

## Up-side Potential

The term “up-side” potential is often used in the acquisition of mobile home parks. I hear this from many clients when evaluating a park. They are looking at its’ current cash-flow, potential rent increases, and achieving higher occupancy. The reality of creating greater value quickly is not as common as a steady appreciation. From the lending standpoint, the current and historical numbers are what we consider and the loan is based both on how a park is currently operating and how it has performed in the previous two years.

Although, it is not as common to achieve rapid appreciation, I have seen it done. For example, we financed a 54 pad park in St. Petersburg, Florida approximately three years ago. This was an older park consisting of all “park-owned” homes and a small number of bungalow style apartments. When the buyer approached us with this deal, we were only able to appraise the park at \$510,000 to include the pads and bungalows. The purchase price was \$690,000 and the seller held a note on the “park-owned” homes to bridge the gap between our loan along with the equity from the buyers (10% of the purchase price) and the overall sales price.

I was contacted approximately one year after we closed on the park and informed that the new owner would be selling the park for \$1,400,000 to a buyer from California. This was certainly a surprise and I was skeptical that this was a good deal for the buyer. The purchase was achieved by a wrap mortgage from the owner, equity from the buyer, and a small second mortgage on the park. The existing note on the trailers from the previous owner was left in place.

The new owner from California contacted us after owning the park for one year and wanted a new mortgage to “clean-up” all of the outstanding debt on the property and consolidate it into one loan. We recently appraised this park at \$1,495,000 based on the pads and bungalows. The 40 park-owned homes were not considered in the valuation, but were all rented and the overall occupancy of the park was above 95%. We closed on the loan for the owner and paid off all of his outstanding debt and offered him enough funds to recoup his equity investment when he purchased the park.

The current owner generates approximately \$20,000 per month after debt service on this park and plans on keeping it indefinitely. He has cleaned up the park, but added no additional homes and kept it operating as it had been originally. He has an on-site manager and rents the units on a weekly basis.

This is not an everyday opportunity, but these types of transactions do exist. Looking into markets where real estate values have not taken off may be a good place to start. Parks are located throughout the United States and financing is available no matter how small the market. The income approach on a mobile home park is the driving factor for value and the main reason most park buyers are interested in this property type. There are gems out there to discover and although the example above is not a very attractive property, it certainly generates a great cash-flow and had up-side potential.