

Park Owned Mobiles – Is It Worth the Trouble?

First and foremost, there is no collateral value for a mobile home when it's in a park. It is a liability. A mobile home is only considered to be an appreciating asset when it is occupying its own tax lot, and has been de-titled at the DMV.

Any conventional financing program will not consider any income from park-owned mobiles for debt service, though some higher rate alternative programs are available which consider all park income. The most common problem buyers have with these types of parks is the numbers sellers or Realtors throw at them. They will often times consider all income when determining cap rates, value, etc. The income from mobiles will not be used in determining real estate value. Again, this is due to fact that mobiles in parks are not real estate.

The easiest way to picture these types of parks is in two components. You have the real estate component, which consists of dirt and any verifiable land improvements. Typical mobile home park improvements may include mobile pads, RV pads, clubhouses, laundry room, pool, office, etc. The real estate value is largely determined by the normal operations income being generated from real improvements. You also have the personal property component. Personal property may include mobiles, equipment, appliances, etc.

Multifamily lenders will only accept real estate as acceptable collateral to secure a CMBS (commercial mortgage backed security). A CMBS is a loan that is secured against commercial real estate.

The issue of different asset-types (real estate and personal) being sold simultaneously often leaves buyers in the middle of a purchase contract with a need for additional cash equal to the value of mobiles. Real estate loans are not the answer, without considering some type of cross-collateralization. One of the most common solutions is to have the seller carry a note for the value of some or all of the mobiles. If seller financing doesn't pan out, there are a number of private investors who are interested in purchasing these types of notes for so many cents to the dollar. The key phrase to remember in securing financing on a property not considered real estate is, "Chattel Mortgage." In commercial real estate, this term is typically reserved for a situation where a mobile home is in a park and not occupying its own tax lot.

There is an occupancy issue to consider. There is usually less incentive keeping a mobile renter in the park. Typically we find mobile renters to stay an average of 8 months before they move on.

There is also an added expense to consider. Any person in a rented mobile is less likely to take care of it. Mobile owners are responsible for the maintenance and repair of the home. For the most part, a mobile owner will have to pay upwards of \$5,000 to move their home. This rarely makes economic sense to do so. When a mobile can no longer be rented due to use, the owner must pay to dispose of it.

There are many different benefits and detriments to owning mobiles in a park. Parks can be very profitable when they collect mobile rent on top of pad rent. The determining factor of whether or not to employ this type of rental style park is usually, "How much do you want to put into the project?" If you are looking to get into a property and put the time and work into it, park owned mobiles could be a

great way to maximize cash flow. For the passive investor who likes to collect checks every month, a pad rent only park is the route of choice.

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