your income sources into appropriate categories, as income projections will have to be supported by (continued)

MHC/MHP Market Trends

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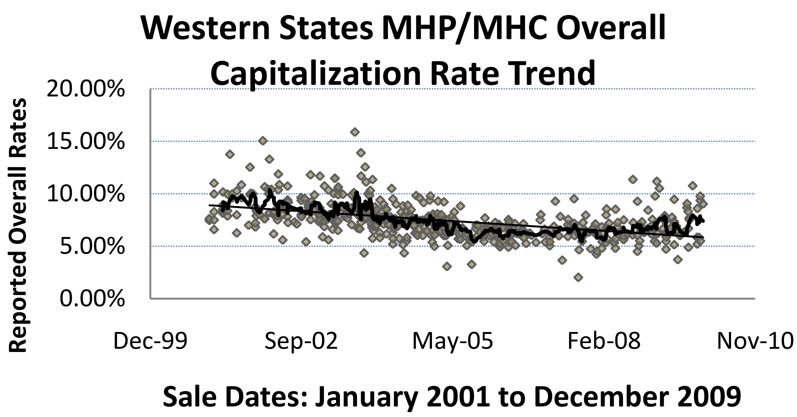

"Greater volatility has been seen in the market from 2008 to the present, substantially attributable to the loss of available financing for developments that do not qualify for FNMA financing."

The cost and availability of financing has had a strong influence over this market. In the above graphic, the relationship between the general trend line (straight line) and the moving average provides several indications of the manner in which market trends are influenced by the available financing, as well as general conditions in the investment market.

The pattern of overall rate was broader during the early and latter parts of the decade, periods when the availability of financing was driven by asset quality and locational risk perceptions. During the middle part of the decade, the spread narrowed, as both lenders and investors made little distinction between quality and location.

The greater range of indications at either end of the time range indicates greater market consideration of quality and location during those time periods. Greater volatility has been seen in volatility has been seen in the market from 2008 to the present, substantially attributable to the loss of available financing for developments that do not qualify for FNMA financing.

The moving average (based on an 8 transaction model) demonstrates the volatility of the market within the range, as well as its relationship to the straight line trend. While the general trend is still exhibiting more aggressive behavior, there was a definite upward trend noted from early 2008 forward.
Even though the trend is moving upward, there are still a significant number of sub-6% overall rates reported in the most recent series of transactions. Again, for investment grade properties that are able to qualify for FNMA financing, market conditions have not appreciably changed. For the properties that do not qualify for the GSE terms, market conditions have become more conservative.

This indicates a significant divergence in the market from 2008 onward. This leads to the conclusion that market conditions have changed to reflect market conditions more similar to the distant past than the recent past.

A similar trend was noted in the reported sales prices per unit, which are a direct reflection of local market rental rates. There is a much higher level of variance in this measure than in the OAR trend noted previously, but it is apparent that the aggressive market conditions that have resulted in lower OAR reports have also increased the reported sales prices per site, as shown in the above graphic.

This trend has not shown a regression in the past two years that were seen in the OAR trend line. This is an indication of rising rental rate trend. *(continued)*

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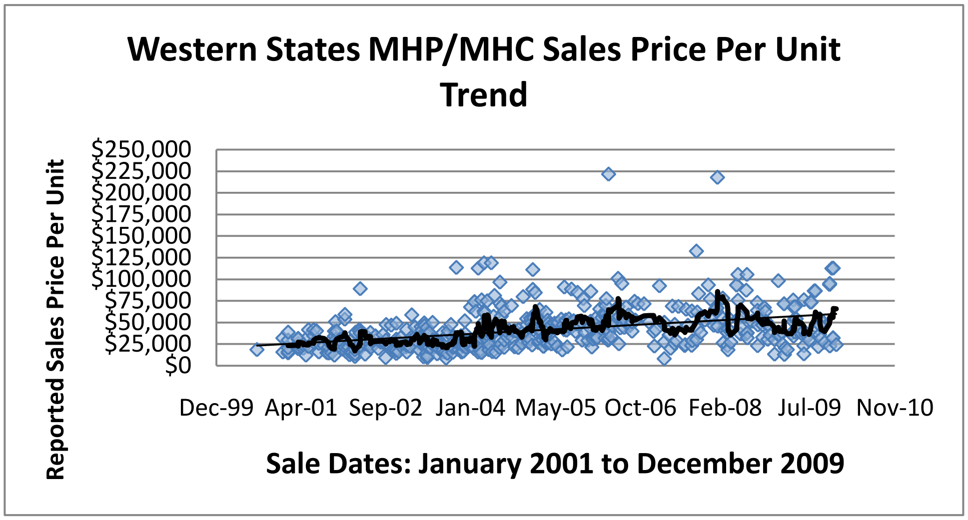

MHC/MHP Market Trends (Continued from Page 2)

A rising rental rate trend seems to defy overall economic trends, but it really reflects the stable growth of the MHP/MHC rental trend line over time. Usually, this market exhibits slower rent growth during strong markets, but does not see declines in rates or a distinctive flattening during slower market times

The upward slope of the trend demonstrates both increasing income and growing market acceptance of this property among investors and lenders over the past decade.

The moving average adheres closer to the trend line than in the OAR graph, indicating lesser volatility in this measure.

In the next year, significant changes are not expected. We are likely to see a cautious

expansion of financing availability, credit and property performance standards higher than in the mid-decade years, increased interest in mobile home parks and manufactured housing communities as hedges against risk, and moderately increasing rents.

We are likely to see greater market activity from 501C3 corporations in California, and perhaps some expansion to other states, more subdivision activity as the residential market continues to recover, and as has been a trend for the past 10 years, industry consolidation into fewer hands.

This will be a year of slowly moving forward to the next period of growth, but unlike other real estate investment markets, expansion will not be in the cards.

The number of communities will continue to shrink, slowly in some states, faster in others.

Development of new subdivisions may become a trend as the country seeks to adapt to the new normal in housing affordability.

"A rising rental rate trend seems to defy overall economic trends, but it really reflects the stable growth of the MHP/MHC rental trend line over time."

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Prepare Your Park for the New Financing Realities

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documented records of collection. This extends from rent and utility income, which should be segregated in your records, to laundry, storage, late fee, and services income. Documented records of short term RV space rental income are particularly important if that income is significant to your bottom line.

Examples from My Practice
Discussions with underwriters during the appraisal process have evidenced the following issues:

- ✓ Discounting of income from auxiliary income sources where documentation is not provided.
- ✓ Increased vacancy and collection loss allowances based on isolated evidence from competitive market surveys, not on the performance of the subject,
- ✓ Incorporation of capital items into regular maintenance projections because the owner included the capital items as regular expenses.
- ✓ Not considering space rent for sites with park owned rentals.

Positioning your park to achieve the best possible loan has never been more critical. Be prepared!

About........ JOHN P. NEET, MAI

John P. Neet, MAI is a solo practitioner with broad experience in the MHP/MHC industry and a strong support staff. He has personally appraised well over 3,000 MHP/MHC's in the past 18 years-and that's a personal total not a corporate claim.

He has long been retained by a who's who of lenders to provide valuation services to the industry, include a variety of FNMA DUS lenders, lenders specializing in HUD loans, banks, life insurance companies, and CMBS lenders. In fact, John P. Neet, MAI was one of the first appraisal participants in the FNMA-DUS program, and has been active in providing appraisals to FNMA lenders since the initiation of the program.

In addition to his preparation of appraisal for lending purposes, John P. Neet, MAI has wide experience in valuing MHC/MHP properties for litigation support, rent control discretionary rent increase applications in California, estate and gift tax, and financial modeling for all manner of clients in the industry. He has prepared appraisals for subdivision purposes, 501C3 purchases (unrated bond issues), resident purchases, and HUD/FHA Section 207 loans.

These specialties within a specialty provide John P. Neet, MAI with a strong and unmatched background in the industry.

Call or email me for further information (951) 461-7755 or appraisals@johnneet.com.