

“Park-Owned” Versus “Pad-Only”

This is the decision many mobile home park investors make when deciding on which property to acquire; a park with a higher density of “park-owned” homes or one with “pads-only”/less than 25% park-owned. As the available financing for manufactured housing to individuals intending to place their home in a mobile home park has “dried-up”, there are more and more parks where the park owner rents the both the pad and the mobile home. To keep a park’s occupancy level high in most markets, a park owner can no longer rely on tenants to purchase a mobile home from a dealer and place it in his or her park.

There is both a good and bad to both options. For parks where there is a high density of park-owned homes, the cash-flow can be much higher than a pad-only park. We have seen homes rent in a range of \$250 to \$900 depending on the age of the unit and the market area. An older unit can be purchased very inexpensively and the rental income from this home can pay for itself in a short time. These units require a higher level of maintenance and possibly replacement over time. These are typically purchased as reposed properties at a discount from their NADA value. Since fewer of these are sold each year as chattel property, the availability of these units is diminishing. A common source for these is through local banks that financed the homes originally. In some markets, parks are being converted to alternate uses and the park-owned units on these sites can at times be bought in bulk.

We have financed many parks with a high density of park-owned homes and have good success in structuring these deals for our buyers. We evaluate the park based on the underlying pad rents and the appraisal is completed on the same basis. When there is a shortfall between the total purchase price of a park like this and the appraised value, we have seen sellers willing to hold notes tied to the trailers, which does not affect our overall loan-to-value ration as these are considered personal property and the loan is not collateralized by these units. Because the cash-flow is so strong on many of these parks, the owner held note can be satisfied by the time the note is due from the seller. The other option is to leverage the park as high as 90% LTV and pay cash for the trailers based on the difference between the total purchase price and the appraised value of the real estate. The return on investment for this type of park when taking into account the income for the trailers is higher than just about any other income producing property we have encountered.

As a trade-off to higher returns, many investors acquiring mobile home parks do not want the responsibility of maintaining mobile homes. The expense ratio on parks where the tenants own all or most of the homes is lower and far less labor intensive for park management and maintenance. The financing terms are more favorable as well. The returns tend to exceed apartments and can be more passively owned. We typically finance these parks at 80% LTV and require a minimum debt service coverage ratio of 1.15 or better. Rarely will a park with a low density of park-owned homes cash-flow with 90% LTV financing at the higher interest rates for this loan product.

Either decision can be very profitable for an investor and there seems to be an ever increasing demand for mobile home parks. As park owners retire and sell their properties or want to invest in a larger park or different property type, the availability of parks continues to meet the demands of buyers.