

30 DAYS OF SUCCESSFUL DUE DILIGENCE

The Complete Day-to-Day Guide to Proper Analysis Of a Mobile Home Park

BY FRANK ROLFE AND DAVE REYNOLDS

The information provided in this manual is intended to be a general guideline and not the ultimate source of information. When appropriate, you should consult your own legal, accounting, financial, and other advice.

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Attachments and Worksheets are at the end of the manual. Also, you should have received an excel worksheet with all of the attachments.

FOREWORD

This manual is designed to give you a roadmap, from start to finish, to achieving a successful due diligence examination of a mobile home park.

Since the failure of any one step of due diligence might result in your decision not to buy the park, we have organized the order of steps in such a manner as to minimize expense and effort. We have chosen the order to put the items most likely to fail at the front end of your examination, to get the bad news early on and to act on it accordingly.

We have organized the manual with steps which can be followed on a day-by-day schedule. While this makes for good organization, not every deal is going to fit into this order. If possible you should have 45 or 60 days to do the diligence, or at least a provision in your contract that allows you to extend the period in case some of the third party reports are not able to be completed in thirty days. The real key is to make sure to complete all the steps in a complete and timely fashion.

Is 30 Days of Diligence Adequate?

Thirty days of diligence is an industry standard, but there is no rule that the due diligence period must be exactly thirty days. Of course, the longer the diligence period, the better it will be for you, the buyer. Sixty days is far superior to thirty if you can get it. And, of course, you can't get it unless you ask for it. Most people ask for thirty days because they are afraid that sixty days will scare the seller off, and less than thirty is way too short. That being said, I have done fourteen days of diligence on deals that I really wanted but that had a difficult seller. Less than fourteen days and you may just be wasting your time, since it is near to impossible to get a lot of third party reports completed that quickly, not to mention just the regular stuff that you perform yourself. If you are willing to forfeit your

earnest money, then you can go as short as you want, and then cancel the deal prior to closing, at the end of the financing period, if you don't want it after all.

If you have not completed your diligence in the required amount of time, say thirty days, it is sometimes possible to get the seller to give you an extension of time. If that is the case, the best way to get the extension is to meet with the seller and show him all of the work you have performed, so that he knows that your request is legitimate. When you propose such an extension to the seller, he is normally concerned that you are just wasting his time, and that you have no intention of buying it, or that you lack the money. It's your job to convince him that you can close, and will close, if he just gives you a few more days to complete your diligence. And you can even tell him what you have left to do, so that he knows you are not pulling his leg. If he says no, and you really want the deal and feel 99% positive it will work for you, you may elect to go forward anyway, and risk losing your earnest money if you walk before closing. Make sure that the contract does not require "specific performance" to buy the park. In that event, you cannot go past the diligence period without having to buy the park, even if you don't want it. You never want to sign a contract which requires specific performance by the buyer. The seller, on the other hand, should almost always face specific performance if he fails to consummate the sale to you.

Diligence periods in excess of sixty days are pretty unheard of, except in cases of extreme lack of park stability, such as not having any books, rent roll, etc. For example, it would not be unusual to ask more than 60 days to sort out bank foreclosure. Except in that type of difficult environment, however, you will probably do some degree of damage to your reputation by asking for more than sixty days of diligence.

You will find in the due diligence process that there is no perfect park. While successful due diligence will help you formulate an idea on the true economics and risks of a mobile home park, it will still ultimately be your business decision

as to whether or not to proceed with the purchase. Often, after assembling all of the data, you will still be unsure as to whether or not you want to proceed. This manual only helps you to collect that data. The decision to go forward is one that you will have to make on your own.

We receive more questions on due diligence than on virtually any other topic at MobileHomeParkStore.com and have written this manual to address those questions in great detail. If you follow all of the guidelines in this manual, you should be able to perform a satisfactory due diligence examination.

If this is your first park or you are looking for a second opinion we offer consultation on deal review and due diligence. You can check out the various programs on www.mobilehomeparkstore.com.

Good luck on your due diligence!

Frank Rolfe & Dave Reynolds

BEFORE YOU START

TO DO LIST

- Purchase Contract
- Due Diligence Clause
- List of Items to Request from Seller

Your Purchase Contract

One of the most important items that you will need to have is a good purchase contract that has been reviewed by your attorney. Don't ever just take a purchase contract you find on the internet or receive from the seller or seller's broker and sign it without first having your attorney review it.

A good purchase contract will have, at a minimum, the following:

- Full and Correct Legal Name of Seller (the correct name or company)
- Name of Purchaser and right of Purchaser to Assign Contract to an entity owned by Purchaser
- Legal Description and Address of the Property
- Description of Personal Property to be Included with Sale
- Purchase Price and Terms
- How Prorations are Handled
- Right of Purchaser to Conduct Due Diligence for a Period of at least 30 Days
- Right of Purchaser to Cancel and Receive a Refund of the Earnest Money and be Released from the Contract for any Reason during the Diligence Period

- Right of Purchaser to Cancel and Receive a Refund of the Earnest Money and be Released from the Contract if Financing cannot be Obtained at Reasonable Terms Approved by Purchaser.
- Who Pays for What: Survey, Appraisal, Title Policy, Phase I, Closing Costs, Broker's Commission, etc.
- Date of Closing and Possession
- Representations of Seller
- Representations of Purchaser
- Acceptance Deadline
- Signature Block

In the past I have provided a copy of the contract that I use to buy mobile home parks and if you would like a copy of my contract, I am more than happy to send a copy to you with the understanding that before you use it that you will have it reviewed by your attorney.

Due Diligence Clause

In your purchase contract you want to make sure that you have a good due diligence clause. Here is a copy of the clause that I have in my contract:

PURCHASER'S RIGHTS OF INSPECTION, LOAN APPROVAL, AND CANCELLATION.

(a) PURCHASER may inspect or cause to be inspected the condition of the Real Estate and all improvements and Personal Property;

(b) PURCHASER may inspect or cause to be inspected all other documents and materials relating to the Real Estate and Personal Property;

(c) Within seven (7) days after the effective date of this agreement PURCHASER shall make a written request of SELLER to deliver all documents and materials needed from SELLER for inspection and evaluation. Upon receiving this written request from PURCHASER, SELLER shall deliver any such documents or materials requested within seven (7) days of PURCHASER'S request;

(d) After all documents and materials have been delivered to PURCHASER, PURCHASER may cancel this Agreement for any reason, at the sole discretion of PURCHASER, within Thirty (30) days after receiving all documents and materials from SELLER. After the initial Thirty (30) day inspection period, PURCHASER may cancel this Agreement during the next Thirty (30) day period in the event that PURCHASER does not obtain a loan approval for the purchase of the Real Estate and Personal Property that is satisfactory to PURCHASER, and the determination of an acceptable loan shall be in the PURCHASER'S sole discretion.

(e) In the event that any Third Party Reports are required by Purchaser or Purchaser's lender, and these Third Party Reports are not completed during this initial thirty (30) day inspection period, the inspection period will automatically be extended for an additional thirty (30) day period and PURCHASER shall have the same rights of cancellation as PURCHASER has during the initial thirty (30) day inspection period.

SELLER shall allow PURCHASER, or PURCHASER'S representatives, access or provide documents for review, whichever the case may be, to the Real Estate and Personal Property, at all reasonable times and cooperate with PURCHASER'S efforts to conduct the inspections permitted herein.

List of Items to Request from Seller

Before your due diligence period will ever begin, you need to request at a minimum the following items from the seller. Under my standard diligence clause, this list should be submitted to the seller within 7 days after all parties sign the contract. Then the seller has 7 days to provide you with all of this information. Here is the list to request:

1. City, County and State Permits and Licenses
2. Certificates of Occupancy
3. Sewer Plant Records and Readings (if applicable)
4. Water Well Tests and Compliance Records (if applicable)
5. Existing Surveys or Environmental Reports
6. Water and other Utility Meter Reading Records and Formulas (if sub-metered)
7. Water, Sewer, Trash, Gas, Electric Bills for the last 2-3 years
8. Property tax bills for the last 2-3 years
9. Copy of current insurance policy and binder showing premiums and coverage's
10. Current staffing list including position, wages, job descriptions
11. Any drawings and maps of the park and infrastructure and size of lots
12. Any Contracts that will be transferred to buyer at closing (laundry, trash, phone)
13. Signed Rules and Leases for each resident
14. Bank Statements
15. 2-3 years Tax Returns
16. 2-3 years Profit and Loss
17. List of Capital Expenditures for the last 3 years
18. Utilities and what they are made of (What are the water & sewer lines made of? What is the amperage of each electrical pole?)

19. Who pays what and how is it metered? Water, Sewer, Gas, Electric, Trash, Cable, etc
20. Listing of any current park infrastructure problems (water, sewer, gas, electric)
21. Rent Roll with specific home-site number, name of resident, move-in date, monthly rent, current balance, additional charges, number of occupants, and a brief history of the resident (good resident / bad resident, special circumstances, etc.)
22. Dates and amounts of the last 2-3 Rent Increases
23. Names and phone numbers of all contractors used in the last 5 years – plumbers, electricians, propane, gas, roto rooters
24. List of names, addresses, phone number, e-mail of attorneys, accountants, insurance brokers, rental companies, county and state officials and any other helpful people that we should contact now or in the future.
25. A list of any problems to be corrected, how you handle delinquent clients and any suggestions for landscaping, maintenance, improvements, etc. to have an excellent mobile home park
26. A list of all personal property including autos, trucks, office, park maintenance equipment, tools, utility equipment.

After making your request of the seller to provide you with this information, you can either sit back and relax and wait for it to arrive, or you can start performing some of the due diligence work that you need to do in the days ahead. What we like to do during this period is to check out the market and comparables as well as start talking with the city, movers, dealers, etc.

Here we go!

DAY 1

TO DO LIST

- Get the Title Company Going on a Title Commitment
- Quick Audit of the Income
- Review the Rent Roll
- Dig into the Expenses
- Review the Seller's Bank Deposits and Tax Returns
- Get any other needed Documentation from Seller

Title Commitment

By this point, your earnest money has been placed or will soon be placed with a title company. It is time to call the title company and ask them to research the title commitment for the property. Since you are using a title company (you'd better be!) it is rare that there is a problem here, but it can happen. Also get the legal address for the deed (you'll need it to compare to the survey in a couple of weeks). They should not give you any hassle on this request. They do this all day, every day, and even if your deal never closes, this is a free service that they offer.

Title companies can be a lot like other contractors when it comes to timeliness. Some title companies live in a world of "white glove" lawyers who think it is low class to be bothered with deadlines. I was once told that my account would be canceled at a title company because I was causing too much stress by calling every day. Of course, I was calling every day because they were already behind. So I backed off, and they missed the deadline by about two weeks. Apparently it was ok for them to cause me stress by missing their deadline, but it was unforgivable for me to cause them stress by reminding them of that!

Quick Audit of the Income

The first step, before you spend one penny of money on a Phase I or other report, or even buy one gallon of gas to go down to city hall, is to make sure that you truly know the income this park can produce, and that this income is in line with your expectations. If there is not enough income, then you won't get your loan and you won't buy the park, and this whole process is a waste of time.

Let's start with the revenue.

The park you are looking at buying has _____ lots at a lot rent of \$_____.

There are _____ occupied lots, leaving a total revenue of \$_____. Does this number match the number given by the seller? If not, let's throw up a red flag right now. Something is wrong. How can this number be wrong?

Here's how:

- ❖ There are fewer occupied lots than you have been told
- ❖ Some lots have been combined and one home takes up two lots
- ❖ Nobody is paying their rent
- ❖ The seller is counting the rent from park-owned mobile homes or other ancillary structures in this amount
- ❖ There are utility bill backs (ie: charges for sub-metered utilities) counted in this number
- ❖ There are late fees added to this number

Before you spend any more time on this deal, you have to find out why this number is wrong. If the rent is not there, the deal will not work.

Now let's look at some additional rent issues to resolve. Take the rent roll for the park, as provided by the seller. Count up the actual, rented lots. Multiply by the monthly rent. Does this number match the number above? If not, there are some real problems building. You can put extra scrutiny on the revenue by checking this number with the copies of the seller's bank deposit slips and tax returns.

Review the Rent Roll

When you are reviewing the rent roll you want to make sure that it has certain important data so that it shows you the true picture of what is going on. At a minimum, you need to have the following:

- Lot Number
- Name of the Resident
- Delinquent Balance
- Monthly Lot Rent
- Monthly Home Rent (if a park owned home)
- Monthly Note Payment (if a home sold by the park and a note created)
- Terms of any Notes (Balance Remaining, Number of Payments Remaining, Interest Rate)
- Other Charges (late fees, pet fees, extra people)
- Utility Bill-Backs (water, sewer, trash, gas, electric) if the park sub-meters any of the utilities
- Amount of Security Deposit
- Move in Date

A sample rent roll is attached at the end of this manual and on the provided cd.

Unlocking Hidden Mysteries in The Rent Roll

There are many important facts that you can discern from a careful study of the rent roll:

- ❖ Lot Number – this will reveal unusual numbering schemes and also allow you to walk the park and ascertain whether or not each lot on the rent roll is accounted for based on your physical walk through. You will be able to see whether certain homes take up two lots, whether certain lots appear unusable, etc.

- ❖ Name of Resident – Getting the names of the residents should reveal whether or not there are single owners who own multiple trailers. These are people who have rental homes in the park or multiple family members in separate homes. The danger of this is that a single owner with multiple homes may have significant bargaining power over the park. It is one thing to have someone threaten to move out their home – but what about 10? Banks dislike it when one person has multiple homes, for that very reason. It may result in your inability to get a bank loan in its worst form.

Demographics of the current park tenant base – In a lot of parks, particularly in the southwest, you may see a large population of Hispanic surnames on the rent roll. This may make you realize the importance of having a bilingual manager, as well as issuing leases and rules in both Spanish and English.

- ❖ Delinquent Balances – By getting the seller to list on the rent roll all of the delinquent balances in the park, you should have some insight as to whether the residents pay on time and it will show you which residents may be one or several months in arrears. Many sellers will not disclose this unless you ask and in some cases they will cut deals with the

- residents to make their balances go away. Another common response from the seller when you are talking about delinquencies is that they have been too soft on people. If you do go forward with buying the park, you will need to adopt a more stringent policy on collecting rents in these cases.
- ❖ Monthly Lot Rent & Home Rent Amounts - Various rents on similar lots may equal hanky-panky. Most mobile home parks have one set lot amount for every lot in the park. Occasionally, you'll see a different rent tier for some lots with a major attraction (waterfront, etc.) or for doublewides. But you seldom see more than two lot rates on a rent roll. Sometimes, however, you'll see five or more different lot rent amounts. This is normally due to some hanky-panky going on with the seller. It can range from preferable lot amounts for friends or long-time residents all the way to extreme cases. Ask the owner for his explanation of the different rent levels. But be advised that you may have difficulty getting the rents put back in order with those tenants – if they are even paying rent at all. It is hard to retrain people who have not been working within the system to suddenly do so – and many may not even have a source of income to pay you with, besides their hanky-panky!

 - ❖ Monthly Note Payments & Terms – This is important information to have so that you know when the notes will be paid in full and you will no longer have that extra payment coming in. Be cautious of notes that were created recently and have high balances in comparison to what the home values look like. If the seller has sold homes that were worth \$5,000 to residents for \$20,000, you can be assured that you are not going to collect that \$20,000. They will walk away from the home. Also be wary of high interest rates that are in violation of usury laws.

- ❖ Other Fees – Many parks charge extra for those residents that have pets, extra vehicles, more than one family, etc. You will want to understand this rent structure. It is also important to find out what the late fee structure is and to make sure that it is legal in the city, county, or state where the park is located.
- ❖ Utility Bill-Backs – You want to make sure that these are listed on the rent roll as well. In addition, you need to understand how the owner is charging for these sub-metered utilities. Is it based on a legal system? Or is the seller adding \$20 to everyone's bill?
- ❖ Amount of Security Deposit – These should be listed as they will be transferred to you (the purchaser) at closing.
- ❖ Move-In Dates – This will give you an idea of the stability of the park. If everyone moved in one month ago... beware! Most parks will have some turnover and usually it will be with residents and not homes. You could also ask for the detail of the move-in dates of the homes rather than just the residents.

The Importance of Length of Occupancy

If possible, get from the seller a list of each tenant's move-in date. This will tell a big story and allow you to get a better handle on the risks of the park.

In general, the longer a tenant has lived in the park, the better. This length of tenancy suggests:

- ❖ The tenant has a track record of successfully paying his rent.
- ❖ The tenant has a track record of successfully living within the rules of the park.

- ❖ The tenant has a lower balance on his mortgage, meaning that he has greater equity in it and is less likely to walk off and leave it.
- ❖ The tenant has a lower monthly mortgage payment since he probably paid less for an older home, which means he is more capable of paying your lot rent.

In actuarial tables on sub-prime home mortgages, the defaults occur in the first five years or so. A tenant who has lived in the park for seven years has a lower chance of default since he has made it through the riskiest period. And a tenant who has lived in the park for fifteen years or greater may have paid their home off in full and have no monthly mortgage payment, making your lot rent their only obligation.

Always beware of a park with mostly new tenants – especially those who have lived in the park for a year or less. These folks are the most likely to default on their home loan. They have not been “seasoned” – they have shown no track record of successfully making their payments. A large percentage of tenants with only a year or less (or even two years for that matter) may default, and the home in your park will be repossessed and moved out. In addition, the seller may have “cooked the books” by bringing in low quality tenants for a brief period to inflate the revenue numbers, knowing full well that they will go under and lose their mobile homes or need to be evicted soon after closing. I once bought a park that was built by a mobile home dealer and filled with new mobile homes that had less than a year of tenancy each. Shortly after closing they started to default – within a year I had lost 50% of my occupancy to repossession.

It is also worth mentioning a scheme, normally revolving around RVs, in which an unscrupulous seller brings in a lot of RVs in a short period, sells the park and then the RVs all leave. It turns out that the RV owners are friends of his that have agreed to stay in the park for a short while, just to help him misstate the actual revenue. You may think that you have protection from this through the court

system, but good luck finding the seller again after the closing – particularly if they have cooked the books.

The Truth about Late Fees

It's hard to believe at first, but tenants who pay their rent late are your most profitable tenants, because they pay a late fee that can sometimes be 30% of the rent due. The key item is that they pay their rent.

The best thing that could happen to you would be to have every tenant pay their rent late every month (as long as they pay every month). Your late fee income would be significant, and that would be a huge source of revenue. Further, late fees are straight profit – there are no costs associated with someone paying their rent late.

To harness the power of late payments, there must be a system to identify who is late, and a billing system to charge for being late. Many sellers do not have either system. They either do not charge late fees at all, or do so haphazardly. It is important to make this into a meaningful part of the park's income. In so doing, you are effectively turning bad news into good.

It is always hard, however, to figure out how much late fee income you will get from a certain park. Often, particularly in more senior-oriented parks, the late payments are minimal. In a family park, however, you may get 25% of the payments late. So how do you budget accordingly?

It has been our experience that the late fees often equal the monthly bad debt expense on a park. Bad debt is defined as the rent you finally must write off as uncollectible. So if a park has \$500 per month in bad debt, normally it will have \$500 per month of late fees. One reason for this occurrence is that in parks with higher late fees, you have higher bad debt. Going back to the senior example, if

everyone pays on time then that is probably also a park in which you have very few late fee charges. And in the family park with 25% late, you have a greater number who can't pay at all and run off. So if you are trying to budget late fee income, you should probably mirror the bad debt estimate.

Bad Debt Expense = Late Fee Income (usually)

Security Deposits

Security deposits are a sacred trust between the tenant and park owner. They are not allowed to ever be treated as income, unless they are forfeited by the tenant, and are to be guarded by the owner. However, many sellers try to pocket the security deposits when they sell their park.

The first step is to make a list of the existing security deposits. Get a list from the seller of which lots have security deposits and how much they are. An immediate red flag should be a complete lack of deposits, or only a very few. If one lot is charged a security deposit that would suggest that every lot should have one.

Sometimes, however, when you buy a poorly managed park, the seller never collected security deposits, and you "inherit" some tenants who have no such deposit in place. It is normally hard to come back after the fact, sometimes years later, and ask for a security deposit. If only a very few lots have such deposits, you should be suspicious.

If the seller is firm that there are no other deposits than those he's shown, you have two options. One is to require estoppels (signed statements from each resident verifying their monthly rent, security deposit, delinquent balance, and any other important lease items) and the other is to buy the park anyway but make a mental note of your worst case scenario (standard deposit amount times the number of occupied lots in the park), and be ready to pay this amount out

over time. Of course, if you sell the park before anyone ever files for a deposit return, the new owner will step into your shoes, and you will escape any deposit issues. Note: It is a good idea to get proof from the tenants of the security deposit rather than just take their word for it.

Also beware of abnormally low deposits. Except in rare cases, a \$25 deposit doesn't occur, and may reflect the seller trying to pocket the difference, while still pretending that there are suitable deposits. There is also the risk of additional deposits (such as pets) which there are no record of, and that the seller has already pocketed long ago. Be mentally braced for such deposit refund requests to pop up after closing from time to time.

History and Importance of Rent Increases

Rent increases are the best, and most important, step to improving the financial performance of a mobile home park. They are straight profit – there are no additional costs involved – and are easy to enact with a simple notification letter or lease amendment. However, there are limits to how high and how often you can raise rents, and the seller's history of rent increases is an extremely important step in understanding your rent increase potential.

What you hope to find out in your diligence is that the seller has not increased rents in years. That means that you have a good chance to make a significant boost to the lot rents (be sure to do your research into market comps first) and to do so immediately. However, often you will find that the seller has been raising rents on a continual basis, and your ability to raise them is much more limited.

The first issue is how high the rent can go and still be within reasonable levels compared with other nearby parks. Once you have established this, and if there is room to increase the rents, then the next question is how soon after closing you can do so.

It has been our experience that tenants actually expect a rent increase immediately upon the sale and new ownership of the park, and there is very little trouble from doing so. Even if the seller has raised rents very recently, the arrival of a new owner in any business (restaurant, dry cleaner, etc.) normally means higher prices. Of course, you need to check on rent control laws in your state before you begin.

Thereafter, you should probably raise the rent at least once every year, and by an amount near to 5-10% of the current rent. This will allow you to steadily grow your net income, and to offset any cost increases you may have, such as property tax.

Also, remember that you may want to forego raising the rent, and instead sub-meter the water in the park and bill that back to tenants instead of a standard rent increase upon buying the park.

Verifying Who Pays What Expenses

It is an essential part of diligence on the park income that you understand in complete detail which utilities the tenants pay for. These utilities are water, sewer, gas, electric, trash, and cable television.

The first source of information is the lease itself. The lease should state what utilities are included in the rent. Many times, these utilities are billed back to the tenant, even though they are not paid directly by the tenant to the utility company. In that event, you need to create a system to handle such billing and collections.

Often the seller will gloss over this by saying “the tenant pays the water”, when in actuality, the park must gather the usage data and bill the tenant for their usage.

There are always costs in such arrangements, such as reading the meters, repairing the meters, testing the meters, and sending out billing, plus the increased collections effort to get paid for this separate item. Make sure to budget accordingly.

When the seller says he “bills back the water”, be sure to find out if he means water and sewer charges. In most parks the water bill the park receives will include sewer charges. In some parks, however, the seller only bills the water back and does not bill back the sewer. Since sewer is a fairly large expense item, you have to know this fact, and adjust your budget accordingly.

Your goal should be to create a grid showing each utility, and how it is billed from the provider. For example, electricity is normally billed directly from the electric company to the tenants, and they pay the bill directly back to the electric company. That means that you are not involved in their electric bill at all, which is the ideal structure. In most parks, the electric and gas is billed directly, and the water and sewer are billed in one big bill to the park, which must then bill it back to each tenant, assuming that the park does so. Some parks include utilities in the rent and do not bill them back. Any utility that is not billed directly from the provider to the tenant becomes your responsibility, both for repairs and billing.

Make sure that you have accounted for the bill back of utilities in your budget, both as a cost in the expense section and as a line item in the revenue section. If you bill back water and sewer, you should have a water and sewer line item in your revenue, as well as in your expenses.

Now that we have looked at the income side, let’s turn our focus onto the expense side of things.

Digging into the Expenses

Now we are going to turn our attention to the proposed expenses. Look over the seller's numbers and use some common sense. Anytime that you are evaluating the income and expense numbers along with the rent roll you have to find out exactly who is responsible for paying what. Are the residents paying the water and sewer bills to the city or are they sub-metered by the park? Or does the park pay the water and sewer and this is just included in the rent? Besides water and sewer, you have to find out exactly how the gas and electricity is being billed, along with the trash and also whether or not the park is responsible for mowing the lawns for all the lots or just the vacant ones. Depending on how these expenses are paid will make a big difference on the expense ratios. Some parks with all the utilities paid by the residents will have about a 20% operating expense ratio. On the flip side some parks that pay for everything may approach a 50% expense ratio.

The following are the key numbers to look at. These are the ones that are so often inaccurately presented but which are so large that they must be verified and shown to be accurate:

- ❖ **Water and Sewer Expense.** Figure about \$25-40 per occupied lot per month. If the numbers you are looking at are radically lower or higher than this, make sure to investigate. Contact the water and sewer provider to find out what the cost is per gallon. It has been our experience that an average family in a mobile home will use about 5,000 gallons per month. So, in a park with 100 occupied units, the total water usage should be in the 500,000 gallons per month range.

When looking at this 100 space park and instead of seeing about 500,000 gallons of usage, you see 1,000,000 or some other large amount you should be alerted to some problems. Possible explanations of this are

that the park may have one or several underground leaks, the residents are wasting water by letting it run or not fixing their plumbing fixtures, or that the park master meter is broken.

If the park is paying the water and sewer, then it is a given that the residents are wasting water. The best way to stop this is by installing water meters and making them pay for their share.

If the park has underground leaks that are hard to detect, then you may have to hire a professional that can help locate these leaks. It can be a difficult and costly process but one that should be done.

One good verification method on the water usage is to check two to three years of bills on a month to month basis to look for large discrepancies. For example, if the water usage is usually 500,000 gallons in July, but this year it is twice that amount, it may be a good indication that a leak has sprung.

- ❖ **Property Taxes.** Find out the prevailing property tax rate in the market, and then re-adjust the property tax figure to a valuation based on the sales price. I don't care if it currently is assessed at \$100,000; if you are paying \$1,000,000 it will be readjusted at some point, and how will you refute it? This is a great negotiation tactic to approach the seller with later.
- ❖ **Insurance.** A good estimate on a 100 space park is about \$3,000 per year for all the coverage you'll need. You can work backwards proportionally from there. The seller may have a small number here or not one at all. You can easily verify this by going out and getting quotes from a couple of insurance companies.

- ❖ **Mowing.** If the current owner does it himself, then good for him – but you will need to have an expense for it. And mowing is not cheap. An insured company may charge you \$10-15 per cut for every vacant lot, plus \$250 or so for the entry and common areas. And figure you'll cut it about every two weeks through the summer months.

- ❖ **Administrative.** It costs money to manage a mobile home park. You'll need a manager. And on top of that you'll need to budget for travel to the park, accounting, tax returns, etc. Figure about \$12,000 - \$15,000 for the manager and payroll taxes on a 100 space park and another \$3,000 to \$5,000 for the rest.

- ❖ **Repairs and Maintenance.** A good estimate that we have used in the past is about \$50 per lot for a newer park and \$100 per lot for an older park with older utilities. If the repair and maintenance expenses are \$1,000 per year on a 100 space park, then it probably means that the owner is capitalizing most of these expenses.

It is rare indeed when you find a seller who accurately portrays his real revenues and expenses. As a general rule, the revenues are bumped up probably 10% to 20% higher than actual (through not listing vacant homes and non-paying tenants) and the expenses are sometimes reduced by up to 50% (by not listing line items, or cheating on the ones listed). That's why it is imperative to make your own budget from the facts. Never rely on anyone's financial projections but your own.

Why are mobile home parks' financials so unreliable? One reason is that many sellers "cook their books" i.e. deliberately misrepresent the true financial picture. They do this because they can often get away with it – most first time buyers have no idea what the real expenses should be. Also, many sellers use residential brokers – or no brokers at all – to sell their parks, and therefore have

nobody looking over their shoulder as to the validity of the numbers in their financials. Another reason is that many mobile home park owners don't know any better! You'd be surprised at how many owners don't use proper accounting methods – or accounting at all. I've done diligence on some parks where the owner takes rent in cash, and has no books, instead relying on memory for who still owes rent. And the guy pays the bills with money orders, out of the same pile of cash. A lot of owners don't have adequate insurance, and some use their nephew Billy Bob to mow the common areas, and have no touch with the reality of the cost of a legitimate operation.

We can't emphasize enough that whatever proforma profit and loss statement that you have been given by the seller or broker is probably inaccurate in one way or another. It may be 100% accurate based on how they have run the park, but does not reflect the true picture based on how you will operate the park. In most cases, it over-states revenue and understates expenses.

How are the expenses racking up against these estimates? If they are way off, you need to re-adjust to better estimates of the numbers. And use some common sense: mowing cost of \$10 total for a 100 space park with 20 vacant lots? Liability insurance of \$500 per year? Give me a break.

What are the fewest expense line items I've ever seen on a seller's proforma? Three. Water, trash and telephone. Is anybody out there going to buy into that statement? I hope not! The industry average is in the 35-40% range. If the seller shows 5% or some other number that doesn't make sense, this may be a sign that the seller is hiding things or has a real bad memory. Use your common sense when looking at these numbers. If the streets are owned by the city you won't have a street repair expense. If you have a pool make sure that the expenses to operate the pool are in there.

Here is a table with a list of the most common types of operating expenses for a mobile home park. When you are reviewing the seller's numbers, you can use this as a cross check to see how they stack up. It will also help you identify expenses the seller has left off the operating statements.

Typical Operating Expenses for a Mobile Home Park		
Type	Percentage	How to Verify
Advertising	0-5%	Check yellow page ad contracts and local newspaper rates. You may or may not need to assume existing advertising and this amount will depend more on your advertising strategies
Bank Service Charges	Less than 1%	This should be minimal with most banks offering free checking and other services
Depreciation	25% Land 75% Improvements	The seller's numbers will not be important – this will be based on the purchase price and your allocation to different assets and their depreciation methods
Insurance: Liability	2-3%	Get quotes from insurance companies based on the coverages you need – a good idea is to spend some time with an insurance agent that specializes in mobile home parks and can discuss the various coverages available.
Insurance: Property	Depends on Infrastructure	Get quotes from insurance companies based on the coverages you need
Insurance: Workers Comp	1-7% of Payroll	Check with insurance company for quotes based on your anticipated payroll and employee classifications
Interest: Mortgage	Depends	Depends on your bank loan and not the sellers bank loan or mortgage. This item will be added back to figure the net operating income for the mobile home park.

30 Days of Successful Due Diligence

Legal and Accounting	1-3%	You can get a quote from your accountant and then budget for legal expenses and evictions. Barring a lawsuit this number should be about \$15 per lot per year.
Licenses and Permits	Less than 1%	Find out what the cost for the licenses and permits are from the appropriate city, county, or state office
Maintenance Labor	0-10% - Depends on # of Park Owned Homes	Will vary from park to park and occupancy levels, types of utility systems, amenities, etc. Estimate the number of hours per week times the going labor rate in the area for light maintenance.
Management Offsite	2-5%	Will be based more so on how you run the park than the previous owner. Make sure to pay yourself for running the offsite management
Management Onsite	5-10%	Should be able to verify current situation by copies of paychecks, W-2's, employment contracts – will depend on if you intend to keep current management or hire new – also make sure to make an allowance for free or discounted space or home rent to the onsite management.
Mowing & Landscaping	1-3%	Depends on the amount of mowing to be done and who will do it.
Repairs: Equipment	1-3%	Depends on type of equipment, the age of the equipment. A best estimate and historical numbers will have to suffice.
Repairs: Property	5-10%	This will depend again on the age of the property and utilities, type of roads, and responsibility for each. This can vary from year to year so averaging the past 3 years is a good place to start. On newer parks \$50 per lot per year and

30 Days of Successful Due Diligence

		\$100 per lot per year on older parks is a good starting point.
Reserve for Capital Improvements	\$50 - \$100 per Lot per Year	Newer parks with new utilities will need less of a reserve than older parks with old utilities. You won't find this on most statements and this is a plug number based on your expectations of future capital improvements
Supplies: Maintenance	1-2%	This can include anything from chemicals to run the pool or water system to weed eater string.
Supplies: Office	1-2%	Paper, pencils, postage, and such. \$50 per month should cover most 100 space parks
Taxes: Payroll	10% of Payroll	Based on anticipated payroll – check out what the state and federal payroll taxes are
Taxes: Property	.5 to 3% of Assessed Value	Call the property tax office and see how they evaluate and assess property values. If you buy the park for \$1 million and it is assessed at \$100K, you can be sure the taxes will go up at some point. Better to budget at the higher tax amount even though the seller may resist this rationale by saying the property tax office won't know.
Telephone	Less than 1%	A combo fax/phone line should be about \$50 per month. Consider Vonage and Efax which can be as low as \$25 per month.
Travel	1-3%	Will depend on where the new owner lives and the frequency and length of visits. A high travel expense may indicate problems or else need to be adjusted for personal trips.
Utilities: Electric	1-10%	Most parks will pay only for the street lights, clubhouses, and electricity for pools and pumps. If there are RV lots or sub-

30 Days of Successful Due Diligence

		master metered, this can be significantly higher. Check past utility bills
Utilities: Gas	Less than 1%	Should be minimal unless sub-master metered or park owned homes with the utilities in owner's name or big clubhouses, etc. Check the utility bills from the utility company.
Utilities: Trash	4-7%	Call the trash company and find out the current charges and make sure the current trash service is adequate.
Utilities: Water & Sewer	0-25%	This is usually the largest operating expense unless the residents pay the utility provider directly or are sub-metered. Review past utility bills month to month and also the same months from year to year (Jan 07 and Jan 08, Feb 07 and Feb 08). Sudden spikes can indicate leaks and other problems.

Now that you have a ballpark estimate of the revenue and expenses figured out, what is the net income? Is this the income you had hoped for? Will it service the debt and put money in your pocket? If the answer is no – then how much debt can it handle? If the gap is huge between what you are under contract for and what the purchase price needs to be, you should call the owner in the morning and see if he will lower the price substantially. If not, then cancel the deal and don't spend any more time on it. If the price is just a little less than what you are under contract for, then you might want to wait before talking to the seller – you may have many more items that come up during diligence, and it may be best to address all of them at one time.

Is it possible to fix the numbers with a small increase in lot rent? Often, even though any rent increase should be to your betterment, you may have to use a minor rent adjustment to “re-balance” the numbers.

I once bought a park with a prevailing lot rent that was 35% of the market rate. The park was priced at a 4% cap rate. The seller thought he was getting the best of me, and that I was an idiot, paying his 4% cap asking price. When I tripled the rents 60 days after closing, he realized that he had not gotten the best of me – but visa versa. It is these inefficiencies that make the mobile home park business such an interesting opportunity.

Review of Sellers Tax Returns & Bank Deposits

Many sellers will give you a disorganized bundle of old deposit slips, hoping you will get frustrated and throw them in a box. Instead, you need to take the time to group them into the correct months and add them up. You’ll probably find that they don’t add up to anywhere near what the seller claims. When this happens, immediately call the owner and tell him that you will have to have a reduction in the sales price in line with the reduction in the real revenue received. Don’t let him gloss over with the time-worn “you’ll do a better job at collecting than I do”. Maybe you will, and maybe you won’t, but you cannot pay for revenue that is not there.

Don’t be shocked if the seller’s tax returns don’t even come close to the income he portrayed in his park operating statements. There are several reasons for this. The most common one is that the seller is not reporting his income (rent comes in via cash and never gets deposited). Another is that he may be lying about how many tenants he has in the park (a lot of those “full” park-owned homes are actually “vacant”). A third scenario is that he only collects maybe 75% of the rent each month.

Now you can do a lot better with a no pay/no stay directive, but you may have to evict a whole bunch of tenants to retrain them. You can't pay for income that's not there so, if the seller has been lying, he has to make it right. If he refuses, then walk the deal, unless you are 100% convinced you can collect all of the rent using your incredible management skills. You can't spend the next five years raising rents and renting lots just to get back to where the seller said the revenue was – that's not a good business model. Even if you are willing to go out on a limb enough to put yourself in this position, your bank probably won't let you, since they will not underwrite the deal anyway if the income does not prove out.

Get More Documentation from Seller

As for the call you are going to make to the seller: you need to call him and ask for clarifications or any other documents you need. If there is a problem verifying the income you might request a copy of the bank deposit slips. The point is to get further back-up to support the revenue and income. If he balks, then this may be an immediate admission of guilt – and there is a real problem.

When talking to the seller for more documentation on the budget, be sure not to tell him what you are doing. If he thinks you don't buy into his cooked books, he will keep on cooking them – and will deliberately alter the back-up materials. Call and say “can I have a copy of last month's water bill to check into billing water back?” instead of “can I have a copy of last month's water bill because I'm pretty sure you cooked the books, and I bet it doesn't add up with the budget you gave me.” I rarely ask for additional supportive data from the seller, except for the things that a bank is going to need – tax returns, deposit slip copies, etc. I always figure the seller is in the position to alter documents, so I go directly to the source to get copies of the water, electric, trash and other bills (call the utility direct). The main benefit to asking for the tax returns and other items early on is to see if he will actually turn them over. If not, and if you know the bank will require it, you may as well cancel the deal now.

Don't forget that the seller's presentation on actual expenses can be your ticket to a good park buy as well. Sometimes, they do not understand the numbers, are too cheap to hire an accountant and thus do not accurately reflect expenses either way... too high or too low! I've seen tiny parks with \$40,000 in repair and maintenance (for capital improvements such as new water and sewer lines last year) and the price is based as if this \$40,000 was a recurring expense. Before you go cursing the seller for having faulty or rigged books, remember that it goes both ways. They don't always rig the books to their benefit.

DAY TWO

TO DO LIST

- Check out the Market
- Call on the Comps of other Mobile Home Parks in the Area
- Call Apartment Complexes to get their Rents
- Look on Realtor.com for the Cost of Houses in the Market
- Call the City to see about New Parks being Built
- Learn Everything else you can about the Market
 - Chamber of Commerce
 - Real Estate Brokers
 - Mobile Home Dealers
 - City Hall
 - Other Sources
- Review the Leases and Rules

Check Out the Market

To check out the market, go to Sperling's Best Places at www.bestplaces.net or else check out City Data at www.city-data.com and enter the zip code or city name. You will see a wide array of data on the city or town that the park is located in. Look at each item and see how the town compares with the rest of the U.S. Look at such items as future job formation or population growth. Although most towns will turn out favorably, look to see if your town is a dog and getting worse. If the subject market has above-market crime, declining population, bad unemployment, negative job formation, etc., then maybe you should just kill the deal now and not waste any more time on it. You can't fix a town. If the park is a reflection of a bad town, then you will never be able to turn it around, and it will lose value year after year. Nobody needs a nightmare investment like that.

BestPlaces.net and sites like it are one of the great assets of the internet age. It would take you weeks to get this data on your own – I'm not sure you could even find out how to compile it all. Since you can get a very accurate picture of the city's vital signs, it's important not to ignore them. I have looked up hundreds of cities on this site, and I have never seen a case where the city got unfair scoring one way or the other. Dallas has bad air: True. East St. Louis has bad crime: True. So don't argue with the statistics. If your chosen town has above-average crime, above-average unemployment, below average per capita income, poor school scores – it's time to look somewhere else. People have told me "sure the town is bad, but my neighborhood is good". But for how long? I've never seen a few blocks of a town that is prospering while the rest of the town is in the dumpster. Accept reality, don't fight and argue with it.

Get Comps on other Mobile Home Parks

Go to the list of Mobile Home Parks on MobileHomeParkStore.com and also take out your yellow pages and look up "Manufactured Home Communities" or "Mobile Home Parks". Your job is to call each and every one of these within a 25 to 50 mile radius and get their "comps". To do this, you will want to take a sheet of paper and build a grid of park name, phone number, lot rent, what the lot rent includes, and any move-in specials. A sample grid is attached at the end of this manual and in the excel spreadsheet.

Also note if they can take "gas" homes and if there is an age restriction on how old a home they take. Also write down if they are a senior-only community. Many times the park will not answer or you will get a recording – keep calling back until you get someone, don't just quit. And when you call, pretend to be a possible resident, not someone calling to get comps – they will deliberately misinform you if you tell them that.

You should say “Hi, I’m interested in knowing if you have any lots for rent? And what do they cost? And what utilities are included in that rent? Do you have an age restriction on the homes? Do you allow kids? Do you have any move-in specials?” You are hoping that the comps are much higher than the park you are looking at, which represents the ability to raise the rent.

Getting comps on neighboring mobile home parks is an art form. The managers can normally smell a problem if you don’t sound “trailer-trashy” enough. Myself, I can spot an owner comping me from 100 yards away. They talk too well and are too polished. I always immediately say “where’s your park located at” or “who is the appraisal for “? If you want to get an accurate comp, you have to assume a trailer persona. The questions you will have to answer include “how big is your home”, “what year was it built”, “where are you coming from”, “do you have any pets”, etc. The key is to put your “trashy” spin on it. Don’t say “excuse me, do you have any lots for manufactured homes available and, if so, what is their current cost.” Instead say “have you got any spots open for my trailer? How much are they? You got any move-in specials? Throwing in a big belch helps too.

Be sure when you are comping mobile home lot rents, to make a list of what utilities are included. They don’t include all of them these days. Some parks include water, sewer, and trash, and some don’t, and some only include one or two items.

Comparing lot rents without the included utilities is meaningless – it’s apples to oranges at its all-time worst.

Another way to go about getting comps is to call as a potential park buyer. You will get hung up on occasionally, but one thing I have done is make these calls and say, “I am buying such and such mobile home park in your city” and I am looking to buy other parks as well”.

This serves three purposes:

- 1. You find out if their park is for sale.*
- 2. You may get the comps*
- 3. You may get an earful about the reputation of the park you are buying.*

Get Apartment & Single Family Home Rental Comps

After you are done, or between phoning back the ones that don't answer, call on the apartments in the yellow pages and get their rents for 1, 2 and 3 bedroom apartments. This is to give you an idea of how good a value your park lot rent is. You are hoping that the apartment rents come in really high. The higher the competing apartment rent, the higher you can push the rents on your park. A benchmark that we use is that the cost to rent a 2 bedroom apartment should be about the same or greater than the cost to rent a lot in the park plus make the monthly mortgage payment on a newer 16 x 80 mobile home.

Also, be sure to get comps on single family homes for rent. The best way to do this is to pull out the local newspaper and search for Homes for Rent.

When getting a comp on an apartment complex rent, be sure to sound like a real customer. If you sound like you are comping them, they will either totally lie to you or not give you the rate at all. It would be like calling a luxury hotel – they seldom stick with the posted room rate. Your job is to get the actual rent of a two-bedroom apartment, as of this date. Tell them you are looking at relocating to town, and will need a 2 bedroom apartment for at least a year. If it is a senior only complex – tell them it is for your mother. And ask if they have any move-in specials. If they say they are full, ask them, if one came up down the road, what the rent would be. Keep a list of who you called, so you don't call them again and make an idiot of yourself (in the case you call the same company twice, make sure you have the same story... it is quite embarrassing to be calling for your

mother and five minutes later calling for your father). And you'll need to write everything down because there is no way you can memorize everything.

Get Comps on Home Prices

Maybe even while you're on the phone, look at realtor.com and see the values on single-family homes in the market. You are hoping that they are high – you want them to be well beyond the range of your tenants.

The internet has permanently changed the way to comp single family home prices – for the better. A quick trip to realtor.com, or zillow.com, and you will have all the information you will ever need right at your fingertips. Zillow is extremely effective for seeing the value of homes right around your park – probably the far better of the two sites for this project.

I made the mistake of buying a park once in a town where you could go and buy a decent single family home for less than \$50,000. If my potential resident had a choice between the single family home with payments of \$400 per month or my park with lot rent of \$150 and mortgage on a mobile home of \$250, which do you think they would choose? I learned my lesson on that one.

Call the City about New Parks

Today you are going to be on the phone a lot. Your first call will be to the city again. This time, you will be trying to evaluate the ease or difficulty of building a new mobile home park in the city. You are doing this exercise to see if the supply of parks can change radically, which might have an adverse effect on the value of your park. You want to hear “no new parks are allowed”. But if the city says, “Sure, you can build a new park anywhere you want to” this one issue might make you have second thoughts on what you really are doing with this deal. Who

wants to slave away operating a park, only to have a new one built next door that destroys your value and lot rent structure?

When you call the city about whether or not a new park could be built, be sure not to let them know that you are hoping they say “no”. Cause they’ll just say “no” to get you off the phone. A better idea is to ask them about an expansion to the park, which leads to a discussion of the current laws on building a park, which leads to further comments on how hard or easy it is to do. Ask when the last park they permitted was (you are hoping for the answer of “1965”).

Another important bit of information you will be looking for is whether or not mobile homes / manufactured homes can be placed anywhere in the city or county. In many, if not most markets, your biggest competitor will not be other lot rental parks but will be mobile home subdivisions or the guy down the road that is selling off acre parcels for people to place their homes on.

Learn Everything else you can about the Market

While you are waiting to hear back on all of the studies and bids you requested, it is a good time to learn everything in the world about the market the park is in.

Chamber of Commerce

The first call should be to the Chamber of Commerce. You can get their number at Google.com. Tell them you are looking at buying some real estate in the city (don’t tell them it’s a mobile home park – they will not give you as good of treatment) and want to learn everything about the town. You should ask them:

- ❖ Who are the major employers?
- ❖ Are there any new employers moving to town?
- ❖ Are any employers struggling or laying off?

- ❖ Are there any new developments going up in town?
- ❖ Is there positive job formation now and in the future?
- ❖ What do houses typically cost, as well as apartments?
- ❖ How are the schools rated?
- ❖ Are there any parts of town to avoid?

Plus any additional questions you can think of. You are trying to be an expert on this town, so there are no questions that are off-limits.

Never rely on anything but the statistics that the Chamber of Commerce will give you. If the person you talk with has been properly trained, they will misguide you on such questions as “what’s the nice part of town?” and “where are the slums?” They are supposed to treat all areas of town the same, so they will tell you the bad parts of town are great. I once called a Chamber for hotel advice when going to Los Angeles, California for the first time, and they suggested I stay in South Central Los Angeles near Westwood (next to Beverly Hills). Was that lady crazy? No, just doing her job. Chambers have great data such as “largest employers” and “population growth”, but their opinions are usually biased.

When meeting with the local Chamber of Commerce, never tell them you are looking at buying a mobile home park. Just tell them you are looking at investing in some real estate in town, and need to know everything about the town. Wear a suit if you can – the fancier you look the more attention they will give you. While you are there, pick up as much literature on the town as you can. And always get the business card of the person you met with, so you can call them later with more questions.

Real Estate Brokers

Now call several realtors (again, get them off Google) and ask them the same questions. While Chamber employees may strive to be politically correct, realtors

often don't. You can often get a more realistic feel for the town through a realtor. But again, don't tell them you are looking at buying a mobile home park. Tell them instead that you are looking at buying a house or some commercial property there, so they think you are a potential client and worth wasting some time with.

I have found that a great resource for getting the "low down" on a market is calling the local residential real estate agents and finding ones who are "politically incorrect" and will give you the real story of what's happening in the town. Tell them you are looking at moving to town, but are concerned that the town is going down the tubes. Then stand back and see what happens. They'll either say "you're wrong, there's five new plants opening up" or "you're right, this town is the pits". Of course, you'll also hit the ones who'll say "I don't know I'm just a real estate agent" and won't give you an opinion.

I once did diligence on a mobile home park in a small town in rural Oklahoma, and it proved the textbook example of dangerous market dynamics. This particular spot had one large company employer. The park had about 150 lots, a clubhouse, pool, jogging track – everything. Everything, that is, except a steady population base. In good times, the company hired a lot of people, and in bad times they laid them off. So the occupancy of the park was a roller coaster ride for the lucky owner. Sometimes it was 90% full, and sometimes 20%. Unless you can buy the park so cheap that it's a home run at 20% occupancy, then I would avoid it like the plague. To be a success, you need a market with a diverse, strong economy – not a "one-horse town".

Call Mobile Home Dealers

Although you have to take what they say with a grain of salt, it is always a wise decision to call the local mobile home dealers to see what they have to say about the market and, in particular, your park. It's a pretty easy exercise. First, you

have to make a list of the mobile home dealers in that market area. That may include dealers up to about an hour away, since people tend to check out several dealers for the best pricing, like when you buy a car, and are willing to drive about an hour away.

Once you have the list, you should call each dealer and ask for the manager. If they are not there, just talk to whoever answers the phone. You should say “I’m buying (park name) and I want to know if you are going to be able to help me fill up the vacant lots?” This should get the ball rolling with the salesperson or manager telling you everything that’s wrong with the market (and the industry) and your park in particular. Your goal is to have a realistic feel for the number of homes sold that go into mobile home parks (a lot of them go on to private land anymore) and how your park stacks up against the competition.

While you have them on the phone, be sure to ask what kind of “move-in specials” the other parks offer, so that you know what you will have to offer to compete. Also try to get some feedback on what an attractive lot rent is and what it includes. Also ask if they have some older trade-ins that they might want to put in your park and sell on location or else sell to you at a good price.

Mobile home dealers are a unique breed. They will tell you business is great, even while the constable is throwing them out on the street in a landlord eviction. When you talk to a mobile home dealer, it is a given that they will say “I can fill that park up overnight”. That’s what they say to everybody. So it’s a better plan to ask some more scientific questions and then formulate your own opinion on the health of the market.

Ask the dealer how many single-wides (double-wides rarely make it into parks) he sells each month that go into parks. He’ll probably say “one”. Now use your noggin’. If he says “one” then it’s probably more like “none”, and even if there is one, then what are the odds of you getting it into your park over all the others?

Further, at that type of fill rate, it will take you ten years to fill up your park. Of more value would be the dealer's opinion of the park itself. He's formed that opinion from trying to sell people homes to go in there for years now, so he probably knows all of its weaknesses. His opinion of your park is very valuable – it is direct information from someone who's in the trenches selling homes day in and day out. And those same customers may be buyers for used homes already in your park, so he is essentially telling you if your lots are salable in the big picture.

Dealers are great sources of information on your competition – what are their move-in specials and how does your park compare to theirs? This is information that only a dealer can give you. Just try to keep the overly-optimistic opinions from flavoring it wrong.

City Planning & Zoning

Now repeat the same exercise again with someone at city hall in planning and zoning. Don't tell them any more than that you are looking at buying some real estate in town. The city will have its own perspective, too.

Other Sources of Information:

Of course, while you are on the phone, you may as well be wearing out realtor.com and zillow.com to see what the prices and rents are. You can't get too much information.

You should also check bestplaces.net and city-data.com for trends, employers, etc.

Review the Leases and Rules

Many sellers have very poorly written leases and park rules. There may be any number of items left out of both – some which may even be illegal to leave out. It is a good idea to “re-paper” all leases and rules immediately upon closing, to the correct form and with all necessary inclusions.

Of course, to do this, the leases must all be on a month-to-month tenancy. If the leases are not, you may have to abide by the seller’s lease and rules until they expire. In that case, it is worth your while to have an attorney read the existing lease and rules and advise you of any adverse conditions that exist. Normally on rules, the ones that are missing will not sink the park if the tenants fail to comply. More important is the inability to raise the rent if the current lease forbids it for a period of time. Additionally, the current lease may preclude you from charging late fees, or even sub-metering utilities. It is important that you know this fact before you budget for lots of income enhancements that you legally cannot do for some period of time.

Also, beware of sellers who have more than one lease form in existence. That is why it is vital that you read all of the existing leases on the tenants, not just an “average” lease that the seller gives you. Some terms may damage your ability to make your budget until they expire.

Wow! That was a lot to cover for first couple days. However, the financial and market information and verification of such is very important for the days ahead. If the numbers are tight you will not have very much room for error. If the numbers allow for some uncertainties, then you are a step ahead already.

DAY THREE

TO DO LIST

- Call or Visit City Hall and Check out the Permits and Zoning
 - Sunset Provisions
 - Special Assessments
- Call or Visit the Police Department

Call or Visit City Hall and Check out the Permits

If your park survived scrutiny yesterday, then today you are going to get in your car or on the phone and talk with city hall. Your goal is to see if the park has all of its operating permits and to get assurances that homes can be freely moved in and out of its lots.

When talking to city hall, ask for the building inspection department. Go to that department and tell them “Hi, I’m _____. I’m looking at buying _____ Mobile Home Park, and I want to make sure that it’s legal and everything is ok with it.” And get ready for a whirlwind of commentary.

If your park is like most, the inspectors will tell you what a mess it is and how they hate it and have a million problems with it. That’s ok as long as it is just their opinion. What you are trying to ascertain is where the park stands legally and on paper.

I looked at a park north of Dallas once that had a great location. I mean over-the-top, spectacular. It was in a super affluent neighborhood, in a fast growing town, across from a new school, and near a charming downtown square. I was really excited when I got it under contract at a cheap price. Until I went to the city. The city inspector, a foul-mouthed individual, told me that he didn’t care what the

permit said, he was going to shut down that “trailer trash dump” of a park. Like an idiot, I was scared off by the inspector’s comments. Shortly thereafter, somebody else bought the park, made some improvements, and it is still operating today. What I did wrong was to listen to someone prejudiced against trailer parks with no credentials and no power, and take that as precedent over the fully legal permit. That inspector is probably gone today. I regret not enlisting the aid of an attorney to sort out his comments as the park would have been a great deal. A legal permit is a legal permit. That park today is worth probably \$1,000,000 more than I had it under contract for.

I currently have a park under contract to purchase. It is actually 2 parks. I called the city hall yesterday and found out that park number one (65 lots) was legal, zoned correctly and had no issues. The other park (15 lots), however, is not only zoned improperly but it is also illegal. No homes can be brought in to fill the spaces. It has been operating as a park for many years and even though it has not been shut down, it could be at any time. This is in a smaller town and I would never have even thought this issue would have popped up on this park. The deal still makes sense, but you can be sure the seller and I will be negotiating on this one.

There are three types of parks and only two can be purchased intelligently.

- One is legal conforming – that means that the park meets all current regulations.
- The other is legal non-conforming – that means the park is legal but “grandfathered”; it no longer meets the regulations, but can continue to operate unless abandoned.
- There is a third type that you must never buy: illegal. And there are several parks out there that are illegal. They have no right to exist and can be shut down at any time. I don’t care if the park has been in illegal existence for fifty years – you should not take on that kind of risk. Imagine

if they asked you to shut it down two days after closing – what would you do? Imagine what the bank would do to you; probably file on you for bank fraud. So if the city says the park is illegal (and have the paperwork to support that claim) that's the end of your diligence right there.

I once went to do diligence on a park that was about 40 years old. I went to the city and told them I needed assurance that the property had all the correct permits. The guy went away and came back and told me there was no park on that property, just a single family house. I showed him some photos of the park. He told me that when the property was annexed into the city, the owner signed a document stating what the use of the property was and he wrote "single family home". As a result, the park was operating without a permit, and was illegal and subject to immediate closure. I called the seller and told him what I was told and he threatened to sue me for turning him in! It seems that the seller had deliberately said "single family home" thinking it would reduce his property tax. I immediately cancelled the deal. No permit, no park.

If they say it is one of the first two options, then your job is still not done. You need to see proof in writing of what they are telling you. This is very important. Five years from now, the inspector you met with may no longer be there. You need tangible proof to keep in a file. So if they say the park exists based on an ancient certificate of occupancy – then you need a copy of that ancient certificate of occupancy. Or if the park is there under an old variance – you need a copy of it. In the world of permits, only what is on paper matters. Everything else is just a bunch of talk.

I once looked at a park in Texas that was ridiculously cheap – about \$1,000 per pad for 100 lots. But it was completely vacant. The seller told me that the permit was in fine shape and that I could start filling lots tomorrow. So I went down to city hall to see for myself. Sure enough, the park had been legally built in about 1975, but there was a catch. The City had changed its zoning years later, and the

park became grandfathered. Grandfathering in this case would lapse if the park was abandoned for 181 days. This park had been abandoned for about 10 years. As a result, the park could never legally be re-opened again. They also told me that about five other people had been there in the past month doing diligence, and all had bailed when they found that the park could not be used for mobile homes. So I called the seller and told him that his park was illegal and, by the way, why doesn't he take it off the market since he knows it's illegal? He told me that I was the first one to tell him (obviously a lie –there had been other dropped contracts). I noticed that it continued on as "for sale – mobile home park" for years after. The seller was hoping to find the guy who would not check the permit out.

If the park is legal, non-conforming, and a ton of parks are, then you need to know if you can bring homes freely in and out, and what the setback requirements are, and if there are any reasons to believe that the city will shut the park down in the future. The point here is to see if you will have any problems bringing homes in and out. If you can't bring in homes, then your park is of limited value and will slowly die over time. Sometimes you are allowed to replace homes, but in order to do so and meet the new setback requirements; you have to find homes that are 10 feet wide.

Likewise, if the city plans on shutting your park down in the near future, then its value is slight since it may soon be just some vacant land. Get written copies of everything they tell you. And meet with as many departments of the city as want to give you input, which may include planning and zoning and others.

I did diligence on a park in Dallas. I researched the permit and it was valid. Except for one small catch; the certificate of occupancy stated "35 lots" and there were 45 lots on the guy's rent roll. In talking with the owner, I found that he had "added" 10 lots over several decades – all of which, of course, was illegal. I told him I could only pay for the 35 legal lots – I could put no value on the 10 illegal

ones. He told me that he'd get a letter from the city showing that the 10 were legal, and he'd call me as soon as he got it. I terminated the deal, and waited for his call. And waited. And waited. Surprisingly, I never got that call. Maybe it's because, in the interim, the city caught what he did and made him abandon those 10 lots. This is a great example, because the park had a valid permit, but a new guy would never have asked "for how many lots?" If I hadn't checked that out, I would have lost 25% of my customers at one time, which would have turned the deal sour real quick.

Sunset Provisions

The first time an attorney explained sunset provisions to me, I thought he was crazy. But, unfortunately, they do exist and occur in the manner I am about to describe. How this is legal, I just don't understand. But the impact can be catastrophic.

Let's assume you have a mobile home park that is legal, non-conforming and "grandfathered" (built legally prior to a change in zoning or ordinance that would preclude building it again on that parcel). In many markets, as long as you do not abandon the use for a set period of time (often 180 days), you have the right to continue on with it as a park in perpetuity. However, in some markets, there is an inclusion in the ordinance called a "sunset provision". What this provision allows is for the closure of grandfathered uses that are deemed not to be in the best interests of the community at large. These provisions were designed to protect against noxious businesses, like lead smelters. But the impact can be much wider ranging.

To enact a sunset provision, you first need a catalyst who files a complaint and a request to enact the provision. That can be a disgruntled neighbor to the park. The cost to file is minimal – maybe \$60. This then triggers a hearing on whether or not the use is bad for the community. Of course, most communities would tell

you that anything with a mobile home on it is bad for the community. The really wrong part is that it is a pretty subjective matter – it does not have to be proven out mathematically. If they agree that the park is bad for the community, then they can enact a “sunset provision”.

Here’s how it works. They calculate how much the improvements cost (the water lines, sewer lines, roads – everything but the land). Then they figure out the net income the park produces annually. They add to the calculation the year in which the park began operation. Here’s where it gets really weird: they figure out how many years it took to get the original investment back starting at the year the park was built. The year of pay off is deemed the year the sunset ended, and you must shut the park down immediately. In other words, if the park cost \$500,000 of improvements, and earns \$50,000 per year, then the sunset would be 10 years. If the park was built in 1970, then the end would be 1980.

But what about your new investment in the park? They don’t count that. If they had to deal with that, the lead smelter could just keep selling the business from one corporation to another, always at a higher price, so that the sunset could never occur. And how can you have an end date that might be twenty years ago? Go ask your legislature. It doesn’t make any sense to me either, but that’s the way it is.

How often have I seen a city enact this provision, if they have one on their books? Never. But it is there. And you have to be aware of it, particularly if you have a “grandfathered” park. One of the first things I do is check a city’s sunset provision. Many don’t have it. But some do, and you have to understand that.

Special Assessments

When you are talking to the city it is a good idea to check whether there are any current or projected special assessments that will affect the property. I once had

a park in Wisconsin that had a \$30,000 special assessment that I assumed when I purchased it. I had to pay about \$2,000 per year until it was paid off. Most special assessments occur when the city puts in new roads, sidewalks, sewer systems, or water plants. Any current special assessments should show up on the title policy list of exceptions. You won't know about proposed assessments unless you ask.

Contact the Police Department

While you are at city hall, you will want to meet with the police department. Normally, they are in the same building, or at least nearby. Your goal here is to see what the crime is like in the park. Ask for the crime report for this area. Normally, the police department is happy to tell you what is wrong in hopes that you'll try and fix it. Make sure that you know what kind of crime problem you are buying into. If the park is locked in a struggle between gangs, and you do not want to turn such a park around due to concerns for your own safety – then you may want to pass on this park. As always, it is going to be your judgment call, because rarely is a park crime free. And we've never seen a park that can't be turned around on crime as long as it is in a good area. If the park is in a bad neighborhood, then it will probably always reflect the same level of crime as the surrounding market.

When you meet with the police department, be sure to send out the message that your visit is not "official", you are just there to get a "ballpark" feel for the crime problem. If you aren't aware, we live in a very litigious society today, and nobody knows that better than the police department. A lot of what they tell you may be the politically correct version – and to give you the full story may also be against their own policies. So play it real low key. If you get too bossy, they will tell you nothing, and that's that. The police department wants to help you clean up the park. They want to send those bad guys out of their city and into somebody else's. So let them help you. Ask them, off the record, for their

personal opinion of what needs to be done. And unlike the park permit, don't ask or expect any of what they tell you to be in writing. It's kind of like asking an army officer how the current war is going. If they tell you at all it is under the condition of anonymity.

Before you meet with the police department, it's a good idea to go to the park and write down the lot numbers of the homes that look like trouble. How can you tell? Look for people hanging around out front (selling drugs), or a pair of tennis shoes hanging from a power line near the house (universal code for "drugs sold here"), or a whole lot of cars parked during the day ("why aren't they at work"), or just a nasty looking home that looks like a hillbilly lives in it. When you talk to the police, they will often answer your question, even though they won't tell you if you don't ask. If they say "there's a couple bad guys in that park" and you say "you mean lot #15?" they'll say "I think that's the one" where as if you say "who?" they'll refuse since it's against policy.

DAY FOUR

TO DO LIST

- Water, Sewer, and Sub-Master Metered Gas
- Electrical System
- Road Repairs
- Trees

Water, Sewer, and Sub-Master Metered Gas

A large part of the park owner's responsibility is to keep the utilities and utility lines in good working order. This means that the water and sewer must be flowing and the electricity must be able to handle the homes in the park and the gas lines should be free of leaks. While the park had wonderful, new pipes when it was built thirty or forty years ago, those pipes now are old and often have problems (some extreme) which may make delivery of those utilities a challenge. In addition, the cost of replacing utility systems is the single largest capital expense item your park will ever face. Just repairing the utility system may be your largest cost of operation. Obviously, the condition of the lines is paramount to understanding whether or not you are really getting a "deal" on this mobile home park.

So today you need to get out your yellow pages and look first under "Plumbers". Find three different plumbers you can have come out to initially look at your sewer, water and (if sub-master metered gas) gas lines. This should be in the initial form of a walkthrough to give you a rough idea of type of construction (pvc, iron or clay tile for sewer; pvc or metal for water), sufficiency of clean-outs, and general condition. You are looking for just a quick 30 minute or 1 hour evaluation from each of them. The cost should be about \$100 for each company for the evaluation.

The point here is to also get several different opinions, because you don't want to make or drop your deal solely on one plumber's opinion which might be flawed.

Asking a plumber if the park needs new pipes is like asking a barber if you need a haircut. They will always tell you that you have to run new water and sewer pipe. I've never run new pipe, and I don't think it's a good idea or a good use of cash. All water and sewer systems can be patched in the event of cave-ins. And new pipe can clog almost as much as old pipe. Why? Because the tenants cook with a ton of grease that they pour down the drain, in addition to not having disposals to chop up the food particles into manageable amounts. Additionally, the occasional tenant may flush down the drain such items as drug syringes, t-shirts, etc. If you go to run new pipe, besides the horrific cost, you will cause great hardship at the park, since they will be cutting into all kinds of utilities as they dig, and knock out on a frequent basis your cable tv, telephone and electric.

Sub-master metered natural gas is scary stuff if you don't understand it. Due to the explosive nature of gas, it is the one sub-master metered utility that requires periodic checking and record-keeping. This is for your and your residents' safety. The tests are not that difficult and, if the park is correctly piped, should give you no grief. But the important thing is that your gas system be licensed and permitted by the correct government agency, and that the tests be conducted by a professional who keeps meticulous records. I've heard of just a few park gas explosions, and it is a safe bet that the lawsuits were flying fast and furiously. That's why getting a handle on the permit and testing is so essential.

Electrical

After you have selected three plumbers, go ahead and turn to "Electrical Contractors" and choose a couple of electricians to inspect the lines (especially if sub-master metered) and the boxes and poles. Have them look for problems

such as boxes that need replacement, poles that are cracked or leaning, and boxes that need conversion to 200 amp services. And have them give you a complete, written bid to make these improvements.

Sub-master metered electrical systems are normally permitted when built, but require no additional testing (make sure to check in your location). They normally date to the 1950s and 1960s – a period in which the line between RVs and mobile homes were kind of blurred. Back then, both plugged into a regular socket, so the park owner kept all the power on to every lot 24/7, so RVs and mobile homes could freely move in and plug in. You don't see a lot of them – I'm not sure any have been built in the last 20 years. If you do have one, the key is to make sure it is legal and meets any testing requirements. Since electricity is not pressure-tested, the integrity of the lines is seldom tested, and that's why you need a licensed electrician to walk the system looking for problems.

Above Ground versus Below Ground Electric

Most of the electrical systems on mobile home parks, especially out in the rural areas, are above-ground. All the lines and poles are clear to see, and there is nothing buried. However, in most new parks and many older in-town parks, the electrical system is buried below ground, and all you visually see are some transformers and power boxes above ground. Each type of system has its own pluses and minuses.

Above ground systems are easy to work on and spot problems. That is their main benefit. A short in the line can be found quickly and easily – and repaired cheaply. The drawback to an above-ground system is the perpetual (although rare) necessity of replacing broken or leaning service poles, as well as problems moving homes in and out with all those dangling power lines.

Underground systems look a whole lot better. That is their main benefit. A park with below-ground power will always look better than one with above-ground. The downside is that a problem in the system is hard to find and harder to fix. Fixing a below-ground problem requires digging. It also makes upgrading the total system to allow for 200 amp services at each lot a big deal, whereas on an above-ground system it is not so hard to run new wires.

Since they both have pluses and minuses, I value them about equally, and don't prefer one type over another. But, as always, make sure the system is in good working order and that you know what the problems can be and what they will cost, so you can plan accordingly.

One of the most common sources of initial capital expenditures in a park is in the electrical upgrades category. If you look at the power boxes at each lot, you will immediately see a whole lot of missing electrical panel doors, and broken and leaning poles. These kinds of things never seem to get fixed except when they quit working or fall over and can't be propped back up. And they are not always cheap. That's why it's essential that you get a full inventory from a licensed electrician, so you have a good budget to work from.

Road Repairs

Once you have found your electricians, turn in your yellow pages to "Paving Contractors" and send out three paving estimators to give you a price on repairing the potholes in the park's roads, fixing broken concrete on sidewalks and pads, and seal coating the roads a new, jet black color. Also have them give you a cost on re-stripping and markings.

Just like the plumber, the paving guy will tell you to re-pave the whole park, and while you are at it, you need to replace all of the base material, too. Don't listen to these guys. Fixing potholes is 99% of the game. I have only replaced base

once in my life – and the park had potholes literally so big that your car would disappear in them. As far as re-paving the whole park, you can probably get the same effect with a coat of sealcoat and some pothole repair and re-painting of the striping or a chip-and-seal job.

Trees

Trees look great. But there are some problems with trees that you need to be aware of.

The first big problem with trees is underground. If your park has clay-tile sewer (although it can happen with other types, too) you will sometimes experience root intrusion in the line. This can be a costly, recurring problem. What happens is that the tree roots, constantly seeking sources of water, find a crack in the sewer line and start growing inside. The roto-rooter guy has to cut them out with a special blade. However, they then grow right back. Even if you dig up and replace the line, it can still happen again. The only real fix is to remove the tree. Trees also, as you know, can break up concrete and other hard surfaces. Even though they look great, trees are not always your friends.

Trees can also cause problems above-ground. First of all, they can stop, or make very difficult, the act of bringing new homes in. You will often have to trim or remove trees to bring a home into a lot that has not been used in recent times. The other and much more significant problem is the collapse of tree limbs in storms and who pays for the damage. Under most insurance policies, if a live limb falls, it is an act of God. But if a dead limb falls, then it is the park's fault. That means you must constantly be on the lookout for dead limbs and dead trees, and cut them down or out accordingly. When a big tree limb meets a mobile home, the results can be catastrophic. I have had whole houses chopped in half by a big limb. I've been fortunate, nobody has ever been injured – but it could happen.



One final problem with trees: if you have a lot of trees on the property and want to expand the park, or even develop some park land, you may find some very serious penalties in the city ordinance regarding trees. In many locales, you have to replace trees on a 1 for 1 basis if you develop and remove them. This really hurts your development land value.

Trees may be pretty, but they are hardly your friends.

That's it for today.

DAY FIVE

TO DO LIST

- Private Utilities - Permits
- Private Water Wells
 - Set up Meeting for Day 10
- Private Sewer Plants, Lagoons
 - Set up Meeting for Day 10
- Septic Systems
- Lift Stations
- Tap Fees

Private Utilities

If you are buying a park with city water and sewer, then take the rest of the day off!

If you are buying a park that is not on city water and city sewer, then it is time to get a handle on the permits.

Never give any validity to the seller's opinion on the sewer system, unless it's on city sewer. All the other options can cost you a ton to repair or replace. Even if the seller is adamant that the sewer plant has a legal permit, you have to see it for yourself. The same is true for the water system. Just because it's turned on does not mean it's legal to operate. And without a valid permit, and the required testing, you may be taking on enormous litigation and without any guarantee that you can get the problem corrected.

The park, if it is not on city sewer, must be on either a packaging plant, a lagoon, or septic. Regardless, you want to see the permits for these, as well as the latest

test results. If the seller does not have them, then there is an immediate problem – they may not be legal. If he refers you to some testing company, then call them, but push to see the actual permit for the sewer. There are plenty of cases where the seller has the lagoon or packaging plant tested even though it does not have an actual permit to exist. You can't go on like that. Failure to have the correct, active license or permit for the packaging plant, lagoon or septic should result in the immediate cancellation of the deal – no different than if he did not have a permit for the park itself. Without a permit, the park may have to be shut down, and there are even environmental issues that could easily bankrupt you as well.

I once bought a park with a water well, and the well shut down a week after the sale. I had not even had the system looked at. Just like a used car, a seller is going to try to put “sawdust in the transmission” of every possible system, and just keep it alive until closing. In this case, the well had been in trouble for a long time, but the seller kept it alive. Had I talked to the company that serviced the well and did the testing, I would have been informed of the problem up front.

I once purchased a 62 space park that had a sewer system that had a permit to operate, but I find out later that it was only licensed to handle 47 spaces. I was not aware of this when I purchased the park and the only way I could use the other 15 spaces was to put in a new sewer plant. To make matters worse, the plant started to fail and I was forced to replace it anyway. All in all, it was a \$225,000 learning experience not to mention the 18 months of battles with the engineers, contractors, and the State of Texas.

One of the biggest mistakes that I have made in the past was to take the seller's word on what needed to be done to his water well, lift station, or sewer system. It goes something like this: “the well needs a larger pump and then it will have the proper pressure to service the park”. In this case, however, it was not the pump problem but the lack of storage – I had to triple the size of the storage tanks at a

cost of \$15,000 rather than the expected \$1,000 for the extra pump. In another case, with a park on septic tanks, the owner stated that we needed to add some drain fields and the septic would be fine again. Big mistake. I did not realize that there was not room to add additional drain fields. I had to use two vacant lots for the new drain fields and lost the usage of those lots. If there is a problem that the seller tells you about, make sure you know what the real solution will be.

Since you are buying a park that has private utilities, then you need to get professional advice on each of these utilities:

Private Water Wells

City water and city sewer are the best. Nobody will argue that point. But many parks do not have access to this, or are missing one or the other. Can you still buy a park without city water and sewer? Yes, but you have to be very careful on how to do it.

Let's start with water, since it is easier. If you do not have city water, then the only other option is well water. Much of America runs on well water, so you are not alone. But getting your water from a well still involves a working knowledge of the process, and an idea of what the risks are.

Basically, water wells have four components. There is the well itself, which is a pipe that goes deep in the ground to the source of water. Then you have the pump, which is what extracts the water from the well. Then you have the chlorinator that injects chlorine into the water to clean it from bacteria and make it potable. Finally, you have the storage tank which stores the potable water until it is needed by the tenant. This is the same system many cities use to create "city water".

Your greatest dangers in this process are having the well break down and deny you access to the water and having the chlorinator break down and fail to make your water potable. To mitigate the danger of the well breaking down, some parks have two wells so there is always a back-up in case of emergency. Otherwise, if the well breaks you have no water until it is repaired (once your storage tank is empty). If you have the assurance of the well drilling company that the well looks good, and you know the cost and timeframe to repair the well in case it breaks down and can afford it, then you can probably sleep at night.

The other danger is a little harder to grasp. There is normally no substitute for a broken chlorinator – your water will become non-potable immediately. The only source of comfort here is perpetually checking the equipment to make sure the chlorinator is working properly. You will want to have your water tested constantly anyway, as provided by the law of the area you are in. This requires water sampling and sending it in to a lab. But it's a good idea to have someone check the chlorinator constantly anyway.

Another risk from water wells, in some parts of the U.S., is the risk that the proverbial “well will go dry”. In some arid parts of this country, that argument is valid. Check with the local authorities on the risk of the water table changing so dramatically that you can't extract water any more.

It's always a good idea to check on the availability of city water, just in case you want or need it down the road. Often, you can watch the continual progression of water line expansion bringing it closer and closer to your park.

If the park has water wells then you need to have a company that specializes in installing and maintaining wells to do a review of the system. This will include checking the permits and water reports (quality of the water), looking at the pumps and backup systems, doing a pressure test at peak times of the day, evaluating the treatment process (chlorination), and any other items peculiar to

the well system. It is also a good idea to have a well drilling company give you an estimate on drilling a new well should the first one fail.

Today, you will get on the phone and find a company that drills and repairs wells and water systems as well as a company that does water tests. You will set up a meeting with the seller, his current company that maintains the well and the unbiased third party well repair and drilling company you found in the phone book. Set up this meeting to occur as soon as possible. Let's assume that the meeting will occur on day 10.

Private Sewer Systems

The absence of city sewer is much more complicated, as there are many more options, each with its own upside and downside.

The best option short of city sewer is a "packaging plant". This uses the same basic technology as city sewer – a series of vats and rotors that take the sewer water and make it 99.9% pure when it comes out the other end. It resembles a big swimming pool with various chambers. This kind of system, when tested as required by law, is a fairly safe, dependable unit.

The other two options are not nearly so good or scientific. The first is a "lagoon". In this arrangement, the sewage is dumped into a pit in the ground, and microbes are supposed to eat the sewage and keep everything O.K. Lagoons have a track record of being undependable and less than desirable. For one thing, the simple act of having a sewer "pit" on the property is a turn off to tenants – it stinks! The next problem is that Mother Nature does not always behave, and sometimes the lagoon stops working. In that event, you have to build a new lagoon, and remediate the existing one. This can be very expensive, easily in the six digits. And even then, you have no guarantee that the new one will work. Always, make sure the lagoon is licensed and permitted to exist in the first place. I have done

diligence on parks in which the lagoon was illegal and nobody knew it. That would cause your park to immediately close, and trigger an environmental clean-up hazard.

The second option on sewer that is not as good as a packaging plant is “septic”. In this system, the sewage goes into a canister buried in the ground, in which the microbes eat the bad stuff, and the liquids seep into the earth. Again, this kind of thing can go bad. If it does, you have to replace the “leach field” which is the dirt the septic seeps into. This can cost you around \$4,000 per lot! Do some math on that for a 100 space park. Does that really happen? All the time. Just ask the septic company. Also, you sometimes have to pump the tank out, if it gets too full. You will need to budget accordingly.

Anytime the park that you are considering purchasing has private utilities, you will need to enlist the services of a professional that is experienced in evaluating that type of system. Don't just assume that the well or sewer plant is working now and will continue to do so into the future. You need to get an idea of the estimated life, cost of required upgrades, and possible solutions and alternatives in case that utility become unusable.

You will want to set up a time with the current owner, the current plant certified operator (sometimes the owner as well), and an unrelated third party to go over the system in detail. The unrelated third party may be an engineer that understands sewer plants or a representative from a company that installs sewer systems. In this meeting with everyone present you will want to go over the entire sewer system to see how it operates as well as focus on any potential problems and deferred maintenance. Also make sure to have all the licenses and past readings available for your engineer to review. You should set this meeting up for Day 10.

Septic

Talk with the city and current septic company to get feedback on the existing system. Questions to ask are such things as: are the leach fields working properly, are the tanks of adequate size, what are the costs to put in a new tank and/or leach field, as well as what are the charges to pump out a septic, and when was the last time each septic was pumped. Once you get this information, you may also want to call additional septic companies to get their prices, etc.

The problem with septic usually doesn't lie with the tanks themselves but with the leach fields. Once the leach field no longer works, you will need to relocate the leach field to another area. What happens if you buy an older park with small lots on septic and there is no room to replace the leach field? Usually, you will start losing home sites because you will have to move the leach field to the only other available areas and you can't put them underneath the homes. Even if the park is newer this can still be a problem down the road – the leach fields won't last forever! Make sure to keep this in mind when buying a park with septic.

We just finished doing diligence for someone looking to buy a park with septic and after calling the city, he found out that if one of the leach fields ever goes bad he would have to move the leach field and the only place to do so would be by removing a home and putting it there. A 30 space park was going to be a 15 space park at some point. Needless to say, he cancelled the deal.

Lift Stations

Not all city sewer is a bed of roses. Some require "lift stations" to get the sewage from your park to the city main line (if your park is below grade). The main problem here is what happens if the lift station pump breaks down or the lines get clogged up. Basically, your sewage will start backing up. You need to get a price on all available options as a safeguard to make sure that never happens,

including the installation of back-up pumps to cover you if the regular pump breaks down.

If the park has a lift station then this is something you should discuss with your plumbers when setting up the camera job that we talk about later. You will have them check out the lift stations. Most lift stations should have a red light or some other alert that will go off if there is a problem.

Tap Fees

Tap fees can be enforced if the park is not currently on a city water or sewer system but is added on to city services in the future. If this looks like it may be the case, make sure to find out the cost of hooking into the city and any tap fees that you may be required to pay should you decide or be forced to do so. I have seen them anywhere from a couple of hundred dollars per lot up to several thousand dollars per lot. And some times you don't have a choice.

DAY SIX

TO DO LIST

- Talk with Plumbers and get their Reports
- Talk with Electricians and get their Reports
- Talk to Paving Contractors and get their Bids

Hopefully, you will get your bids and reports back today. If not, roll this step to Day Seven and take a day off.

Talk with Plumbers

Once you have talked to all three plumbers, hopefully one will surface as the one that your gut instinct tells you is the straightest shooter. This may be the oldest and most experienced, or one that has past experience with the park. While you want all of the information from all three, you will need to pick your favorite candidate for this next step. And it needs to be someone that you are willing to put a lot of faith in, because if they are wrong they can really mess up your deal.

Your next mission with the plumber is to choose one to run a camera through your sewer line. In this step, a camera on wheels will be inserted in the sewer line, and it will record on video what the condition of the sewer line is. This may seem like overkill, but considering that replacing your sewer system can well exceed \$100,000, and that sewer clogs are going to be the #1 source of repair calls at the park, it's not that crazy an idea. It may cost you \$1,000-\$2,000 but the piece of mind is worth it. If there is a problem, you will have ammunition to get the seller to repair it before you buy the park or else get a discount on the price or an allowance to fix the problems. Either way, it is money well spent.

What you want to do is get the camera work scheduled so that it is done after Day 8 and before Day 16. The reason to schedule it in this manner is that on Day 7 you will have to make some big decisions on whether to move forward and you don't want to be obligated to pay for this work should you decide to drop the deal. You need to have it done in the Day 8 to 16 ranges so that if the results come back badly, you are still able to cancel other expenses such as the Phase I and Survey if you are unable to get the seller to make concessions.

The first time I had a plumber camera the line and give me the VHS tape, I had no idea what I was doing. The tape looks like a wild roller-coaster ride inside a tube. It might be a neat theme park ride, except for the brown stuff everywhere. To be honest, you can't tell a whole lot from the tape except for one really important thing – is the pipe caving in anywhere? In the world of sewer, your worst possible fear is a cave-in. That requires replacement of the section that caved-in, and the cost can be enormous. Often the line is under houses, which requires expensive hand-digging. My theory is that if they can get the camera down the whole system, then I'm probably in pretty good shape. Even a small cave-in will preclude the camera from getting through. The other thing you can tell from the movie is whether you have much standing water in the line. This is a sign that it's not draining properly – maybe the line is at the wrong gradient, or maybe there is what's called a "belly" (low point) in the line.

On sub-master metered gas, you will need to call the state and see if the system is properly licensed and has undergone all of the required testing. The plumbers' input on line condition are important fragments of information, but more important is what the state or whoever licenses sub-master metered gas systems has to say about it. If there is a company of record that is doing the testing, then you need to talk to them immediately. A bad gas system can cost you \$100,000+ to replace, and a fortune to keep in service.

As we discussed on day 5, if the park has a lift station, make sure to have your plumber also check this out while he is out at the park doing the camera job.

Talk with Electricians

On the electricians' reports, you are striving to see if there is an "average" between the reports to give you a fair picture of the cost to get the park's electrical in good working order. Often, they will all come in about the same in cost, and that makes your job easy.

Talk with Paving Companies

The paving company bids will be used to derive an average estimate of the cost to fix the roads in the park. Often, again, they will be very close to each other in cost.

Remember that when you get bids, they have to be in writing. If you work with a contractor on a verbal bid, you are a certified idiot. They will bill you a much greater amount, and you will have no defense in court. Also, remember that you may use these bids as a negotiating tool with the seller, but only if they are in writing. In fact, from a negotiation standpoint, you may be better off letting the bids come in high - it gives you more leverage with the seller. You can always negotiate the bids down later.

DAY SEVEN

TO DO LIST

- Count and Measure the Lots
 - Small Lots
 - Expansion
 - Vacant Lots

- Learning about Problems from Residents
- Park Owned Homes Inspections
 - Installation
 - Removing Abandoned Homes

- Inspect other Structures
- Location, Location, Location
- Make a Decision on the Park Before you Proceed

Today is a very important day. Today you are going to decide if you want to proceed with the park, given the abundance of information you have gathered so far. The reason you have to decide today is that you are about to start spending thousands of dollars on required reports tomorrow, and you don't want to waste the money if you are unsure that you really want to buy this property.

The key bits of data you will need to have evaluated and checked on thus far is the financial information, the information you got by talking with city hall, and the infrastructure review and estimates by the plumber, electrician, and paving companies.

Count and Measure the Lots on your Walkthrough

If you can, go back to the park and count the lots and measure the lot sizes. Walk it and see if you are still, seven days later, excited about owning it and feel positive about its prospects.

I can't emphasize enough how important the walkthrough is before committing an abundance of funds to the various reports the park will need. That walkthrough has the ability to uncover a lot of the potential pitfalls and seller fraud that you may have earlier missed.

First, you have to have the right technique for the walk. Your walk must include both the front and back of the homes to be effective. Why? The front gives you an idea of what the aesthetic problems, road problems, rules problems, parking pad problems, and possible abandoned homes are. But that essential rear walk shows you some additional very vital information (remember that almost all utility lines are at the rear of the homes) including water leaks, sewer leaks, electrical panel/pole errors, junk in yards, dog problems, electricity that has been disconnected (shows vacant homes), and other important data.

The second key ingredient is to have a map of the park (hand-drawn if necessary) in which you are going to count the lots on the map. Mark down any lot that is missing utility connections of any type – it may not be a usable lot.

The final key is to take your time and go really slowly. Your natural instinct is to go quickly due to fear of tenants, dogs, etc. Take along a friend, if you want to, to reduce this anxiety.

About Small Lots

Many mobile home parks built prior to the late 1980s and early 1990s may have lots that are too small to fit modern homes. They can be too small in both width and length. Remember that in 1950, the average mobile home lot was only about 20' x 50'. Today, you would need a lot twice that large just to fit under the home, not counting the necessary distance between homes. So how do you approach small lots?

The first question is just how small are the lots? To handle a modern 18' x 80' mobile home, the lot would need to be (not counting some cities' extreme setback rules) 40' wide by 100' deep. Measure your lot width and depth, making sure to not count any non-usable area at the back of the lot, such as under a power easement, and see what size home can be contained on that lot, including the required distance between homes both from side-to-side and rear-to-rear (normally about 10'). The side-to-side and rear-to-rear distance is often determined by the Fire Marshall for that town or city. Now think about what size home will fit on that lot.

Some really old parks were designed for 8' to 12' wide homes. Clearly, you will not be able to find many homes today, if any, that will fit those lots. In fact, the width of lots is often a bigger problem than the length. If the lot is designed for an 8' width, then you will have to combine two lots together to equal one new, usable lot.

The same is true on length. While there still are new homes made as short as 36' in length, the average is probably 72'. So you may have to give up two lots to make one new, usable one (be sure that you can combine two lots end-to-end – that there is not an easement that precludes it). That's not to say that any lot less than 80' deep is unusable. In many markets, there are still plenty of new and used homes that are only 56' to 66' in length – some even shorter. But you have

to plan for the worst case scenario, and that is going to be giving up some of your lots to arrange new homes into the park.

Now, there are some parks with extremely high density (mostly in urban areas) that just don't work with homes bigger than 14' x 56' or so. Can you buy these types of parks? Yes. But you have to plan on bringing in the homes yourself to cover any vacancy, since these smaller homes just aren't sold in enough numbers to ever translate into a rented new lot for you. You would have to prowl around used mobile home lots to find such sizes, and then bring them in, renovate them, and either sell or rent them.

The worst thing you can possibly do is to base your budgets on a lot count that is not supportable or realistic due to lot size. We have seen many a 150 space park that really only have 100 usable lots. Don't get trapped with non-usable lots you've budgeted for revenue.

Expansion of an Existing Park

You need to always be skeptical when someone tells you that a park "can be expanded". That comment is meaningless. "Can be" guarantees nothing. The only guarantee of being able to expand a park is to have a permit already in hand, with no expiration, to do so. Anything else is just conjecture and, normally, is incorrect.

One of the strengths of the mobile home park business is the short supply due to cities no longer allowing parks to be built. This same strength would imply that cities are not very excited about more mobile home lots being added – either a new park or an existing park expansion. You will definitely find a cold reception to your expansion plan at city hall, regardless of what the seller told you.

I bought a park that had a 35 lot, pre-approved expansion, with permit in hand and no expiration date. This is an extremely rare occurrence – I've never seen one since. Without that kind of guarantee, expansion area is basically just raw land, and should be treated as such on your budget.

Can you expand a park? Sure, with the proper approvals from planning and zoning and city hall. But will they give you those approvals? Probably not (about 20% chance they will). Can you put any value on such a low percentage concept? Nope. Tell the seller you'll be happy to give him consideration for those expansion lots, assuming you want them, once he has the permit in hand. You'll never hear from him again on this issue.

One more consideration: just because you have other lots on the ground does not mean that expanding your park is going to be cheap. It costs about \$7,000 per pad for the barebones utilities and parking pad. But that does not include such macro issues as where to get the water and sewer from. If you have a packaging plant or lagoon, you may not be able to legally expand the capacity. And water wells are not infinite.

How to Value the Vacant Lots

This is an easy topic. The value of a vacant lot is –0–. Actually, it's worse than zero, since it costs money to insure, mow and repair. Don't let a seller convince you otherwise – vacant lots are worthless. Until the market turns and new mobile homes are pouring into parks everywhere, will you ever need that vacant lot? Of course, if you plan to bring in homes yourself and sell or rent them, then it may have some near-term value. But otherwise, you can't put value on what, basically, is green space. And don't forget that vacant lots seldom are ready to go utility wise. They can be missing some of the essentials, or you may find that the sewer line has collapsed or won't flow.

There are some people out there who recommend that you value vacant lots at ½ of the value of fully occupied lots. Taking that advice today on parks with large vacancy rates will cause you to have a negative cash flow in most cases and you will lose money in the short term. There are exceptions, but they are few. I know of many parks out there that you can buy for 25% of the original cost of building the park and they are still overpriced due to the vacancies.

Another point: don't let the seller tell you that you "can easily fill those lots with better marketing". Dave and I have been marketing like crazy guys since 2000 and haven't filled many lots. The dealer network is dead – there are so few mobile homes sold today, it doesn't matter how good your marketing is. If the seller is so convinced that the vacant lots are all that valuable, then master lease them back to him upon closing at a low rate. He won't ever bring it up again.

In some rare cases today, vacant lots do have value even though they are vacant. From time to time you have sellers that are lazy and don't return phone calls to prospective residents, or you have sellers that are only allowing brand new homes into the park. If the market is really hot and by relaxing the age limitation or returning phone calls the lots could actually be rented to those bringing in their home, then the lots do have value. In this case, the value of the vacant lot may be 25-50% of the value of an occupied lot.

The best way to test out this theory is in your test advertisements. If the phone rings with people anxious to rent a lot, then you are in one of those unusual markets.

Learning the Problems from the Residents

One of the best sources of information on the park and its hidden secrets is free and plentiful. That's talking with the existing tenants about what the problems in the park are. Often their views are goofy and off-base, but more often than not

they are pretty accurate. There is a right way, however, and a wrong way to gather this intelligence.

The right way is to stop someone in the park as you are driving through, and tell them that you are looking for a mobile home space for you or a relative (mother, brother, etc.) and what do they think of the park. They will then tell you everything wrong they can think of, including low water pressure, sewer backups, drainage problems, crime, etc. The next time you drive through, ask somebody else. Repeat as much as you can. You will probably see some overlaps in their stories, and that's where the real meat is.

As long as they think you are a fellow customer, they will not tell anybody. The wrong way is to tell someone in the park that you are looking at buying the park, and what do they think. The minute you drive on, they will tell all their neighbors, and in turn the tenants will tell the owner what you did. This may get you in a lot of trouble with the seller. And an angry seller is not a good prospect for price negotiation or contract extensions.

Another mistake is to ask the manager. They will tell you everything the seller told them to – and it will not always be accurate. Sometimes they will tell you what they think you want to hear in hopes of keeping their job or as an excuse of why they are not doing a good job. Plus they will immediately bad mouth you to the seller and try to convince them that you are a loser (since they worry that if the park sells they will lose their job).

Park Owned Homes Inspections

Just as you focused on the utilities, now you will have to put the same amount of scrutiny on the park-owned homes and ancillary structures (buildings, houses, sheds, etc) if they are a significant part of the purchase.

The first step is to call the state you are located in and find out the laws on minimum habitability. These laws tell you what the minimum standards legally are for renting or selling mobile homes in your area. They may include such things as holes in floors, holes in roofs, etc.

Armed with this list, make a grid for each park-owned home and see what is wrong with them. Home #1 might be missing an air conditioner and has rot on its exterior walls. Home #2 might have a leaking roof and a bathtub that has fallen through the floor. List every problem out in painstaking detail.

Now you need to call some mobile home repairmen to give you an estimate for putting each home back in decent repair. To find such repairmen, you might Google “mobile home repair (town)”. Or you may need to call some mobile home dealers and see if they have any referrals or go through the list of repair companies on MobileHomeParkStore.com. If you can, get several bids from different contractors. The goal here is to see what the rough cost of putting these homes back into service will be. Any capital spent on restoring these park-owned homes will have to be counted towards your total purchase price, and the return levels you had planned on will have to be appropriately punished. In addition, do you have the capital to make these repairs?

We are hoping that, as we have said in every book and cd recording we have ever done, you have only counted the lot rent portion of the income in deriving the value of the park and your purchase price plus a reasonable value for the homes not based on income but on some percentage of market value. If that is true, then the condition of the park-owned homes will be survivable. However, if you have put a great deal of value on the park-owned homes, and they are in fact junk, then you may want to cancel the deal right now, in which case you’ll need to call off the Phase I and Survey.

Inspecting and cataloging the condition of park-owned homes is one of the most important steps in your diligence. Almost every problem with a park-owned home is going to cost you at least \$1,000. If you have 20 park-owned homes that come with your park, then it is not unusual to have \$100,000+ in repair costs to figure out – that’s sometimes more than your down payment on the whole park! Put an incredible amount of effort and scrutiny on this item. I have seen problems whereby park-owned homes completely sink park deals while they suck the new owner’s capital dry, and still are not usable.

These are some of the things I have found inside my “pretty” park-owned homes (that’s why you absolutely have to check out each home on the inside):

- Every interior wall demolished, with sawdust on the floor and the ceiling mirrored.
- The entire kitchen and/or bathroom missing (homeowner started a home-improvement project and then ran off once he had demolished everything).
- Floors that are nothing but rafters with the carpet actually holding up the furniture like a sling.
- Every wall, ceiling and floor painted black (offers good resale to gothic couples).
- A bathtub filled with snakes (coming in from a hole in the floor and kept moist from a hole in the ceiling)
- Carpet and pad that is filled with 100 gallons of dog urine (you might want to buy a gas mask).

Since even your best looking park-owned homes (from the exterior) can be total wrecks requiring \$5,000 to \$10,000 of capital to put them back into usable condition, it is obviously critical that you know your park-owned homes as well (or better) than the park.

How to Make Sure Park Owned Homes are Properly Installed

Just about anyone can see the homes in the park that are clearly not installed to code. The easy ones include:

- Insufficient number of cinderblocks holding the home up (the correct number of cinderblock “piers” varies by wind zone and height above ground, but I promise that only two per side is too few).
- The home is not tied down. The rules require that the home be tied with metal straps to the ground. No straps = not tied down.
- Way too far off the ground at one end. The rules allow a maximum of about seven feet – not fifteen.

Now, you can't easily see these problems if the home is properly skirted. And realistically, you are not going to take the skirting off to inspect every home. In fact, why should you – they are not your homes anyway. However, for potential liability issues, you may want to take a sampling of the homes in the park. In either case, make sure to check all of the park-owned homes.

On a park with a very large number of homes owned by the park, we would definitely hire a licensed mobile home installer to see if all of the park-owned homes are installed correctly. If one of the homes falls over, you are responsible. While you are at it, you might have him give you a cost to fix those that are wrong, as well as to level probably all of them. You have to level a mobile home

periodically, yet most owners never do it again after the day they're installed. Without leveling, the doors don't work and the windows won't open and shut, among other problems.

As long as we are talking about prowling under homes, go ahead and have the guy see if the utility connections are correct under the home; i.e. the water, sewer and gas lines. Again, I would only worry about your houses.

Removing Abandoned Homes

Upon driving around the park, you may see some homes that appear abandoned. This requires further research, and not just due to the effect on the rent roll and income. Removing abandoned homes is a lot trickier than you think.

When a home is abandoned, it falls into one of four different columns:

- 1) Good condition and with a lien on it.
- 2) Good condition with no lien on it.
- 3) Poor condition with a lien on it.
- 4) Poor condition with no lien on it.

A home that is in good condition and has a lien on it can be immediately solved by filing a Possessory Lien with the lien holder. In this process, the lien holder must remove the home within 15 days or start paying the normal rent. Since this is a home that the lender does not want to lose, they will immediately get the rent payments coming in. Similarly, even poor condition homes can be solved by notifying the lien holder that it is now under a possessory lien. Even though it is of negligible value, the lien holder may decide to come pick it up and take it to an auction yard – at least, then, it's out of your park. A good home with no lien will require you to explore the abandonment laws in the area that you are in. In many

areas, you can take possession of the abandoned home through an auction if you file the correct forms and wait the required periods.

However, before you start sending the lien holder rent statements and late notices and ordering them to get the home out of there, you have to realize that once it is gone, you will have a vacant lot. The better approach is to work with the lien holder by either allowing him to sell it in your park and giving him free or discounted rent while he does so (as long as the home stays in the park) or else consider buying it from the lien holder. After all, the day that home leaves you just lost equity in the park that may take months or years to recover while you wait for a replacement home.

The difficult home is the poor condition home with no lien. This is a home that everyone has forgotten and there is normally a reason for this. The home is a junker – it is of no value as a housing unit. This brings up the difficult task of hauling it to the trash (make sure you have complied with all abandonment statutes). Trashing a mobile home is expensive. To haul the home to the dump may cost you \$2,000 or more in transport and dump fees. Not to mention sometimes these homes will have back taxes that must be paid before the home can be moved. And that is assuming that it is in a condition that can be moved. If not, you will have to have it torn down on location, and put in a dumpster. That may cost you \$3,000 after dumpster fees.

I had a home in one of my parks in Texas that was a junker. It had been damaged in a storm and had been sitting in the park abandoned for about 3 years. I could not get a permit to move the home from the state because it had back taxes. I did not want to pay these taxes because they were over \$4,000 and the home was in someone else's name. To pay the taxes and have it moved out by a transporter would have cost me over \$6,000. I ended up paying a couple of guys to tear it down and put it in dumpsters. This cost about \$2,000 and was easier to swallow than the alternative.

Mobile homes are one of the few assets in the world that not only have no value in poor condition, but have negative value, since you have to have them destroyed. Even a non-running, rusted Pinto brings \$50 at a scrap yard!

Inspect other Structures

You now need to put a similar microscope on the other ancillary structures at the park. Every clubhouse and mailbox and laundry room will need to be analyzed for current condition and necessary repairs. These repairs are going to be capital you contribute, and you must work this number into your budget for the park. Don't pretend that it is an off-balance sheet item – there should be no Enron here. Don't kid yourself. You are trying to do proper due diligence here, not fiction writing. We rarely see ancillary structure repairs tank a deal – but yours might be the first! Just like with the park-owned homes, you need to make a list of every possible problem, and then get bids on fixing these problems.

Many buyers do not put any effort into inspecting the structures that come with the park, such as the laundry building or mailbox building. These structures, however, could cost you thousands in repairs if they have termite damage, or a failing roof. Use the same type of inspection you would on your house. It is not that expensive (normally a residential inspector will cut you a deal), and you can use any problems as ammunition to request a further discount from your seller (blame it on the bank).

For example, cluster mail box units approved by the postal service cost about \$1,500 for 16 units and when you have to buy 10 of these units in a 160 space park, the cost needs to be budgeted for.

Location, Location, Location – Are you Paying Attention?

The ideal mobile home park location is with frontage on a major road in the nicest part of town and next to a high-rise office building. But you are going to have to widen your parameters a little if you want to buy a mobile home park. That being said, there are some location problems that are too great to overcome. These include:

- ❖ A very noisy location. If the subject mobile home park is next to a train track, or an airport, or a manufacturing plant that makes a lot of noise, or a busy freeway, then you may be buying into a hopeless situation. A lot of continual noise is a turn-off to almost every home owner. And most importantly, these kinds of problems cannot be solved. You can't stop the railroad noise by planting a hedge. If you see a half-empty park adjacent to the airport runway, there is probably a reason for the vacancy – and you will fare no better than the seller.

- ❖ A very dangerous, unsightly location. Parks in the ghetto seldom make money. Even if you can fill them, nobody will want to finance or buy them. Mobile home occupants, as goofy as some may be, still prefer not to live in a danger zone. And those that don't care probably don't care about paying the rent or abiding by the rules, either. No matter how low they price a "ghetto" park, it should be avoided. Not only might you get killed running it, you will not make any money with it.

- ❖ A hard-to-find location. Many upscale luxury home buyers prefer home sites that require a GPS system to locate. This is not true of mobile home tenants. They like a location that is easy to find on a major road. This becomes most clear when you try to rent them a lot, or rent or sell them a mobile home. They cannot find remote locations, and they will just move on to the next prospect. If the park location requires long, detailed directions, then think twice about that park – especially if it's got a lot of vacancies. I once bought a park in a remote location, and it was my all-

time most unsuccessful park. Sure, I thought it had great drive up and a classy location, but nobody could find it, and I couldn't give away lots or houses.

So what does work? Locations that are near schools, shopping and public transportation seem to be continual winners. A park in a blue-collar part of town, next to the grade school, is always a winner. Tenants like to have all their needs close by, even if it requires a little less aesthetic atmosphere. One of my all time best parks was on a flat, tree-less plain, but next to a Wal-Mart. Don't use your own aesthetic sensibilities in choosing locations – you don't live in a mobile home!

Never even consider a location that you, yourself, would be afraid to get out of the car and walk around in. I was once offered a park at a bargain price – and there was a reason. It was on a major corner in a terrible area of town. I pulled into it and, as I did, an army of gang members poured out into the street. Maybe they wanted to sell me drugs or something. I immediately threw the car in reverse and backed out into the street, rather than even drive through the park to the regular exit. Would I buy that park? No. Would I take it for free? No, unless I could flip it before I physically took possession of it. I have a general theory on life that nobody ever got rich getting killed (although their heirs could if they carried enough life insurance). If a park is too dangerous to walk around in, how are you ever going to be able to operate it? How can you look for leaks, or see if a lot is ready for a move-in? I know that there are some people who actually receive an adrenalin rush from slum lording – but other than being a thrill factory, it's a lousy business decision.

Make a Decision on Park before Proceeding!

At this point, you have gathered most of the data you need to make an informed decision. You know what the prevailing mobile home park lot rents are and what

they include. You know the apartment rents, and what the houses cost. You know how the utilities are made, and what condition they are in. You know if the gas system is licensed and tested. You know if the power system is up to the job. You know if there is a permit for the park, and if new parks can be built. You know how many lots there are and how big the vacant ones are. You know how much it will cost to fix the roads. And most of all, you have an accurate idea of how much income the park can produce.

When you make a decision on the park at this point, you should not ask yourself “do you want to buy this park or not?”, but instead “do you want to buy this park still, given the information so far?” Never make a permanent commitment to buying the park. You need to remain flexible at all times, willing to drop the deal in a split second if something appears wrong. That includes up to, and including, the closing day. Would I walk a deal on the day of closing if they announced the big army base in town was closing (assuming it’s the biggest employer in the town)? You bet I would. I would rather lose the earnest money and all that time than lose my entire investment. Remember that nobody ever got rich struggling to get their money back.

If, after weighing all this information, you are no longer excited about the park, then drop it and don’t waste any more time or money. If you are excited but at a different price than what you have it under contract for, then cancel the deal unless the seller agrees to your price.

If you are still excited at the price you have it under contract for, then you are about to have to risk some significant money.

DAY EIGHT

TO DO LIST

- Take Permit Information to an Attorney
- Give Plumber Go Ahead on Camera
- Order the Phase I
- Order the Survey
- Contact a Loan Broker or a Bank for Initial Feedback
- Place an Ad in the Paper

Now that you have decided that you want to pursue buying this mobile home park, it is time to start spending some money on your research. Sure, you had some other incidentals, but that will pale in comparison to what you are about to do to yourself. Again, if you are not 100% convinced that you want to go forward with buying this park, then by all means quit while you're ahead and terminate the deal and get your earnest money back. None of these cost items are refundable – if you decide later not to go forward, you flat out lost your money.

If you are still unsure about some things like the camera job to be completed by the plumber, the upcoming meetings with specialists on the private utilities, or anything else, you should hold off ordering these items until you are comfortable. At the very least, you can place the order for these items with the understanding that they schedule you in, so they are completed in a timely fashion during your diligence period. If you need to cancel by a certain date, before they start the work, specify that you are not obligated to move forward and pay for the services.

Take Permit to an Attorney

Start the morning by taking the permit information you got from the city to a competent attorney and get his opinion as to the legality/viability of the park. The attorney should know a lot more case law and potential problems than you do. If he wants to follow up with a call to the city, let him. This whole legality thing cannot be glossed over.

Before you take the park permit to an attorney, make sure that the guy has a good knowledge of real estate law. Your regular family estate lawyer is not going to know enough to let you know that it is valid. And he may rack up huge “research” bills while he tries to learn the laws. No matter how nice or accessible an attorney is, if he does not have an acting knowledge of real estate law, then he may mess your deal up. It is also advisable to have an attorney familiar with the local goings-on in that city, county, and state do this work for you.

Give Plumber Go Ahead to Do Camera Job

On Day 6, we discussed the camera job to be done by the Plumber. This is just a reminder to give the plumber the go ahead and to stay on top of him until the work is done. You want this complete by Day 11.

Order Phase I Environmental Survey

The first item you have to order today is the Phase I Environmental. Without this completed document, there is no way that you can buy the park. A Phase I will bring to the surface any potential environmental problems that you as the new owner will be responsible for cleaning up. The cost of clean up can run in the 7 figures on some properties. You cannot get a Phase I overnight, so you have to order it today to get it back before your diligence period is over. Go on Google and type in “Phase I Environmental (your town)”. You can also look in your yellow

pages or a yellow page internet site for “Environmental Engineers”. Once you have a list of possible vendors, its time to call each and every one of them with the following script: “I’m buying a mobile home park in “town”, and I need to know if you do Phase I reports for mobile home parks and, if so, what they cost and how long it would take to complete.” Be sure to ask both the cost and the estimated completion date, because at this point you have less than three weeks.

Phase I Environmental Surveys are, assuming it is performed by a licensed engineer, a commodity. They are like a Honda. If you know what Honda you want, you should only seek the lowest price. I always take the low bidder for the Phase I. Don’t be too impressed with nicer stationary or a bigger ad, because it doesn’t matter anyway. A clean Phase I is a clean Phase I – you file it away never to be seen again. Save your money for park investments that actually produce income.

Once you have a table of vendors with costs and dates, look for the cheapest one that can make your deadline. That’s your man. In the world of Phase I, the price is extremely variable, based on how badly the company needs money. I’ve seen 300% swings between low bidder and high bidder. Remember that there is no equipment involved, it’s just labor, so the bid is completely at the whim of the engineer. The key is to make sure that they are licensed. If a licensed environmental engineer can do the Phase I for \$1,500, why would go with the guy who bid \$3,000? Do you care if the report is thicker and has prettier photos? In the end, all we’re looking for is that the property is clean. That one summary is all that matters. Be sure to give them an artificial deadline about a week before your real deadline, because you want to make sure you have the report with time to spare.

Order the Survey

Now it is time to do the same exercise on the survey so you can locate the boundaries and see the layout of structures in relation to these boundaries. At a minimum you need the boundary survey. Survey's can get more detailed and show each lot and improvement as well.

Your first call, however, should be to whoever did the last survey, if the seller has a copy of the old survey. The cheapest way to get a new survey is to hire the last surveyor and ask for an update. However, if the last survey was a boundary survey only, you probably want something that at least has the roads and improvements on it, so you can tangibly see what you're buying. Again, give them a deadline at least a week before the real deadline. And always go for the cheapest – a survey is a survey, as long as the surveyor is legal and registered.

Surveyors are notorious for missing deadlines. When you are talking to surveyors, ask them when they can promise to have it done by. If they are non-committal and say "as soon as I can" then don't use that guy. The winning surveyor should give you an exact date, and commit to it several times. And be sure that you set the date a week before it's really due. At least then, you might have a prayer of making your deadline.

Contact Lenders (if not Seller Financed)

Now that you are seriously thinking of buying this park, it is time to get the lenders' perspective on the deal. You will need to prepare a loan package if you want to talk with your local hometown banker. A better bet is to contact a loan broker and have them give you an immediate idea of what types of loans are available for that property and on what terms. If you find out that the property cannot be financed conventionally due to lack of occupancy or too many park-owned homes, then before you order either of the two reports discussed above,

you need to get with the seller and tell him that you can't get a loan and see if he'll carry paper. If he says no, then terminate the deal now and don't waste money on the reports. If you can't get a loan, you can't get a loan. Don't continue down the path praying that something will go your way by some miracle.

If a loan looks possible (you are not looking for a loan confirmation at this point, just a warm, fuzzy feeling), then go ahead and order the reports. Just make sure that you are not dealing with a loan broker or company that gives you the warm fuzzy feeling and then collects \$10,000 from you and then never calls you back. I have been down that road and it stings.

Using a loan broker is a thousand times better than going directly yourself to a few banks. Why? Because a broker knows those banks that specialize in making mobile home park loans, so you don't waste any time. Further, the broker can give you an immediate opinion on what financing is available for your park, whereas a single banker won't know himself if the bank will make the loan until it goes to the loan committee. Finally, in this troubled market, you need to have a real-time feel for the market. A loan broker is normally working several deals at one time, so he is completely current on the going rate for down payments, interest rates, etc. The single bank probably hasn't made a mobile home park loan proposal to the loan committee in three years.

Place a Test Ad

While you are lining up those reports, its time to spend some more money on running an ad in the "mobile homes for rent" and "mobile homes for sale" section of the local paper. Insert an ad that says "2-3 bedroom mobile home in (town). \$495 per month. Call (your number)." This ad is going to demonstrate the demand for mobile home housing in this market. This will tell you how strong the market is, as well as the demand for "mobile home rentals or lease/options variations", which may be the only type of homes you bring in during these

recessionary times. An ad like this, in a decent market, should bring a couple calls a day. When the people call, tell them you've already rented/sold it. Buy the ad for ten days, starting Friday and running through the following Sunday. Be sure not to miss the deadline for insertion.

If you didn't listen to our advice for valuing vacant lots at ZERO, and think you can fill them up by better advertising, then also run an ad under "mobile home lots for rent". If you get a bunch of calls from those looking for a lot to rent, then we were wrong. If you don't, then this is a confirmation that the vacant lots are not worth much in today's market.

When you place an ad in the paper, it has to be the largest paper in town. Not a Greensheet, Thrifty Nickel, Pennysaver, or any free little paper you can pick up at the grocery store. Based on our experience, these just don't work as well. I've advertised in all of these little papers and received more business from five minutes in a real paper. Why? Maybe it's because there are too many mobile home ads in these types of papers. Or maybe the real circulation is only a fraction of how many they print and stick in stores. All I know is that, to do a real test, it has to be in the best newspaper for that market. Sure, they cost a lot more, but you are getting what you pay for.

That's all for today.

DAY NINE

TO DO LIST

- Drop through the Park at Night

Drive Through at Night

Assuming that you live near the park in question, it is time to drive through the park again. If you have to fly in, do this drive on your final visit to the park before your diligence period runs out.

The idea of driving through the park at night (about 10 pm) is to get an idea of how many people are living there and if there may be a problem with abandoned homes and such. At 10 pm most people will be home and getting ready for bed and their cars will be parked out front. Most of the cars will now be put up for the night and you may see issues with excess vehicles and lack of parking. If you only visit the park during the day, most people should be at work.

Another drive through that you want to make, if possible, is on a Friday or Saturday night. The plan is to go to the park late (about 10 pm) on a weekend night if possible. That's when the park goes wild – if it goes wild at all. Some parks are quiet, dark places on a Saturday night, and others become one part Saturday Night Wrestling and one part COPS. This drive through will give you the best idea yet of what your client base is like when they let their hair down and let it all hang out. The rest of the week, they may be on their regular shift at the factory and can't get drunk because they'll miss work. But on Saturday, they go crazy.

As you are slowly driving through, keep a small tape recorder at the ready (about \$20 at Office Depot) and record any house numbers that appear unoccupied. It is

not uncommon for the seller to “cook” the rent roll to appear more occupied than things really are. If there is no sign of life on a Saturday night, then you may want to get suspicious. Mobile home park residents don’t demur from the spotlight. If the home was occupied you’d see the lights on, a car out in front, and maybe a guy standing on the deck holding a beer. Call your seller immediately and call him on the carpet for the units you suspect of being vacant. Make him prove to you that they are not – you might even request letters of estoppel on those units. These estoppel letters are a piece of paper signed by each resident showing the lot rent, lease term, security deposit, and any other important terms of the residency.

When you visit the park on a Saturday night, be sure to go without your family, since they will think you’re nuts to invest in such a zoo. A mobile home park on a Saturday night brings out the worst stereotypes in all your tenants – it’s a slice of life that you probably have no idea exists (and are glad you don’t). On Saturday night all those (hopefully) hard-working tenants let it all hang out. And that means booze. Lots of booze. And while they’re all drunk, why not have a fight or two to celebrate the occasion? I have seen many things on these Saturday night drives. Groups of drunken workmen leaning off porch railings, bottles in hand. Even a goat was being flame-roasted on an open pit. And the traffic on your park roads, if there is any, will be going 1 mph to wave at all their friends, and to reduce the risk of a DUI collision. Bring a hand-operated tape recorder to take notes, especially on which homes appear abandoned.

Street Lights

While you are doing your drive-through of the park it is a good idea to look for the existence of street lights. Street lights are frequently missed in diligence, as they can only be checked at night, and most buyers only come by during the day. There is no way to check the street lights (also called “security lights” by some people) without good old fashioned driving around when it’s dark.

The good news is that they are probably the cheapest thing to fix in the park. You call the power company and they replace the bulb for either no charge or a nominal charge – so if you miss some items in diligence, this is the one to miss.

Don't think that you can cheat and tell if they are working from the power bill. With street lights, you get billed the same amount whether they are working or not.

In some cases the power company will not be the owner of the street lights and these will be your responsibility. You can easily verify this by calling the power company and finding out the procedures for replacing a light bulb. If they do it great, if not, you will be responsible.

As far as needing additional lights, again, the only way to tell is to drive around at dark. The goal is to have some ambient light throughout the park, but not too bright. You will get a lot of tenant complaints if there is a lot of light shining in their windows.

DAY TEN

TO DO LIST

- Meetings with Professionals and Evaluation of Private Utilities

Meetings with Professionals and Evaluation of Private Utilities

These meetings and evaluations will either make or break the deal in most cases. If the meetings go well and the private utility systems (septic, sewer plant, lagoon, lift station, and wells) seem to be functioning correctly then this will be a big relief. If the systems are not functioning correctly or will need to be upgraded soon, then you need to get cost estimates for each of these upgrades as well as a timeline for them. You will be using this information when you go back to the seller to renegotiate. Get everything in writing so you can show the seller.

If there seems to be a major problem, renegotiate the deal now or cancel the deal. If you have to drop the deal, this should allow you to cancel some of the other work upcoming (phase 1, survey, and appraisal).

DAY ELEVEN

TO DO LIST

- Talk to the Plumber on the Results of the Camera Job

Review Camera Results from Plumber

Be sure and look at the plumber's video of the sewer line. You won't understand much of what you see, but it will ensure that the plumber actually filmed the line. A lot of people ask the plumber what they found, but never actually see the footage. If you don't see the film, how do you know that the plumber actually did it? It's nasty work – maybe the plumber only filmed a portion of the line and quit. You paid for the film – you should get it for your file. After reviewing the video and getting the plumber's thoughts, you will have to decide whether the current lines seem to be adequate and if not, what the costs will be in the future to repair the bad areas or upgrade the entire system.

If you had the plumber check out a lift station, review his findings today as well.

DAY TWELVE

TO DO LIST

- Follow up on Reports Coming Back in: Structures & Park-Owned Home Bids

Park Owned Home Bids

By now you should have started to receive the bids on repairing the park-owned homes and the ancillary structures. So it's time to see what they say.

Let's start with the ancillary structures. These repairs are mandatory – you have to keep these structures in good repair as they are used 24/7 by the park and residents. They include clubhouses, offices, mailboxes and mailbox shelters, swimming pools, and laundry rooms. They might also include frame houses or apartments that come with the park. You can't really abandon these items – an abandoned structure is a huge liability and makes the park look bad and may harbor vagrants.

Can your budget survive these numbers? Hopefully, they are not that large. Remember that this is a mobile home park, not Neiman Marcus, and you don't have to make any of these items top-notch. If the roof can be patched, but it won't look as good, patch it anyway – nobody is going to complain. We rarely see a park budget destroyed by these items. If the lender does not require it, and it is not required by ordinance, the one park structure you might just demolish is a swimming pool. If the bid to get that fixed comes in high, you might just consider closing it down. Few people in the park use it anyway, and it costs a ton of money to keep up to code, including sweeping, covering, chlorinating, etc.

You need to give as much scrutiny to the park-owned home repair bids as you do the Phase I Environmental – either one could bankrupt you if you don't pay attention. And don't think that you have a cheap quick-fix to get around the real cost of repairs. You are not going to eliminate a fist-sized hole in a roof with a coat of sealant, or fix a rotted exterior wall by painting over it. Most of these repair costs will seem really high because they are really high – fixing mobile homes is not cheap. And don't think you can do it all yourself. Even if you quit your day job (which we wouldn't recommend), it will take you about a month per house to fix by yourself – and that will take you years to get the park in good shape. Don't argue with the facts. If the home repair costs exceed the value of the park, or your capital, then bail on it immediately. As the Army says "hope is not a method".

For the apartments and houses, it is worthwhile to see if the city will allow you to subdivide and sell those off. If they are on the periphery of the park, this is not that hard to accomplish. You'll still have to make the repairs – but only once. Then you can sell them off and pay down debt.

The big problem to address is those darned park-owned homes. Those bids may blow your mind – and they are probably too low even then. Once you have looked at the bids and have come up with an intelligent average per home, it is time to put on your best strategy hat to decide what to do. If you keep the homes as rentals, you will be pouring money into them all the time. You can pretend that it is capital expense, but it is really just an ongoing, endless repair and maintenance nightmare.

Also remember that if you abandon and leave vacant the park-owned homes, then you will have no lot rent coming in from those lots, and your budget is sunk. You have to do something with them, like it or not. So you are going to have to put some money in them no matter what you do.

What's the most I ever put in to an old, used park-owned home? Probably \$15,000. How could I be such a dunce? Here's how it happens. You do some basic cosmetic repair and spend \$5,000. Then suddenly comes some huge problem you were unaware of, like the siding is all rotted, or the electrical is shot, and you have to put in \$5,000 more, or trash the home and lose the \$5,000 you already put in. Then you rent the house, and three months later, the guy runs off and steals everything in the house and breaks what he doesn't steal. It costs you \$5,000 more to get the house back in shape, or you will lose the \$10,000 you already put in. This kind of scenario happens all the time. If someone told you on the front end the cost of restoring that 1978 flat roof was \$15,000, you'd cart it off to the dump. But normally it doesn't happen that way – it creeps up on you as you desperately try not to lose your investment. That is what makes park-owned homes so scary.

We recommend that you fix them up just enough to get them sold, and then sell them and get cash or carry paper. In this manner, you only have to pour money into them one time, and you get your lot rent started or continued. Plus, another benefit to selling them is that you will get rid of them as “park-owned” homes on your rent roll, instead substituting the name of the buyer for the park name. Remember that you will have great difficulty getting loans and buyers down the road if you have park-owned homes on your rent roll.

So, how much money should you pour into them? Better yet, the question should be “how little can you get away with”? If you did your homework, you know what the minimum habitability standards are for your state and/or city. By law, you must bring the homes up to this standard (and nothing more). So forget any big expense items above this fairly low threshold. It will be up to the buyer to gild the lily.

One area that you are probably going to want to be a little fanatical about is the outside appearance of the home. You will never again see the inside once the

home is sold – but you will forever see the outside; and so will your banker, customers and future buyers. Make sure that any home you sell has decent skirting and a decent paint job in an attractive color (bright purple isn't it). You don't want to be a slumlord, but remember that a slumlord by definition rents ugly property. You are going to be selling it – and cheap. And your goal is to sell it cheap enough that the buyer will make the necessary upgrades and be happy with the purchase.

So now add up what the least amount of money you can spend on the park-owned homes is to get them in service. Can your budget handle this? And do you have the cash to pay for this? Remember that you will have to carry paper on most of these homes, and the default rate can be pretty high. Don't expect a lot of income from the homes to carry the cost of renovations of others.

If you can't afford to make these repairs, then the deal is dead. You can call the seller and see if he will be willing to loan you the money to make the repairs (an odd idea, but possible). But even then, it all has to tie back to a certain return on investment, and if the cost of fixing the homes brings your return level down to a low number, then you'd better punt the deal. In that event, call the Phase I engineer and surveyor and try to shut the whole process down ASAP.

DAY THIRTEEN

TO DO LIST

- Check with Loan Broker or Bank

Check with Loan Broker or Bank

Your loan broker or bank should have had enough time by now to have given you a rough idea on the financing options. It's been five days since you last talked to them. Surely in five days they can have a rational plan or feedback. If not, we'd start to get worried. Remember that you have a 30 to 60 day (hopefully) financing period at the end of the due diligence period, so you are not asking for anything more at this point than a ballpark idea. But if they can't formulate a ballpark idea in five days, then that means:

- ❖ they really have no interest
- ❖ they are really slow and may not even make the 30 to 60 day window
- ❖ they are not very familiar with the collateral
- ❖ they have more important deals than yours, and you are at the bottom of the stack.

Any one of these options is not good. Normally (not to make it too painfully obvious what we suggest) the loan broker will already have three banks that can make the loan on certain terms, or a negative "I can't get this deal done, sorry". That's why you can't beat a loan broker. However, your personal bank may need forever just to give you a rough idea – and that's going to really mess you up when its deadline day to cancel the deal and you have no idea if you can get a loan. If your bank has no answer by now, we'd fire them and go with a loan broker.

If the loan broker tells you “sorry, there is no way to get a loan on this deal”, then you can call the seller and see if he’ll carry paper and, if not, cancel the deal ASAP and try to stop the reports.

Here is where Frank and Dave disagree to a certain degree:

Frank: I’m hoping you used a loan broker. If not, you may be about to taste the frustration that only a bank can provide. After being told your loan is great and will clear the loan committee with no problem, the bank officer now tells you that he won’t even present it because he’s heard the bank doesn’t do mobile home park loans. If this happens, immediately turn the deal over to a loan broker, and see if he can turn the process around for you. I have never had a good experience with a bank. When I first started using loan brokers about a decade ago, I thought I had found nirvana. I won’t even consider calling directly on a bank anymore. I absolutely despise them. Every time I see bank stocks declining, I cheer. I have had more problems with banks than with all the sellers I have ever worked with combined.

Dave: While I agree with the loan broker mentality of Frank, I have to disagree with him on my attitude towards banks. I have dealt with some of the same banks that Frank has dealt with and have been down the same road of having my time wasted. However, I have some great relationships with local banks and have been able to get better loans, interest rates, and quicker closings with some of the banks I have dealt with. I recently purchased a mobile home park in Texas and the bank was so easy to deal with that they did not require an appraisal, made an 80% loan-to-value loan at 7.5% and funded it in 29 days from application. There are good banks out there but they won’t come to you, you have to find them.

DAY FOURTEEN

TO DO LIST

- Evaluate Test Advertisement Results

Evaluate Test Advertisement Results

It's been a week since you ran the ad for "mobile home for sale" and "mobile home for rent" in the local paper. What happened? Did you get a bunch of calls? Or did you get nothing but golden silence (which is not golden). We're hoping that your phone rang so much that it made you sick. That's a good sign – people want to rent and buy mobile homes in your market, and you should have no problem selling your park-owned homes. However, if the phone rang very little or not at all then it is time for a reality check. Is there any demand for mobile homes in this market? Are you kidding yourself as to the viability of this park?

In big cities, it is an absolute rarity not to have a lot of calls. I've had so many calls that I turned my phone off for a while to get a break, especially at nights and on weekends. Normally, when the phone doesn't ring, it's a sign of a small market or one that is in serious decline. For example, let's say that you are in a town of 10,000. Not a lot of people move into a town of 10,000 – that's why it's so small. So why do you think anyone is going to be moving into town? Maybe it's for new jobs that are being created (we hope so). But what if your small town just had its largest employer shut down or does a big lay-off? In some instances, it may be nearly impossible to make your phone ring – and that's a terrible environment to be in. If you did not get a lot of calls, then you need to re-evaluate what you're doing. If a market is a dog it is best to cancel the deal than to spend your whole life battling it. Not to mention the fact that you'll never make your budget.

When you get the calls from your test ad, be sure to note the demographics of the call-ins. Do they sound educated? Are they seniors? Are they Hispanic? This type of information will help you to decide on the park and its future. I once bought a very unsuccessful park that had many Hispanic phone-ins from the test ad. I realized that it was a market that Hispanic customers found attractive, and realized that the park had a whole new future if I went in that direction.

DAY FIFTEEN

TO DO LIST

- Time for some soul-searching – you are at the half-way point

Half Way Point

When you got the idea of buying a mobile home park, it came with some basic assumptions of performance. Maybe you wanted to be your own boss. Maybe you wanted an asset to hand down to your kids. So far, it has been kind of fun and exciting to be a real-estate mogul. But it's time for a reality check. Forget all the fun and excitement for a minute. Let's just talk hard dollars and cents. Is this deal really a winner in your mind? Are you absolutely convinced that you can make your budget? Are you starting to get nervous about a lot of unbudgeted capital costs that you don't know how you are going to pay for?

The absolute worst thing you can do at this point is to continue with this deal if only because you don't want the embarrassment of being a quitter or letting your friends or broker down – or because you hate to have lost the money incurred to date in looking at the property. Let us tell you something – the smartest people we know drop deals all of the time. These people have certain barriers of performance that they absolutely will not cross and, when they get the gut feeling that the deal is not going to perform like they want, they drop it – even if it is on the day of closing!

There is a guy, who we will leave nameless, who owns one of the largest portfolios of mobile home parks in the United States. People think that he is above all of the details of buying parks. Little do they know that he does a complete diligence on every one, and has a hair-trigger for canceling the deal. This guy cancels them constantly – he probably cancels during due diligence

three deals for every one that he buys. That's why he's successful! He does not allow himself to be railroaded into buying bad deals, and neither should you. So if you honestly have your doubts on this deal by day 15, it may be time to pull the plug. Conversely, if you have never been surer about anything before, then you are ready to wrap it up over the next two weeks.

However, there are people out there who have been looking to buy a mobile home park for several years now. They put it under contract and cancel and repeat the process over and over because they find insignificant problems. They are looking for the perfect deal and rarely is there such a thing as a perfect deal. Even if you are buying a park for ½ of the true value, there still may be problems with it. So if you are serious about buying a mobile home park, be smart, but not ridiculous or you would be better off not looking at all.

When I think about buying a mobile home park, I am about 50% happy and 50% sad. I think of the enormous risk and work involved, and it depresses me. At the same time, as long as it is a great deal, it excites me. The one emotion you have to get over early on is the concept of "pride of ownership". This is the dangerous sensation. With this one, you are all excited about just being a "landlord" or being in "real estate". This is a dangerous emotion because it can cause you to buy something just for the simple act of buying it – and lure you into a bad deal. There is no fun at all in owning poorly performing real estate. Just ask your friends who bought those four-plexes for the excitement of being the next Donald Trump.

DAY SIXTEEN

TO DO LIST

- Revisit your Attorney for his Interpretation of the Permit and License

Attorney Evaluation of Permit & License

On day three, you took the permit/license information on the park to your attorney. By now, he should be ready to talk to you about it. If not, you may need to fire him and start all over with a different attorney who understands the concept of deadlines and urgency.

Next to the budget, the permit and/or license for the park to operate is the most important part of the deal. Sure, a park-owned home can be a money pit, and replacing the sewer line is tough, but not having the proper permit or license can cause the park to shut down, and that's the big daddy of all disasters. As a result, this is one item that you have to get right.

If you ask an attorney, who is not a real estate attorney, his opinion of your permit, the answer you get will be more confusing than just figuring it out yourself. Attorneys are always concerned with being sued, so you will hear "it might be O.K., but it might not" so that they have their bases covered. A good real-estate attorney will tell you "yes, it's fine" or "no, it's not" in simple English. If it's in a grey area, he'll tell you what makes it grey, and what the ramifications might be. If your attorney is not that guy, get a second opinion. This is too important a topic to be taken lightly. And make sure that the attorney has made the vow to fight any other interpretation the city may make. If he is not enthusiastic about your rights under the permit, something is wrong.

The best way to get comfortable with a park's legal right to operate is to lay it out on paper like a script to a PBS documentary. It goes like this:

- ❖ The park was raw farm land until 1974
- ❖ In 1974, the city gave a permit to build a 78 space mobile home park
- ❖ Here's a copy of the permit, showing 78 lots
- ❖ This permit has to be renewed annually. Here is the 2007 permit showing that it is in full force and effect until September 4, 2008
- ❖ Here is a copy of the 2007 inspection report from the city, showing the park is fine
- ❖ Here is when the zoning on the park changed in 1989 to single-family
- ❖ Under this zoning, the park is legal non-conforming (grandfathered)
- ❖ Here is the ordinance on grandfathering – showing that the park is fine unless abandoned for 180 days.
- ❖ Here is the city's provisions for shutting down a legal, non-conforming zoning; basically none.

You need to analyze and lay out the permit/license like you are already at trial – because some day you might be! Once you have laid out the chronology of the park, have the attorney review it and agree with it. You might try to get a letter of opinion from him.

You can't be too anal-retentive about the right to operate. Have I seen parks with no right to operate? Yes...many times. I discovered probably 10 of them while doing my own due diligence on various parks. Normally, the seller can effectively pretend that the park is legal until you meet with the city, and put some scrutiny on it. Why does the city let them operate illegally? I guess they don't want to hassle with it – or are waiting to hassle a future new owner who they don't know as well (this is the common reason).

If the permit/license looks ironclad, then your deal is still alive. If the permit/license is not valid, or the city has some plan to shut it down through condemnation or the like, then you should cancel immediately and get your money back. The lack of a right to operate is not really negotiable – even if the seller carries paper or reduces the price, you'd still be taking an unwise risk on such a deal. Without a permit, a mobile home park is just a piece of farmland.

DAY SEVENTEEN

TO DO LIST

- Evaluate Current Management

Current Management: Keep them or Fire Them?

Every park comes with a set of incumbent managers. These are the folks that have been in power prior to your ownership. So do you keep them around, or fire them?

The first step is to evaluate their past performance. If the park is filthy and half-vacant, then clearly their track record is not good, and you should let them go. If the park, however, is in great condition and relatively occupied, you might want to consider keeping them on your team post-closing.

You also want to get a feel for them as individuals – are they the type of people you want to work with? Sometimes a manager does a good job, but has so much baggage, you can't keep them around and keep your sanity. I once had a manager that would call my house at midnight, just lonely and wanting to chat. They did a great job, but I couldn't handle their bizarre dark side.

Of course, it is always cleaner to fire everyone when you buy something – that's what happens right after a presidential election, right? That eliminates any tainted employees, embezzling, etc. Plus, the seller often has ruined the manager with poor training and ethics.

If you do not want to keep on a manager post-closing, make sure to have the seller fire them at closing, so you are not legally involved. That way they can only file for unemployment (and wrongful termination suit) on the seller.

This analysis flows down to all employees, including the maintenance guy and/or mower.

If the park does not have a manager or maintenance personnel and you are going to need to hire one or both, now is the time to start looking. The first place to start is by talking with the current owner and see if he has any recommendations. If the owner ponders this for a few days he should be able to come up with someone in the park who is good with people, pays their rent on time, and who could logically take over the management of the park.

If the owner does not have anyone in mind or you don't like any of his recommendations then you need to take a more proactive approach. You can send a letter to all the residents (after the due diligence is over and you are certain that you will be closing), place ads in newspapers, mobilehomeparkstore.com, Craigs list, and any other places you might find good managers.

DAY EIGHTEEN

TO DO LIST

- Check on the title work

Check on Title Commitment

By now, the title company should have had more than enough time to be able to tell you who owns the property, what the liens are, and the legal description. See if the ownership and liens match what you have been told earlier. There have been cases where someone pretends to be the owner of a property when, in fact, he is only a relative. If the name on the ownership seems totally out of place, call the seller and ask him what's going on. You definitely don't want to go firm with the earnest money if the seller is a fraud – you might recover your funds but it might take years of litigation – and the litigation would cost more than the earnest money!

The liens give you an insight into the possibility of the seller carrying paper, as well as his ability to reduce the price. If you are paying \$650,000, and the first lien is \$600,000, then there is not much room for a price reduction – and no chance of carrying paper. Keep this information in the back of your mind for a final re-negotiation before the diligence period ends.

Title work makes for interesting reading. It can tell you a lot about how much room you have for negotiating. By showing the note value, and assuming a 20% down payment, you can often extrapolate what the seller paid for it (and how much room he has to move in the price). It also tells you the exact year he bought it. An important piece of successful negotiating is reading and understanding the data available in the title report.

The title report is important information in any case. If you are not skilled in reading and understanding what it says, it is best to get the advice of a competent attorney. You definitely want to understand all the exceptions, the implications of the easements, restrictive covenants, and be able to match the legal description with the survey and the address of the mobile home park. The most common mistake I have seen is when you end up buying more or less property, and sometimes the wrong property, due to a mismatch in the legal description.

DAY NINETEEN

TO DO LIST

- Call to Make Sure the Phase I and Survey are Coming Along

Check on Phase I & Survey

Today you have a light day. You need to call the people doing your Phase I and your Survey and make sure that they are progressing on schedule.

You will have to drop the deal if the Phase I Study is not ready in time. The survey, although maybe not being a deal killer, should definitely be in hand and reviewed before your diligence clock runs out.

What if the Phase I people tell you that they are way behind and that they may not make your deadline? Remind them that they promised it on a certain date, and you only selected them because they promised that timing. Tell them you have to have it. And it might not hurt to reiterate the fact that you are in a time crunch and have to have the report by that date or you will lose out on the deal of a lifetime and will be filing suit if they don't follow through with their contract with you (hopefully it is in writing). Calling them every day from this point forward will also help to get it complete, as they will get tired of talking to you.

I am a firm believer that you cannot bug someone too much. When a deadline approaches, I like to call the parties involved at least once per day for a daily status report on getting the report completed. That's why I don't have many friends – I drive people nuts. But since I do, I rarely miss deadlines. In fact, I'm normally early. If you are paying someone to do something, you should have the right to call them as much as you want, in my opinion, without them getting upset about it.

DAY TWENTY

TO DO LIST

- Start to panic – there's only 10 days left!

Start to Panic – Only 10 Days Left

By day twenty, the adrenalin should start to kick in. That's a good thing. You need to take these last ten days very seriously, because buying this mobile home park will have a big effect on the rest of your life. If you have done your diligence and made the right decision, the impact can be either extremely positive, or if you have failed in your job of diligence and made the wrong decision, the outcome could be a lifetime of regret.

For these last ten days, you will have many different self-doubts. Do I know what I'm doing? Can I really afford to do this? This is perfectly natural. The key is to harness all of this nervous energy and convert it into productive action. Remember that you can never have too much diligence. It can never hurt to walk the park for the 100th time.

Your brain is the original supercomputer. You have loaded it with diligence information for 20 days. It has been processing this data, whether you know it or not. If you wake up and think that the rent roll is inaccurate, you are probably correct. Follow your instincts as to where the problems are and what needs further examination.

Many owners of mobile home parks have stories of triple-checking something that just seemed off, and being right on. This is not just luck. You are thinking all the time, when you are in the shower, driving your car, asleep – constantly. Assuming you have filled you brain with accurate information, you will naturally

come up with some additional questions on many items. Go with those feelings, and keep digging for truth. Because in ten days you are going to have to pull the trigger and start a new life as a mobile home park owner, or cancel the deal and maybe miss out on an opportunity (or sometimes the opportunity to ruin yourself). So get pumped for these last ten days!

It's amazing how much information your brain can retain and analyze without your even trying to do so. I have, many a time, had a sudden brainstorm on some potential park problem that my brain just threw together from a bundle of facts mixed with risk aversion. And the accuracy of these sudden bursts of doubts are amazing. You can be sitting somewhere and suddenly think "I bet lot number 12 is illegal", and then you find out you're right. That's why they are still trying to invent a personal computer as good as the human brain.

DAY TWENTY-ONE

TO DO LIST

- Review the Survey
- Match the Survey to the Legal Description from Title Company

Review the Survey

By this time you should be receiving the survey on the property. If not, push this date back to the day you receive the survey.

The survey will come to you in large, blue-print format. One of the first things I do is to go to Kinko's and shrink down the survey to a more manageable ledger size sheet of paper, for the park walk through which I am about to discuss.

The first thing to look for on the survey is floodplain. Is there any floodplain of any type on the property? Even 100 year floodplain counts. If there is floodplain on the property, then an alarm has to go off in your brain. Floodplain is going to potentially give you problems in getting a loan and obtaining a future buyer. Floodplain is definitely not ever good news to have on your survey. Before you throw the deal out the window, though, your first step is to find out the ramifications of the floodplain issue. This will require going back out to the property. And as long as you're going, take your survey with you for further inspection of the non-floodplain issues.

Once you get to the property, you need to isolate the part of the property that is in the floodplain. Imagine this area under 4 feet of standing water – what would happen to the park as a whole? If the area in question is at the front of the park where your entrance is located at, it might cut off your park from all access, effectively shutting down your park. That is not acceptable. If the park has a

second entry at another point where there is no floodplain, then maybe you could survive such a hit. If the floodplain is in the area of your well or package plant/lagoon (assuming you do not have city services), this might shut your park down due to the absence of water or sewer for tenants. Again, this is not an acceptable risk. If the floodplain is in the corner of the park farthest away from these items, then you need to put further scrutiny on its cash-flow impact. How many lots are affected by the floodplain? If it is a 100 space park, and there are 60 lots in the floodplain, then you could go broke in the event of a major flood. If there are only 5 lots out of a 100 space park, then maybe you could survive. And what types of units are on those lots? If they are park-owned homes, then think of the impact of having to fully restore these flood damaged units. If they are some RVs, they could be moved out fairly easily in case of a crisis. A lot of coming to terms with floodplain is based on your appetite for risk, and how lucky you think you are. Let me give you some examples.

There are some mobile home parks in Grand Prarie, a suburb of Dallas/Ft. Worth, that are sitting on 100% floodplain. Every inch will flood. Can you handle this type of risk? Some people do, because these parks have changed hands several times. At the same time, I have read many newspaper articles about these parks completely flooding and destroying or displacing every home in the park. I'm sure that every successive owner believes that it will never flood again. And they may be right. But can you sleep at night with this type of risk?

There was a park in Oklahoma that I looked at that had about 10% of the total lots in the floodplain. No roads or other key operational facilities were jeopardized. I almost came to terms with that floodplain, but dropped the deal for other reasons (mostly because it was horribly vacant). Often the floodplain can be as minor as a few lots that back up to a creek. But floodplain is floodplain, and simply having it will put a black mark on your record with some lenders and buyers. Beyond that, it really is a matter of personal judgment and risk analysis. You will have to make that decision yourself.

It's amazing what you can find out from a survey that you would never notice without one. For example, trailers hanging off into a neighbor's property. Or floodplain. Or underground easements. Often, the seller himself may not be aware of these faults, but they should all go back against him once located. You cannot pay for unusable lots, or use income from homes that are not fully contained on the property. And if an underground easement makes one whole street unusable, then that too must be knocked off the price. Blame it on the bank if you want to, but you contracted to buy "x" number of lots and "y" usable acres. Any reduction in these should trigger a reduction in price.

Beyond floodplain, there are some other parts of the survey that require field inspection. First, what is the easement situation? On your survey should be markings of any recorded easements. They may be overhead power lines, or underground gas lines, or lines that have no purpose in park operation but just cross through the property to serve the community, such as big water transmission lines. How will these easements affect your property? Just like the floodplain issue, a lot of this is risk analysis.

Some easements have an immediate impact on you. For example, in a lot of municipalities, you cannot put a mobile home under an overhead power easement. That means that wherever you have such an easement, there can be no mobile homes. If that easement falls over 20 lots, then those 20 lots cannot be utilized. In addition, there are some underground easements that do not allow homes on top. For example, gas transmission pipes often cannot have a mobile home on top of them. Again, look at the impact on your park and use your head. If the easement affects 5 lots that are already vacant, and you don't have those five lots as being full in your budget, then you might be able to survive such a situation or restriction.

Other easements have more of a time-delayed aspect. For example, some utility companies have the right to make repairs on their easements, even though you may have mobile homes directly on top of their utility. This falls more in your appetite of risk category, as you might have to move those homes if repair work is necessary, and the cost to move homes is substantial (think \$2,000 to \$3,000 each). Don't say to yourself "that's never happened before so I'll be ok". This is one time in which the fact that it hasn't happened before is bad news for you. If it had already happened, then you would know that the line in question has already been upgraded and made new. As always, quantify the risk and see if you can survive the worst case scenario. If you can, then you're ok in living with the issue.

Another key thing is to make sure that you have the required access to your park. Make sure that you have a dedicated driveway and road to the park – in many cases you have to have two by law. Make sure that you are not landlocked, and only operating under the blessings of the neighbor who can retract such a favor at any time. There are parks out there that are landlocked. I owned one that had a whole extra piece of land that came with it that was unusable because the neighbor would not grant or sell a means of egress.

Another important step in analyzing the survey is to make sure that there are no existing mobile homes or structures that are on a neighbor's property. You see this all the time. What happened was that the park owner didn't know his boundaries (or did), and when a new home moved in, the back of the home hung over the neighbor's property. Until you do the survey, nobody knows it occurred. And what does it mean? Theoretically, the neighbor could demand that you get the homes off his land, and sue you for the past rent owed from hanging over his land (and he'd probably win that case). Sometimes the homes hang over the city, county, or state property next door, such as a highway right-of-way. Again, if you get caught, you're in trouble. So it's back to your appetite for risk. Quantify the problem and see what the downside would be. If it is two homes that are hanging over by 2 feet, and there is room to pull them forward, then maybe you can sleep

at night. If it is 20 homes and the short lots won't allow you to move them over one inch, then you may not be able to handle that.

You know, it's not always just mobile homes that hang over neighbors' property lines. I have seen sewer treatment plants, and roads, and fences, and clubhouses, and swimming pools, and mailboxes – and everything else – on the wrong property. Can you handle this risk? You'd better locate the problems, quantify the risk, and do some soul searching. If you are going to back out of the deal, you only have less than 10 days now.

Another item that sometimes pops up on the survey is when you get some property that you did not know came with the park. You don't see this all the time, but it does happen periodically. Here's how it goes down. There is a small frame house at the front of the park, that the seller never even mentions. You assume that the corner with the house on it is owned by someone else. Then the survey comes out and the house is within the boundaries of the park. It's going to be your house. This is never bad news – unless maybe the house is the headquarters of the Hell's Angels – but the key thing here is that you won't mention it to the seller. If you call the seller and say “hey, I didn't know I got that frame house too”, the lights might go off in his head and he'll say “you don't, I want that carved out of the deal” or he might think you will pay more now even though he originally intended it to go with the property.

Compare Survey & Legal Description

Before we get off of the subject of surveys, let's compare the legal description in your survey to the one used in the title that you have already received (at least you're supposed to have received) from the title company. Do the two legal descriptions match?

Once you have come to terms with the easements, look at the property corners and the boundaries of the survey, and make sure that they line up with your knowledge of what you are buying with this park. I once bought a park in Springfield, Missouri that was missing about a third of the park – I had failed to do a good job of diligence with the title and survey (more on that to come). So look around and make sure that the park on the survey is the same as the park you have been doing diligence on.

Let me tell you a story. Once upon a time there was an idiot buyer (me) who completely trusted a big-time, mahogany-paneled law firm (which shall go nameless), and paid them to check out the survey and title. The buyer was told it was ok and he closed on the deal. About two years later, the buyer went to refinance the property. The bank approved the deal and it went to the bank's attorney to get the loan documents put together. Then the buyer got an unusual call – it was the bank's attorney. "I'm sorry, but we can't do this deal – you don't own the whole park. About a third is owned by someone else". The buyer, now in a panic, called the attorney. The attorney at first said he didn't remember working on the deal – then wouldn't answer or return the calls at all. What had happened was that the title and the survey didn't have the same legal description, and so at closing the buyer had only bought what the title company showed as the legal description and not the legal description which was the intent of the parties to the transaction. If you had looked at the survey, you would have seen that it showed that a portion of the park was not there – it showed on the blueprint but had a different thickness of line. Had the attorney matched the survey to the deed, he would have seen the error. But you know who was really guilty? The buyer was. He should have double-checked this most critical item. In the end, the buyer was able to find a new, local attorney that somehow convinced the neighbor to convey the missing land to the buyer for free. I have never understood how he did this, but I'm grateful he did. Apparently, the owner was an older couple and did not try to extort money out of an honest mistake. The moral to this story is to

always check and make sure that every legal description and survey field note match. Otherwise, you may find yourself completely in a world of hurt.

To avoid my nightmare in Springfield, Missouri, it is essential that you carefully check the title to the survey. After my, now former, attorney screwed me over on this, I now have several different people compare the two to make sure there are no problems. It's like proof reading your resume – you absolutely cannot afford a mistake so you have to keep staring at it until you know it is 100% correct.

DAY TWENTY-TWO

TO DO LIST

- Review the Phase I Report

Review the Phase I Report

By now, hopefully, you have received the Phase I environmental report. If not, push this date back to the day you receive the Phase I.

When you get the report, you need to go immediately to the summary, which is normally at the front of the report. Look to see if it says that the property is fine environmentally, and does not require a Phase II. If it says that the property is ok, then the whole rest of the report is just trivia, although it is nice to see the historical aerial photos of the park circa 1945. But the summary is all that matters, and if you're clean, you're clean. The most common failures occur from buried oil or fuel tanks and properties near dry cleaners, gas stations, chemical plants, and similar exposures.

Phase 1 – Typical data reported by a Phase One site assessment. The Registered Environmental Professional may provide additional required information within the report as deemed essential and necessary.

1. Physical inspection of the entire subject property.
2. Interviews with persons knowledgeable of the property.
3. Review of state and federal lists of known contaminated sites, hazardous materials users, spills and underground tanks.
4. Evaluation of nearby operations for their potential to affect subject property.
5. Interpretation of topographic maps and aerial photographs.
6. Review of any existing environmental documents for the project area.
7. Current and past use of the property.
8. Review of recorded owner history at applicable register of deeds office.
9. Conclusions and recommendations.

Sometimes, the report will come back clean, but recommend further study for asbestos, etc. of any additional structure, like a frame rental house or clubhouse. This needs to be done immediately, but we've never seen a deal killed by asbestos in an attic. Almost all houses have asbestos in their attic if they are at all old. However, if there is a bigger problem with the ancillary structures, then drop the deal. You never want to get messed up with environmental contamination issues.

Going back to the report, if the summary page says that the property requires a Phase II, then run and don't hesitate to cancel the deal. We would never mess with a property that requires a Phase II. A Phase II is an admission that there is a clean-up issue, and tries to quantify the problem. We can guarantee you that you cannot possibly afford such a clean up on a mobile home park. If you are building a high-rise office building, then maybe the cost would be survivable in the big picture of the deal. But on a park, it is rarely worth it. You might be talking millions of dollars (that's right, m-i-l-l-i-o-n-s). And sometimes, even those prices can be low.

Let me give you an example. We know a guy who bought a shopping center cheaply because it had failed a Phase I and the seller wanted to sell it badly. The seller agreed to a cheap price because he was afraid of what the clean-up might cost, and this guy was happy to buy him out. A Phase II was performed, and it was estimated that the cost would be \$750,000 to clean it up, and take about a year. Can you believe how expensive this environmental stuff is? The mess came from a dry cleaner that had been habitually dropping dry-cleaning fluid on the concrete floor. How can you justify \$750,000 for that? That makes mobile home park tenants who tear up trailers look good – they never beat \$7,500. Anyway, about a year later, further tests showed that it was not clean, and they kept on cleaning. Now, almost five years later, over \$1,000,000 has been spent,

and it's still not clean. In the interim, they were unable to refinance the property since you can't get a loan on a "dirty" property – and he missed out on the low interest rates. Do you want to get involved in a mess like this?

I didn't think so.

I have never known anyone who made a profit from cleaning up an environmentally contaminated property. I have met people who claimed they "would", but they don't seem to talk about it further down the road. I have followed along with some of these bold adventurers, but the business model seems flawed. Normally, the clean up process is way more than they figured, so they pray just to get their money back. What this adds up to is that you should never buy a mobile home park that does not have a clean Phase I. Not even if it is on the beach in Malibu or next to Rockefeller Center. A park that needs environmental clean up is going to bankrupt you no matter what.

One more note on your Phase I. Make sure that it is signed by a licensed environmental engineer. If it is unsigned it is arguably not binding, and if the signer is not a licensed professional, then it is worthless. If you got your Phase I for \$50, then you should have known better. And if it's in crayon, then it's a giveaway that there's something wrong.

DAY TWENTY-THREE

TO DO LIST

- Check on Loan Status with Lender

Check on Loan Status

Now that you have your Phase I and survey in hand, call the lender (or broker) back and tell them that all systems are go (even though it's a bluff still at this point) and want to make sure that the financing will be there to close in 30 days. The lenders often get a bit shakier when you start to press them for a commitment. Sometimes, when they are going down the path to get a commitment, they get all nervous and the truth comes out – "I'm afraid I talked to my boss and we just can't finance a mobile home park". That's reason number 5,001 that you are probably better off with a broker than going to a bank direct. As an insurance policy, their 1% fee is a bargain to ensure that you will get a loan and remember they only get paid upon performance. With a broker, you have a primary resource, as well as several back-up banks, so the odds are always better that you'll get your deal done. With just one lender, anything can blow you out of the water. And you will never have time to find another lender in time.

So if you call your bank back like it's a done deal, and they greet you with anything less than "great news, let's get this deal done ASAP", it is probably time to dump them and go to a loan broker. A broker can still get a deal done and have some initial feedback with only one week left in the deal. A regular bank approach doesn't have a prayer at this point.

Usually at this point, the lender is going to need to collect money from you to order the appraisal. This fee can vary from \$1,500 to \$5,000. Most appraisals will be in the \$2,500 to \$3,000 range. The appraisal will take about 30 days and

if you cancel the deal on or before Day 30 of the diligence, make sure to cancel the appraisal to get your money back.

*I once had a lender tell me I had been approved for a loan, and that we were in the documentation stage to finalize the deal. Then, a few weeks later and right before closing, he called to say that the loan committee had changed their minds – they didn't want to make any more loans in that state. That's impossible, right? No, nothing is impossible with lenders. Their commitments are treated as lightly as your commitment to watch *Gone with the Wind* next Thursday – if something better comes up, you'll forget you ever agreed to do it. That's why a loan broker can be an essential part of the process – he can fall back on other lenders if the lead lender drops out. If you do it yourself, it's basically all or nothing.*

DAY TWENTY-FOUR

TO DO LIST

- Re-visit with the city on the permits

Check Back with City on Permits

It's been a few weeks now, and it is possible that some problem has arisen with the city over this time period. Maybe a tenant called an inspector saying how bad things are, and the city did a formal inspection of the park and popped up a ton of items. Or maybe there was a fire at the park and the fire marshal has a list of problems. Or maybe someone tried to move in an RV or new home, and was denied. Anything is possible. So call the city official(s) you last talked to (you should have kept their business cards) and see if anything has changed since you met.

Normally the answer is “no”, but sometimes it's “yes”. If that is the case, time to head back down to city hall and find out what happened. If the city has now changed its attitude on the legality of the park, then that's a huge problem. Go over with them the methodology you used about two weeks ago, and find out what's missing. The park is either legal or not – black and white. As far as permit or license problems, do they have a list of what the items are? Maybe they are not too much, or things you planned on doing immediately anyway. But take any problem with the city seriously. Seriously enough that you should drop the deal if it can't be easily fixed. Remember that without that permit and license to operate, you are buying just some farmland with some concrete patios.

Your goal with the city is to poke it with a stick and see what the nitty-gritty is going to be with regard to bringing in homes and peaceably operating your park. This is not an issue that can be glossed over. The first time you bring in a home

and it gets red-tagged (ruled illegal to be in the park) you'll be glad you know your rights.

A problem with the city will, at its worst, require going to court. As a result, you need to, from day one, prepare your court case – get everything in writing and make sure that your park meets the letter of the law in all categories. If your real permit is for 50 lots, but your park has 60, then you'd better prepare to one day remove 10 lots if you get caught. You'd sure better not pay the seller for those illegal 10 lots because the day after closing you may have to remove them. Just because a seller has gotten away with the violations in the past does not mean that you will, too. Often, the city has backed off from enforcement on the old owner because he is a friend of the inspector, or goes to church with the city manager. You, however, will have no such hold over the city, and they can come down on you with a vengeance. If your park is not 100% in the right on paper, then I would not buy it, unless you are buying it so cheaply that you can survive closing it entirely down.

The worst problems I have had with cities have been in markets with significant and rapid growth. In those markets, the city often attempts to “reinvent” itself – to appear new and classy and get rid of its old, blue-collar image. And mobile home parks are definitely not part of that classy image. In stable markets, the mobile home park has been there forever and nobody at the city much cares, unless code violations get out of hand. In a stable market, you can normally stay out of problems if you make sure that the park is presentable and you fix anything the city requests immediately.

DAY TWENTY-FIVE

TO DO LIST

- Make a complete list of your problems with this deal

Make a List of all Problems with the Deal

Between now and the end of your diligence, you have one critical event to prepare for: trying to renegotiate the deal again. You can only do this once. Preparation is the key. If you do a bad job, your deal may be dead, and all this hard work is out the window.

Take a sheet of paper and make four columns. The left column should say “problem”. The next column should say “solution”. The next column should say “cost”. And the final column should say “timeline” (when it needs to be resolved).

A sample of this worksheet is provided at the end of this manual.

Everything that has bothered you in diligence to date, no matter how small, should be recorded in the “problem” list. EVERYTHING. There is a list of diligence items and issues at the back of this manual as a reminder of all the things you have checked out so far. This list should be huge. Didn’t like the low apartment rents in the market? Write it down. Are there floodplain issues with two of the lots? Write it down. Are three of the homes really vacant based on what you’ve seen? Write it down.

In the end, you will have a list of problems. Now, brainstorm what the solutions are. Many, such as “too small a park”, or “no operating permit” cannot be fixed. Those things that can be fixed should each be recorded with a plan. For example, on the park-owned homes, write down the house number and required

repairs. On the ugly front sign, write down what the sign should look like. Keep going until you have found a solution for each item.

Now comes the work that may take two days to complete, and that's coming up with a price for fixing everything that's wrong. Most of these costs you have already obtained earlier in this diligence period. Others you may have glossed over and now need a more scientific estimate for. And some were unknown until a few days ago, such as changing to a loan broker and throwing a 1% fee into the cost of the deal.

Keep working toward getting an accurate price for each solution. Take a highlighter and color code the problems that are unsolvable so that they stand out.

While you are coming up with the costs, you will also estimate in the final column the timeline for when it needs to be done. It may be immediate, in 3 months, or in 5 years. Use your best estimate.

When making your list of problems with the deal, be sure to be honest and not hold back. After investing so much time and money, it is human nature to want a deal to go through. You want it so badly that you are willing to bend the truth, willing to say to yourself "it will work out somehow". That is very bad thinking. The most successful people I know in the mobile home park business have the ability to put all of their emotions aside and approach each deal scientifically with no ego or emotion. Just like an experiment, if it is a failure they are the first to announce it and kill the deal. Your ego and emotions are only going to work against you in the buying process. That's why trying to make a scientific list of the problems and costs is a great exercise to try and get your head screwed back on properly.

DAY TWENTY-SIX

TO DO LIST

- Finish your Problem, Solution, Cost, & Timeline List
- Script your Discussion with the Seller
- Make Appointment with Seller / Broker

Finish your Problem List

Hopefully, by now you have finished the list you started yesterday. Now it is time to summarize it and to prepare for meeting with the seller.

The problems that cannot be solved should be one set of issues. These are issues that you are going to have to be able to stomach the risk on. Write down the potential risk on each one so that you don't forget it. Write out how much capital it would cost to survive what would happen in the worst case. Can you afford this?

Even if the answer is yes, this list will come in handy when you meet with the seller.

The more important list for the moment is the list of expenses you will incur in fixing the many problems with the park. These will include everything from a new sign out front, to fixing each park-owned home, to patching the potholes, to fixing the plumbing, to planting some bushes. EVERYTHING. Make a grand total for this list.

Now add this grand total to your contract price for the park. How does this impact the numbers? I bet it didn't improve your return. But how bad did it derail it? Remember what we discussed earlier in this manual – you don't want to own a

mobile home park without getting paid for it. There is no point to buying this park to earn a yield you could get on a CD safely in the bank. You must demand a return of about 10% on the front end, or you may spend the rest of your life fighting just to get your money back!

Can this deal, once you add in these costs, still make a 10% return, or close to that? Or has your yield dropped to 5% or 6%? If so, you will have to get concessions from the seller. So it is time to prepare your sales pitch to get these needed concessions. Before you finalize in your mind the dollar figure of the reduction you will be seeking, there is one slight break you can give the deal if you have to. If the deal has under market rents, you might be willing to spend a little more on the deal with the assumption that you can send out the notices for the rent increase on day one and get the return up to a more acceptable level a couple of months after closing. I don't like to do this, but if you love the deal and really want to buy it, it is sometimes the only way to bridge the gap. If you have any other ideas of how to boost the yield, don't kid yourself in counting those as a given. For example, if you are going to bring in 10 homes to sell or rent, don't add that into your return level in finalizing the concession. That's too much risk and work for you not to receive 100% of the benefit – plus there is capital expense in that program, too. Only raising rent is a sure-thing, no-cost, income producer unless it results in the loss of tenants. In most of our parks when we have raised the rent up to market the resulting loss of tenants has been negligible (about 1%).

Be sure to include all of the costs each problem creates. For example, if you are taking your family on vacation, you can't just add up the hotel and plane fare. There's also the cab fair, museum admission, food, misc. – it all adds up and is part of the real cost. In life, normally, the costs exceed your budget by about 10% to 20% anyway, so don't start off behind the 8-ball with a bad expense budget.

Script out your Discussion with the Seller

Once you have the exact amount of concessions you are seeking, you have to decide if you are going to propose it to the seller as an “all or nothing” request, or a sort of “give and take” negotiation. If it is to be negotiated, be sure and put some padding in the number – maybe 10% or 20%. People like to feel like they have negotiated effectively, and you need room to reduce the number.

Once you have your number and a plan, it is time to script your presentation.

The format goes like this:

1. I really want to buy your park.
2. I have put a lot of effort into the diligence.
3. The things I have uncovered, any other buyer will also find.
4. I have to be able to pay the mortgage, or I won't buy it, and the lender won't make the loan, either.
5. These are the things that I don't like that I can't fix and I will have to assume the risk on (name all the things from that list)
6. These are the things that I need to fix to make this park work. Go over this list item by item and show the price of each; get the seller to agree to each item and its cost if you can.
7. The grand total for these items is \$_____.
8. I need you to drop the price by \$(same number).
9. If you will agree to this reduction, I will go firm today, and we can close this deal in _____ days, subject to financing.
10. So what do you think?

This is the standard, successful Re-Negotiating battle plan.

Does this make you feel good to do? No. Is the seller happy that you have asked for the reduction? No. BUT IT IS ESSENTIAL THAT YOU DO IT.

Bear in mind that the seller is not your buddy. He wants as much money for the park as he can get. He is perfectly ok with you overpaying for the park and ruining your life. Don't for a second feel sorry for the guy. Once this deal is over, you will never see or hear from him again. A lot of sellers try to use the old "I'm your grandfather" act. Don't get sucked in. You must stand up for yourself.

And don't let real estate brokers discourage you from asking for a reduction. They only have one goal – to get their commission. Some brokers will happily sell you to the gypsies if they have the opportunity. Don't listen to them. They are not your ally. Their opinion is meaningless – it is corrupted by wanting that commission. One note here: you can use the broker's carnivorous desire for his commission as a weapon against the seller. If you let the broker know that the seller has to drop the price by \$_____ or the deal is dead, the broker may put the hard-sell on the seller, even if the seller is his client.

Make Appointment with the Seller / Broker

Once you have the price reduction sales pitch down pat, it's time to call the seller for a meeting. Call him today. And make sure to have a face-to-face meeting – don't do it over the phone. It doesn't work as well. You need the seller with you so that he doesn't just get mad and tune you out.

Set up the appointment for tomorrow, or the next day, but give yourself a couple days after the meeting before your diligence ends.

Be sure to never total the costs of repairs, etc. for the seller to see while you are discussing them with him. He will immediately look at the total and start disagreeing with every line item in self-defense. Instead, only show each line

item without totaling the sheet. Give him the sheet with the total at the end. I know it sounds stupid, but I've done it both ways, and one works and one doesn't.

DAY TWENTY-SEVEN

TO DO LIST

- Meeting with the seller

Meeting with the Seller

It's your big day. You are going to meet with the seller and get that needed price concession. First, let's adjust your attitude before you go to the meeting.

There have been many times in my past that this final meeting or the need to ask the seller for a price concession was not necessary. I ran the numbers and did the due diligence and I was satisfied with the deal as it stood. To "squeeze" the seller when he has represented everything above board is not a requirement and should not be done. There are some buyers out there who feel like they have to get every last cent out of the negotiating process and I do not agree with this practice.

All of the big mobile home park owners and operators (I'm talking guys with 2,000+ lots) constantly ask for concessions. There is one in the U.S. who has several thousand lots and has a game plan on every deal – he asks for 50% off the day before diligence ends, just to see what happens. If you want to be a pro, you have to learn to ask for price concessions. You're trying to make money, not open an etiquette school – in fact renegotiating price is a part of normal deal etiquette!

Secondly, you have to make money or you are making an unwise decision to buy this park. Think of the list of problems you can't fix. Are you going to take all that risk for nothing? And if you start to get weak on the 10% return rule, remember that the bank is going to get about 8%, so there is not much left for you. If you

can't beat a CD by 5%, I don't know what you're doing, I don't think the risk is worth it.

Make sure that you have everything in writing that you will discuss, with a copy for the seller to look at. Make sure it's legible – preferably typed. Don't try to do it from memory. You'll get nervous, and forget half the stuff.

Finally, remember that every successful deal must be win/win. The seller needs to get a fair price and so do you! This deal will not be a good deal if the seller gets a great price and you get taken. In reality, if the seller refuses the concessions, the deal probably won't pencil out on paper enough to get a loan, anyway.

Now get out of the door and go to the meeting. You'll do fine.

When meeting with the seller, it is very important that you have the right appearance. It is the only time, other than if you have to meet with the city over some problem, that you have to worry about “dressing for success”. The key is to look neither rich (he doesn't need a price reduction) nor poor (he can't afford the down payment anyway). Here's how I get around this touchy subject – I look both rich and poor at the same time! I wear a dress shirt and suit pants with dress shoes, but I roll up the sleeves on the shirt, never wear a coat or tie, and wear a shirt that is wrinkled and not fresh from the dry cleaner (leave it kind of wadded up over night). I probably look like a door-to-door religious cult disciple, but it really throws off the seller's ability to profile you and put you in a “rich” or “poor” box. Make sure that your shirt has no logos on it, and don't wear a watch (who needs one with cell phones, anyway) as these brands could cause him to form an opinion. The look should be “worn-out Sunday school teacher”.

DAY TWENTY-EIGHT

TO DO LIST

- Evaluate the Results of your Meeting

Evaluate the Results of your Meeting

Yesterday you met with the seller and asked for some price concessions. How did it go? He probably told you he would have to think about it overnight. So this is the next day. You need to call him. Your time clock is running out, and you need his response to wrap up your due diligence work.

How did you feel coming out of the meeting? Was the seller receptive, or did he seem intractable? Do you think he'll agree to a win/win price? Your goal today is to get his answer. If you already have it, go to the next day. Otherwise, keep calling until you get his answer. You are running out of time.

While the seller is thinking about his counter-offer, it is a good time to be thinking about your next attack plan. If the seller's price is way off the mark – and if there is no way to make that price logically work – then you are probably better off telling him on the spot that it can't possibly work. That way he doesn't go away from the call thinking that all is ok. Try and turn things around on him in this case and tell him "the deal just won't work at that price using conventional financing, but might work if you will carry all of the paper to maturity at a below market interest rate. "Maturity" is the key here. Many people will carry paper for a year or two just to sucker you in, but a 20 year or so carry is a whole different deal. He may then try to renegotiate back to just getting cash and dropping to your price. It also doesn't hurt to remind the seller that any future buyer will also have to get a bank loan, so it's not like the next guy will have a whole different reality to work with.

DAY TWENTY-NINE

TO DO LIST

- Analysis of the Seller's Counter-Offer

Analysis of the Seller's Counter-Offer

You have now received the seller's answer. It is one of three things. He said "no". He said "yes". Or he countered with "yes, but not as much as you asked".

If he said "no", and you have run the numbers over and over and there is no way the deal works at this price, then you need to cancel the deal. Remember, that when you cancel the deal there is always the chance, however slim, that he will recant and agree. But if the deal doesn't work, it doesn't work. Time to cut your losses and move on to the next deal. However, even then, you will want to stay in contact with the seller to see if he changes his mind down the road. This happens all the time. So be sure to leave on good terms with the seller so you can keep calling him.

If he said "yes", then you are in good shape, assuming that you ran your numbers correctly. You are ready for the final countdown.

If he said "yes, but not as much as you asked for", and then specified a new price, you now have the hardest job. You have to evaluate whether or not it works at this new price. And that is a big, gray area. So let's figure out how to approach it. First, see if there are any of your "must-haves" that can be eliminated or reduced without too much impact on the property. For example, maybe the old fence can last another few years, or the sign at the front can be freshened up instead of being replaced. Re-figure your numbers and see if they can be logically reduced. Also look at the possibility of raising rents immediately

– is that an option? See if these two attacks can get you where you need to be. But whatever you do, don't cheat. Don't lie to yourself and then figure that it will all work out in the end. If the deal doesn't work scientifically, then walk away from it. Don't force yourself into having to make a "Hail-Mary" pass into the end zone just to make the note payment every month. It's a lot more embarrassing to buy this park and fail with it than to move on to the next deal.

If you have crunched all the numbers 100 times and they still don't work after the seller's counteroffer, then you have to call him and give him an ultimatum.

And it has to be tomorrow.

The first thing to consider in analyzing the seller's counteroffer is whether there are legitimately any areas of capital expenditure you can cut or reduce. Sure, it would be nice to put in new road base on the asphalt streets, but could you survive by just continuing to patch the potholes? This is where some form of business decision ability has to come in. Many of your proposed capital and repair costs are not set in stone. Yet some really are that amount, and are necessary, and to not spend that much will jeopardize the operation of the park, such as fixing a collapsed sewer section. In a perfect world, you would spend 100% of your budget, but can you get by on 80%? That's the kind of decision making most local governments have to make these days.

The next thing to consider is if you can, with small effort, bring to the income up enough to cover the difference, particularly in light of the point made above. If a \$5 per month lot rent increase fixes the problem, and still leaves room for a \$10 per month lot rent increase for your benefit, then maybe you can go a little higher on the price.

DAY THIRTY

TO DO LIST

- Make one Final Offer to the Seller
- Do a Final Review of all your Diligence
- Final Walkthrough
- Make a Commitment and Stick with it

Make one Final Offer to the Seller

We are assuming that you know what the final sales price has to be to make this deal work. You tried to get the necessary concession from the seller, but he countered with a number that still does not work. Before you drop the deal, you need to talk to the seller one more time. And for the sake of time, do it by phone. Here's what you say: "I have been running numbers all night, and I still can't make this deal work despite your generous counter-offer to my proposal.

The most I can pay for this park is \$_____ to make the numbers work and afford the debt payment. I believe that there is no other reasonable buyer who will pay what you are asking – they couldn't and still get a loan. If you will agree to my price of \$_____, I will go firm today, and we will get this deal done ASAP". Then you wait for the seller to respond. If he says "I'm sorry, but I won't take a penny less than \$_____", and that number does not work, then the deal is over and you need to send out the cancellation notice.

The seller may still call you after he receives the notice and agree to your number, but it doesn't happen very often. However, he may still lower his price over time if there are no takers, so be sure to leave on a cordial note. End the call with, "I'm sorry this deal did not work out. I gave it my best attempt. If you ever change your mind, I would still like to buy this park. I hope that it is ok for me

to call you periodically to check on its status.” It is never a good idea to end it by telling the seller off even if he tells you off first. Once you cross that path you will have closed the door on any future conversations.

After you have reviewed the seller’s counteroffer, made your final offer and been rebuffed, it’s time to bow out gracefully and hope the phone rings. Be sure and thank him for all the time he spent with you, and lay on thick all the time and money you have in the deal. Put a guilt trip on him, if you can, for misleading you on the actual revenue and expenses (but not in those words!) and blame the failure on the bank. Be sure and stay on a positive note, just like a politician who has lost this year’s race, because you may be back in the saddle shortly. Two things can still happen after you drop the deal: 1) the seller calls and says he’s changed his mind and will take your final offer (and this happens occasionally) or 2) the seller may call, months later, and say that he’s changed his mind and will take your offer. I’ve had sellers call a year later. Sometimes you’re interested, and sometimes your not. If you’re not, tell them the market has declined, and then see what they say. They may panic and drop the price even more – then maybe you’ll get interested!

Do a Final Review of all your Diligence

If you were able to get the price you needed, its time for a full-scale final assessment of what you are doing with this deal. Use the due diligence checklist at the back of this manual to make sure that you have covered every base and are comfortable that it is a good deal for you. Go over your budget 100 times until you know that every number is accurate and supported by fact.

If you’ve done your homework, you’ve produced a lot of data. Now is the time to review it one last time (you’ll do it again right before closing) to see if the deal still makes scientific sense. Be sure and strive to eliminate all emotion at this point, and look critically at the math, like a doctor or scientist would. Use the list of

diligence categories in this manual and see if the deal satisfies all of these line items. Make sure you have not missed any diligence item, especially due to laziness or procrastination. If so, this is your last chance to do it.

Final Walkthrough

Before your due diligence time period expires you will want to perform a final walkthrough of the park. You should do this right before closing. Take your park map and rent roll with you and look for things that have changed in the last 30 days. Have new residents moved in? Or have 3 lots become vacant since the last walk through? If you requested repairs to be made, you should make sure that they have been made or that other arrangements are in progress. While things don't usually change that quickly in a mobile home park, you are looking to see that things are nearly the same or better since the last physical inspection.

Make a Commitment and Stick with it

If you are convinced that your budget is accurate and that you have received all the necessary diligence information and, after reviewing it all, you still want to buy this park, then it is time to make a mental commitment.

During World War II, Dwight Eisenhower had to decide when to launch the "Invasion of Normandy", which was the all-out offensive to attack the Germans in France. He had a constant stream of data, and knew what the correct parameters were for the best chance at success. And once he made his decision, he stuck with it no matter what anyone said, or what self-doubts he may have had. You need to do the same. Once you have said to yourself "that's it, I'm buying this park!" then you need to make that commitment and move on. Don't spend any more time worrying. You have successfully completed your diligence and are ready for the financing hurdle.

By the end of today (and you'd better know what time) you have to either cancel the contract or, even by inaction, you have committed to buy the park, pending financing (and make sure the terms of your contract support this).

Remember that any commitment you make is only through today. You are still free to change your mind, and should if the facts suggest it, before closing. But the key is to not have self-doubt after your decision. Never look back and think "did I make the wrong decision?" That kind of thinking is self-destructive and not profitable. Once you make your decision, move on. You can still cancel the deal all the way to the end and only lose your earnest money (if you wrote your contract correctly). But never, ever, be a backseat driver to yourself. And one more thought: never let anyone else criticize you and say "that was a stupid decision". Only you had the information to make the decision. Those who did not participate in the diligence process are not qualified to voice an opinion.

We hope that we helped you make the right decision.

Conclusion

Dave and I have done diligence on literally hundreds of parks. It took us about 10 years to make just about every mistake in this manual, and sometimes more than once. We have learned from our mistakes and hope that you will not make the same ones that we have made and that so many people make on a daily basis.

If you follow this manual to the letter, you will be among the best at doing due diligence on a mobile home park in the U.S. – and we're not kidding. You could compare your work to the biggest operators in the U.S. and you'd probably have done a better job.

Frank & Dave

Due Diligence Checklist:

Day #	Book Pgs.	Main Goals	Estimated Hard Costs
1	pg. 14	Title Commitment	
	pg. 15	Quick Audit of the Income	
	pg. 16	Review the Rent Roll	
	pg. 17	Unlocking the Hidden Mysteries of the Rent Roll	
	pg. 19	The Importance of Length of Occupancy	
	pg. 21	The Truth About Late Fees	
	pg. 22	Security Deposits	
	pg. 23	History and Importance of Rent Increases	
	pg. 24	Verifying Who Pays What Expense	
	pg. 26	Digging into the Expenses	
	pg. 30	Typical Operating Expenses for a Mobile Home Park	
	pg. 34	Review of Sellers Tax Returns & Bank Deposits	
	pg. 35	Get more Documentation from the Seller	
2	pg. 37	Check out the Market	
	pg. 38	Get Comps on Other Mobile Home Parks	
	pg. 40	Get Apartment & Single Family Home Rental Comps	
	pg. 41	Get Comps on Home Prices	
	pg. 41	Call the City About New Parks	
	pg. 42	Learn Everything about the Market	
	pg. 42	Chamber of Commerce	
	pg. 43	Real Estate Brokers	
	pg. 44	Call Mobile Home Dealers	
	pg. 46	City Planning & Zoning	
	pg. 46	Other Sources of Information	
3	pg.47	Review Leases & Rules	
	pg. 48	Check Zoning & Permits	

30 Days of Successful Due Diligence

	pg. 52	Sunset Provisions	
	pg. 53	Special Assessments	
	pg. 54	Contact the Police Department	
4	pg. 56	Water, Sewer, & Sub-Master Metered Gas	\$300.00
	pg. 57	Electrical	\$200.00
	pg. 58	Above Ground vs. Below Ground Electric	
	pg. 59	Road Repairs	Free Est
	pg. 60	Trees	Free Est
5	pg. 62	Private Utilities	
	pg. 64	Private Water Wells	
	pg. 66	Private Sewer Systems	
	pg. 68	Septic	
	pg. 68	Lift Stations	
	pg. 69	Tap Fees	
6	pg. 70	Talk with Plumbers	
	pg. 72	Talk with Electricians	
	pg. 72	Talk with Paving Companies	
7	pg. 74	Count & Measure Lots	
	pg. 75	Small Lots	
	pg. 76	Park Expansion	
	pg. 77	Valuing Vacant Lots	
	pg. 78	Learning the Problems from the Residents	
	pg. 79	Park Owned Home Inspections	
	pg. 82	How to Make Sure Park Owned Homes are Properly Installed	
	pg. 83	Removing Abandoned Homes	
	pg. 85	Inspections of Other Structures	
	pg. 85	Location, Location, Location - Review	

Decision Time!! The next days can involve a lot of expense. Time to think			
8	pg. 90	Take Permit to Attorney	\$250.00
	pg. 90	Give Plumber Go Ahead on Camera Job	\$2,000.00
	pg. 90	Order Phase I Environmental Study	\$2,000.00
	pg. 92	Order the Survey	\$2,000.00
	pg. 92	Contact lenders if not seller financed	
	pg. 93	Place a Test Ad	\$100.00
9	pg. 95	Drive Through at Night	
	pg. 96	Street Lights	
10	pg. 98	Meetings on Private Utilities	\$1,000.00
11	pg. 99	Review Camera Job	
12	pg. 100	Park Owned Home Bids	Free Est
13	pg. 104	Check with Loan Broker or Bank	
14	pg. 106	Evaluate Test Ad Results	
15	pg. 108	Half Way	
16	pg. 110	Attorney Evaluation of Permit & License	
17	pg. 113	Current Management	
18	pg. 114	Check on Title Commitment	
19	pg. 117	Check on Phase I & Survey	
20	pg. 118	Start to panic - 10 days left	
21	pg. 120	Review the Survey	
	pg. 124	Compare Survey to Legal Description	
22	pg. 127	Review the Phase I Report	
23	pg. 130	Check on the Loan Status - Order Appraisal	\$3,000.00
24	pg. 132	Check Back with City on Permits	
25	pg. 134	Make a List of all the Problems with the Deal	

Decision Time!! Review the list you just made. Are there any deal killers? What about everything combined? Is it all added to the budget & negotiation list? 5 days left

26	pg. 136	Finish your Problem List	
	pg. 138	Script out your Discussion with the Seller	
	pg. 139	Make Appointment with Seller and/or Broker	
27	pg. 141	Meeting with the Seller and/or Broker	
28	pg. 143	Evaluate the Results of your Meeting	
29	pg. 144	Analysis of the Seller's Counter Offer	

Decision Time!! Did the seller counter with an offer that makes sense? 1 days left!!

30	pg. 146	Make one Final Offer to the Seller	
	pg. 147	Do a Final Review of all your Diligence	
	pg. 148	Final Walkthrough	
	pg. 150	Conclusion	

Make a Commitment and STICK WITH IT

Attachments & Worksheets are at the end of the manual. Also, you should have received an excel worksheet with all of the attachments.

Master Checklist			
Description	Date Ordered	Scheduled Completion	Done
Contracts, Legal & Third Party Reports			
Purchase Contract			
Loan Application			
Loan Approval			
LLC, LLP, Corp Formation Documents			
Survey			
Phase 1			
Appraisal			
Title Commitment			
Check Legal Description to Survey & Title			
Negotiation Items Report			
Quotes Needed			
Insurance - Liability			
Insurance - Property			
Insurance - Workers Comp			
Financial & Resident Information			
Rent Rolls			
P & L Statement - 3 years			
Tax Return - 3 years			
Check Leases & Rules			

Master Checklist - continued			
Description	Date Ordered	Scheduled Completion	Done
City, County & State			
Park Compliance with Zoning, Sunset, Setbacks, etc			
City, County & State License Info			
City, County & State Mobile Home & Park Code			
State Eviction Regulations			
Market Comps & Demographics of Area			
Market Comps			
Demographic Information			
Test Advertisement			
Utilities & Infrastructure			
Check Water Lines / Well System			
Check Sewer Lines / Sewer System			
Check Gas / Propane System			
Check Electrical			
Physical Park Inspections			

Master Checklist - continued			
Description	Date Ordered	Scheduled Completion	Done
Maps & Photos			
Map - Utility Lines			
Map - Plat			
Map - Lot Layout			
Photos of Park			
Photos of Park Owned Homes			
Park Owned Homes			
Verify Seller has Titles to Homes			
Park Owned Home & Buildings Report			
Budgets & Valuation			
Park Valuation Worksheet			
NOI Maximization Plan			

Master Contact List				
Fill in contact Info on this sheet - info will auto fill into the other tabs				
Purchase				
	Contact Name	Phone #	Fax #	Email
Seller				
Address				
Broker				
Address				
Title Company				
Address				
Loan				
Address				
Surveyor				
Address				
Phase 1 Company				
Address				
Liability Insurance 1				
Address				
Liability Insurance 2				
Address				
Workmans Comp				
Address				
Attorney				
Address				
Accountant				
Address				

Master Contact List - continued				
Fill in contact Info on this sheet - info will auto fill into the other tabs				
Government - City, County & State				
	Contact Name	Phone #	Fax #	Email
Planning & Zoning				
Building Inspector				
Courthouse/Judge				
Fire Department				
Police Department				
Health Department				
Assessor				
Tax Office				
City Utilities				
	Contact Name	Phone #	Fax #	Email
Water				
Address				
Sewer				
Address				
Electric				
Address				
Gas				
Address				
Trash				
Address				
Cable				
Address				
Telephone				
Address				

Master Contact List - continued				
Fill in contact Info on this sheet - info will auto fill into the other tabs				
Private Utilities				
Water - Gov't Regulator				
Water - Testing				
Sewer - Gov't Regulator				
Sewer - Testing				
Other Vendors				
Plumber 1				
Plumber 2				
Plumber 3				
Roto Rooter 1				
Roto Rooter 2				
Roto Rooter 3				
Electrician 1				
Electrician 2				
Electrician 3				
Tree Trimming 1				
Tree Trimming 2				
Tree Trimming 3				
Mowing 1				
Mowing 2				
Mowing 3				
Road Repair 1				
Road Repair 2				
Road Repair 3				
Other 1				
Other 2				
Other 3				

Master Contact List - continued				
Fill in contact Info on this sheet - info will auto fill into the other tabs				
Checking the Market				
	Contact Name	Phone #	Fax #	Email
Chamber of Commerce				
Mobile Home Dealer 1				
Mobile Home Dealer 2				
Mobile Home Dealer 3				
Real Estate Broker 1				
Real Estate Broker 2				
Real Estate Broker 3				
Mobile Home Mover 1				
Mobile Home Mover 2				
Mobile Home Mover 3				
Comparables - On Comparable Tab				
Capital Expenditures - On CapX Tab				
Walk Through - On Walk Thru Tab				
Negotiation Items - On Negotiation Items Tab				
Park Owned Homes & Other Structures Report - On POH & Bldgs Tab				
Net Operating Income Maximazation Plan - On NOI Max Tab				
Park Valuation Spreadsheet - On Value Tab				
Rent Roll - On Rent Roll Tab				

General Purchase & Closing Information			
Seller			
Contact Name	Phone#	Fax#	Email
Seller's Broker			
Contact Name	Phone#	Fax#	Email
1. City, County and State Permits and Licenses			
2. Certificates of Occupancy			
3. Sewer Plant Records and Readings (if applicable)			
4. Water Well Tests and Compliance Records (if applicable)			
5. Existing Surveys or Environmental Reports			
6. Water and other Utility Meter Reading Records and Formulas (if submetered)			
7. Water, Sewer, Trash, Gas, Electric Bills for the last 2-3 years			
8. Property tax bills for the last 2-3 years			

30 Days of Successful Due Diligence

9. Copy of current insurance policy and binder showing premiums and coverage's
10. Current staffing list including position, wages, job descriptions
11. Any drawings and maps of the park and infrastructure and size of lots
12. Any Contracts that will be transferred to buyer at closing(laundry, trash, phone)
13. Signed Rules and Leases for each resident
14. Bank Statements
15. 2-3 years Tax Returns
16. 2-3 years Profit and Loss
17. List of Capital Expenditures for the last 3 years
18. Utilities and what made of (What are the water & sewer lines made of? What is the amperage of each electrical pole?)
19. Who pays what and how is it metered? Water, Sewer, Gas, Electric, Trash, Cable, etc
20. Listing of any current park infrastructure problems (water, sewer, gas, electric)

30 Days of Successful Due Diligence

21. Rent Roll with specific homesite number, name of resident, move-in date, monthly rent, current balance, additional charges, number of occupants, and a brief history of the resident (good resident / bad resident, special circumstances, etc.)			
22. Dates and amounts of the last 2-3 Rent Increases			
23. Names and phone numbers of all contractors used in the last few years – plumbers, electricians, propane, gas, roto rooters			
24. Why are you selling?			
25. Are there any defects that you are aware of? Any outstanding violations?			
26. Have any homes that have been pulled in been denied utility hookups? If so, Why?			
27. What are the five biggest problems with the park?			
28. What are the five biggest benefits of the park?			
29. Would you have bought it again if you had a choice?			
Other Questions:			
Title Company			
Contact Name	Phone#	Fax#	Email

30 Days of Successful Due Diligence

Order the Title Commitment			
Go over any exceptions, easements, restrictions that you don't understand			
Other Questions:			
Lender			
Contact Name	Phone#	Fax#	Email
What are the Anticipated Loan Fees & Closing Costs?			
How long from Application from Closing?			
When will Appraisal be ordered and what will be the cutoff date to cancel the Appraisal?			
What financial, company, and personal information is needed?			
When will Appraisal be ordered and what will be the cutoff date to cancel the Appraisal			
Other Questions:			
Survey			
Contact Name	Phone#	Fax#	Email

30 Days of Successful Due Diligence

Are they licensed?		
What types of surveys are available and at what costs?		
How soon can they have the survey ready?		
Other Questions:		
Phase I		
Contact Name	Phone#	Fax#
Are they licensed?		
What are the costs and time frames?		
Other Questions:		
Liability Insurance - Quote 1		
Contact Name	Phone#	Fax#
What types of Insurance is Available? (loss of income, liability, property, theft, etc)		
What will it cost?		

30 Days of Successful Due Diligence

Requirements for coverage (ie: rules for dogs, swimming pools, steps, etc)			
Other Questions:			
Liability Insurance - Quote 2			
Contact Name	Phone#	Fax#	Email
What types of Insurance is Available? (loss of income, liability, property, theft, etc)			
What will it cost?			
Requirements for coverage (ie: rules for dogs, swimming pools, steps, etc)			
Other Questions:			
Worker's Comp			
Contact Name	Phone#	Fax#	Email
Determine the costs based on what your employees will be doing			
Other Questions:			
Attorney			
Contact Name	Phone#	Fax#	Email

30 Days of Successful Due Diligence

Review the purchase contract		
Review the license & permits		
Review the survey, legal description, and title commitment		
Setup your LLC, Corp, LLP, etc		
Get feedback on proceedings for evictions, removal of abandoned homes, etc		
Other Questions:		
Accountant		
Contact Name	Phone#	Fax#
Email		
If uncertain about financial records of seller, have your accountant review		
Cost for bookkeeping, payroll & tax prep		
Other Questions:		

City, County & State - Government Entities			
Planning & Zoning			
Contact Name	Phone#	Fax#	Email
What was the original zoning?			
Where is the original building permit? Can I see a copy?			
How many lots are allowed in the original and subsequent applications?			
What is the current zoning?			
What is allowed in that zoning? (future land value)			
Is this park legal conforming or non-conforming?			
Is there an annual license or permit needed? What is the cost? Is it current? Is it transferable?			
What are the required setbacks? (side to side, front, rear)			
Are there any sunset provisions?			
What other zonings could be obtained for this property?			
Is there an annual license or permit needed? What is the cost? Is it current? Is it transferable?			

30 Days of Successful Due Diligence

Are any other parks being built? What are developments are near the park?			
If the park can be expanded, then what is involved with getting the permits and going ahead with the expansion?			
If the park has good commercial frontage make sure to find out if you split the property into more than one parcel how each property will be zoned.			
If the park has a single family home or other structure that you may want to split off and sell, find out the procedure and likelihood of being able to do so.			
Other Questions:			
Building / City Inspector for Mobile Home Parks			
Contact Name	Phone#	Fax#	Email
Are there any current violations? What are they and which lots?			
Are there any condemned mobile homes? Any red-tagged mobile homes?			
Are there any other condemned structures?			
Have there been any problems bringing homes in?			
How does the grandfathering work when bringing homes in?			

30 Days of Successful Due Diligence

What is the process and what permits are needed to bring a new or used home into the park?			
Are there any size or age limitations on homes being brought in?			
Other Questions:			
Courthouse / Judge			
Contact Name	Phone#	Fax#	Email
What is the cost of filing an eviction? Any changes to the law or cost on the horizon?			
Can my manager file or do I need an attorney?			
What are the required notices and timings of such before filing? (3 day, 7 day, 10 day, etc)			
What is the cost to file a writ of possession? What is the time of this writ?			
If I successfully evict a homeowner, what is the process of removing the home? (take it to the curb? Store it?)			
Are there any attorneys who specialize in eviction in this court regularly? Who?			
Other Questions:			
Fire Department			
Contact Name	Phone#	Fax#	Email

30 Days of Successful Due Diligence

What are the required distances between homes?		
Are homes allowed under the power lines or over gas lines? What setbacks are required from power lines or gas lines?		
Does the park conform to necessary fire lanes?		
Are the addresses marked correctly in the park?		
Are fire hydrants required? Does the park have enough? What testing is required?		
Are there any outstanding violations?		
Other Questions:		
Police Department		
Contact Name	Phone#	Fax#
Are there any current crime issues in the park? In the general neighborhood?		
Can I see a crime log for the park over the past year or so?		
If there is crime, which lots or homes?		
What type of crime is typical in the park? (drugs, sex offenders, domestic violence)		

30 Days of Successful Due Diligence

Is the property patrolled regularly? If not, can we have this request granted?			
How can we work together to reduce crime and keep it to a minimum?			
Other Questions:			
Health Department			
Contact Name	Phone#	Fax#	Email
Any Violations with the Water Well or Sewer Plant?			
Can I see a copy of the prior well or sewer reports?			
What testing is required? How often?			
Does operating the private water or sewer utility require a special license? Is a certified operator required?			
How does one become a certified operator?			
Other Questions:			
Tax Assessor			
Contact Name	Phone#	Fax#	Email

30 Days of Successful Due Diligence

How are properties assessed? How do you appeal assessments and taxes?			
What is the current assessment?			
How often are properties re-assessed? What triggers this?			
Other Questions:			
Tax Office			
Contact Name	Phone#	Fax#	Email
Are taxes current?			
When are taxes due?			
Other Questions:			

Utilities & Other Vendors			
Water Provider			
Contact Name	Phone#	Fax#	Email
Is the park on city water?			
Is the park on a master meter or is each lot metered by the city?			
How is the water expense calculated?			
If park is not metered individually by city, what can be done if anything to have city take over reading meters?			
If city won't meter individually, what restrictions are there for the park owner to submeter?			
Are you aware of any water or water line problems at the property?			
If the park is on well water, what is involved to convert to city water? (tap fees, how close is the city water line, will city help with the expense of running the water lines?)			
Can I get a copy of the past 24 months of water bills?			

30 Days of Successful Due Diligence

If the park is on private water are you aware of any violations or problems?			
Where does the city's responsibility end and the park owner's responsibility begin?			
Other Questions:			
Sewer Provider (usually the same as water)			
Contact Name	Phone#	Fax#	Email
Is the park on city sewer?			
Is the park on a master meter or is each lot metered by the city?			
How is the sewer expense calculated?			
If park is not metered individually by city, what can be done if anything to have city take over reading meters?			
If city won't meter individually, what restrictions are there for the park owner to submeter?			
Are you aware of any sewer or sewer line problems at the property?			
If the park is on septic, sewer plant, or lagoon, what is involved to hook into city sewer? (tap fees, how close is the city water line, will the city help with the expense of running the main sewer line?)			

Can I get a copy of the past 24 months of sewer bills?			
If the park is on private sewer, are you aware of any violations or problems?			
Where does the city's responsibility end and the park owner's responsibility begin?			
Other Questions:			
Electrical Provider			
Contact Name	Phone#	Fax#	Email
Is the Electric Submaster-Metered or Billed Directly to Residents?			
What are the current rates for Electric? What is an average bill?			
If the park is on a master meter, can I get a copy of the past 24 months of bills?			
If the park is on a master meter, how can I get the electric company to take over reading each meter and billing the resident directly?			
Does the park pay for street lights or other common area electrical? Whose responsibility is it to maintain the street lights and bulbs?			

Are you aware of any electrical problems at the park? (poles, pedestals, etc?)			
Other Questions:			
Gas, Oil or Propane Provider			
Contact Name	Phone#	Fax#	Email
Is the Gas Submaster-Metered or Billed Directly to Residents?			
What are the current rates for Gas? What is an average bill?			
If the park is on a master meter, can I get a copy of the past 24 months of bills?			
If the park is on a master meter, how can I get the gas company to take over reading each meter and billing the resident directly?			
How old are the gas lines? Have they been pressure tested regularly? How often are they tested?			
Are you aware of any gas problems at the park? (gas lines, meters, etc?)			
Other Questions:			
Trash Collection			

30 Days of Successful Due Diligence

Contact Name	Phone#	Fax#	Email
What are the current trash collection rates? (per lot or per dumpster)			
How often is the trash collected? (Is this adequate?)			
What is the difference in cost between dumpsters and individual roll off carts?			
Will you bill the residents individually? (assuming this is not how it is already)			
What about removal of appliances, tree limbs, and other large items?			
How much for a large dumpster for a general park cleanup?			
If they are not the only game in town, consider getting estimates from other companies. You will be surprised at how often you can save 25 percent or more by switching companies.			
Other Questions:			
Cable Company			
Contact Name	Phone#	Fax#	Email
If the park buys the cable and resells it, then you want to know the procedure for this.			

30 Days of Successful Due Diligence

Sometimes a cable company will give discounts if you agree to get a certain percentage of your residents to sign up.			
Other Questions:			
Telephone Company			
Contact Name	Phone#	Fax#	Email
Usually not many questions here. Ask any you feel necessary.			
Private Utilities			
Water Wells - Regulatory Agency			
Contact Name	Phone#	Fax#	Email
Does the well have the proper permits?			
How many lots / people does the well have capacity for and what is it licensed for?			
Is a backup well or pump required?			
What are the testing requirements? Monthly, Quarterly, Annually, etc			
Have there been any past violations? Have they been corrected?			

30 Days of Successful Due Diligence

General thoughts on the system?			
Are there going to be any changes to the testing requirements?			
If the well fails to meet permit or pressure requirements, how long do we have to bring into compliance or drill another well or hook into city water?			
Is the current storage tank requirements being met?			
When was the last inspection?			
Is a certified operator required? How does one become a certified operator? What continuing education is required? Does the current operator meet your standards?			
Other Questions:			
Water Wells - Testing Company or Certified Operator			
Contact Name	Phone#	Fax#	Email
Are you currently licensed and plan on providing the same service to a new owner?			
What are your fees?			
Are you aware of any problems in the past with the well?			

30 Days of Successful Due Diligence

Do you foresee any problems in the future?			
Cost of operations and supplies needed to operate.			
Other Questions:			
Sewer System - Regulatory Agency			
Contact Name	Phone#	Fax#	Email
Does the sewer plant, lagoon, or septic have all necessary permits?			
How many lots / people does the system have capacity for and what is it licensed for?			
If the system fails (or if a septic tank or leach field fails), what is the process for replacing the system or septic & leach field?			
What are the testing requirements? Monthly, Quarterly, Annually, etc			
Have there been any past violations? Have they been corrected?			
General thoughts on the system?			

30 Days of Successful Due Diligence

Are there going to be any changes to the testing requirements?			
If the sewer system or septics fail to meet permits (discharge or leaching) and requirements, how long do we have to bring into compliance or hook into city sewer?			
When was the last inspection?			
Is a certified operator required? How does one become a certified operator? What continuing education is required? Does the current operator meet your standards?			
Other Questions:			
Sewer Systems - Testing Company or Certified Operator			
Contact Name	Phone#	Fax#	Email
Are you currently licensed and plan on providing the same service to a new owner?			
What are your fees?			
Are you aware of any problems in the past with the system?			
Do you foresee any problems in the future?			
Cost of operations and supplies needed to operate.			

Other Questions:

Vendors			
Plumber 1			
Contact Name	Phone#	Fax#	Email
Have the plumber come out to do an initial inspection of the park to ascertain such things as whether there appears to be sufficient water turn-offs and sewer cleanouts.			
Any indication of water or sewer leaks?			
Have you worked at the park before? If so, what type of problems did you notice or fix? Were the problems fixed completely or just done patchwork?			
What are your fees? Are you on call 24/7? What about weekends?			
What is your charge to run a camera down the sewer lines to check for problems? How soon can you do it?			
General thoughts on the system?			
What are the water and sewer lines made out of in your opinion?			
What are the water and sewer lines made out of in your opinion?			
Does the water well appear to be in good working order?			

30 Days of Successful Due Diligence

What would it cost to drill a new well? Rework the existing one?			
Do the septics & leach fields, sewer plant, or lagoon appear to be in good working order?			
What would it cost to repair or replace a septic, leach field, sewer plant, or lagoon?			
What are the top 10 most expensive things that you might need to fix on the private utility systems? What are the cost estimates?			
For Submaster-Metered Gas - Is the system legal? Is a license required? Will it hold pressure? How often is it required to be pressure tested? When was last test?			
For Submaster-Metered Gas - What would it cost to replace the whole system? Can I convert to propane in this market? What is the line made out of? What condition is it in?			
Other Questions:			
Plumber 2			
Contact Name	Phone#	Fax#	Email
Have the plumber come out to do an initial inspection of the park to ascertain such things as whether there appears to be sufficient water turn-offs and sewer cleanouts.			

30 Days of Successful Due Diligence

Any indication of water or sewer leaks?
Have you worked at the park before? If so, what type of problems did you notice or fix? Were the problems fixed completely or just done patchwork?
What are your fees? Are you on call 24/7? What about weekends?
What is your charge to run a camera down the sewer lines to check for problems? How soon can you do it?
General thoughts on the system?
What are the water and sewer lines made out of in your opinion?
Does the water well appear to be in good working order?
What would it cost to drill a new well? Rework the existing one?
Do the septics & leach fields, sewer plant, or lagoon appear to be in good working order?
What would it cost to repair or replace a septic, leach field, sewer plant, or lagoon?
What are the top 10 most expensive things that you might need to fix on the private utility systems? What are the cost estimates?

30 Days of Successful Due Diligence

What are the water and sewer lines made out of in your opinion?			
For Submaster-Metered Gas - Is the system legal? Is a license required? Will it hold pressure? How often is it required to be pressure tested? When was last test?			
For Submaster-Metered Gas - What would it cost to replace the whole system? Can I convert to propane in this market? What is the line made out of? What condition is it in?			
Other Questions:			
Plumber 3			
Contact Name	Phone#	Fax#	Email
Have the plumber come out to do an initial inspection of the park to ascertain such things as whether there appears to be sufficient water turn-offs and sewer cleanouts.			
Any indication of water or sewer leaks?			
Have you worked at the park before? If so, what type of problems did you notice or fix? Were the problems fixed completely or just done patchwork?			
What are your fees? Are you on call 24/7? What about weekends?			

30 Days of Successful Due Diligence

What is your charge to run a camera down the sewer lines to check for problems? How soon can you do it?
General thoughts on the system?
What are the water and sewer lines made out of in your opinion?
Does the water well appear to be in good working order?
What would it cost to drill a new well? Rework the existing one?
Do the septic & leach fields, sewer plant, or lagoon appear to be in good working order?
What would it cost to repair or replace a septic, leach field, sewer plant, or lagoon?
What are the top 10 most expensive things that you might need to fix on the private utility systems? What are the cost estimates?
For Submaster-Metered Gas - Is the system legal? Is a license required? Will it hold pressure? How often is it required to be pressure tested? When was last test?
For Submaster-Metered Gas - What would it cost to replace the whole system? Can I convert to propane in this market? What is the line made out of? What condition is it in?

Other Questions:

Choose one plumber to do the camera job and to look at any other potential plumbing problems in more detail (lift stations, well pumps, etc)

Results:

Roto Rooter 1

Contact Name	Phone#	Fax#	Email

Talk to a roto rooter company (if the plumbers don't offer this service). You want to get their rates, previous experience with this park, cause of the problems they have experienced (roots, grease, objects, line collapses, etc)

Find out rates, availability, and response times as well.

Roto Rooter 2

Contact Name	Phone#	Fax#	Email

30 Days of Successful Due Diligence

Talk to a roto roter company (if the plumbers don't offer this service). You want to get their rates, previous experience with this park, cause of the problems they have experienced (roots, grease, objects, line collapses, etc)			
Find out rates, availability, and response times as well.			
Roto Rooter 3			
Contact Name	Phone#	Fax#	Email
Talk to a roto roter company (if the plumbers don't offer this service). You want to get their rates, previous experience with this park, cause of the problems they have experienced (roots, grease, objects, line collapses, etc)			
Find out rates, availability, and response times as well.			
Electrician 1			
Contact Name	Phone#	Fax#	Email
Do electric poles and pedestals appear adequate? Are they easy to work on and get parts for?			
How much to run a new pedestal and pole? How much to hook up a new mobile home?			
What is the current amperage for each lot?			
Do transformers appear to be safe and of adequate size?			

30 Days of Successful Due Diligence

What problems do you foresee with this park?			
Have you worked at the park before? If so, what type of problems did you notice or fix? Were the problems fixed completely or just done patchwork?			
For Submaster-Metered Electric - What is the current draw on the system? How much is it meant to handle? Can more homes be added without a system failure?			
Other Questions:			
Electrician 2			
Contact Name	Phone#	Fax#	Email
Do electric poles and pedestals appear adequate? Are they easy to work on and get parts for?			
How much to run a new pedestal and pole?			
What is the current amperage for each lot?			
Do transformers appear to be safe and of adequate size?			
What problems do you foresee with this park?			
Have you worked at the park before? If so, what type of problems did you notice or fix? Were the problems fixed completely or just done patchwork?			

30 Days of Successful Due Diligence

For Submaster-Metered Electric - What is the current draw on the system? How much is it meant to handle? Can more homes be added without a system failure?			
Other Questions:			
Electrician 3			
Contact Name	Phone#	Fax#	Email
Do electric poles and pedestals appear adequate? Are they easy to work on and get parts for?			
How much to run a new pedestal and pole?			
What is the current amperage for each lot?			
Do transformers appear to be safe and of adequate size?			
What problems do you foresee with this park?			
Have you worked at the park before? If so, what type of problems did you notice or fix? Were the problems fixed completely or just done patchwork?			
For Submaster-Metered Electric - What is the current draw on the system? How much is it meant to handle? Can more homes be added without a system failure?			
Other Questions:			
Tree Company 1			
Contact Name	Phone#	Fax#	Email

30 Days of Successful Due Diligence

Here you are looking to get estimates to remove or trim the trees?			
Are there any large dead trees?			
Do you see any immediate problems?			
Other Questions:			
Tree Company 2			
Contact Name	Phone#	Fax#	Email
Here you are looking to get estimates to remove or trim the trees?			
Are there any large dead trees?			
Do you see any immediate problems?			
Other Questions:			
Tree Company 3			
Contact Name	Phone#	Fax#	Email
Here you are looking to get estimates to remove or trim the trees?			
Are there any large dead trees?			

30 Days of Successful Due Diligence

Do you see any immediate problems?			
Other Questions:			
Mowing & Landscaping Company 1			
Contact Name	Phone#	Fax#	Email
Get estimates on cost to mow and trim common areas and vacant lots.			
Other Questions:			
Mowing & Landscaping Company 2			
Contact Name	Phone#	Fax#	Email
Get estimates on cost to mow and trim common areas and vacant lots.			
Other Questions:			
Mowing & Landscaping Company 3			
Contact Name	Phone#	Fax#	Email
Get estimates on cost to mow and trim common areas and vacant lots.			
Other Questions:			
Road Repair Company 1			

30 Days of Successful Due Diligence

Contact Name	Phone#	Fax#	Email
Get the repair companies general idea on the roads and timeline of road repairs for the future			
Get estimates to patch, grade, add gravel, resurface, or seal coat the roads			
What condition does the road base look to be in?			
Other Questions:			
Road Repair Company 2			
Contact Name	Phone#	Fax#	Email
Get the repair companies general idea on the roads and timeline of road repairs for the future			
Get estimates to patch, grade, add gravel, resurface, or seal coat the roads			
What condition does the road base look to be in?			
Other Questions:			
Road Repair Company 3			
Contact Name	Phone#	Fax#	Email
Get the repair companies general idea on the roads and timeline of road repairs for the future			

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Get estimates to patch, grade, add gravel, resurface, or seal coat the roads			
What condition does the road base look to be in?			
Other Questions:			
Other Vendors 1			
Contact Name	Phone#	Fax#	Email
Estimates:			
Other Questions:			
Other Vendors 2			
Contact Name	Phone#	Fax#	Email
Estimates:			
Other Questions:			
Other Vendors 3			
Contact Name	Phone#	Fax#	Email
Estimates:			
Other Questions:			

General Market and Location of Park			
Chamber of Commerce			
Contact Name	Phone#	Fax#	Email
Who are the biggest employers?			
Are there rumors of new employers coming to town or employers shutting down or cutting back?			
Are there any new real estate developments in town?			
What types of businesses are doing well here?			
How are the local schools rated?			
Do you have any knowledge of _____ Mobile Home Park?			
Ask for new resident kit?			
Other Questions:			
MH Dealer 1			
Contact Name	Phone#	Fax#	Email
Do you have any knowledge of _____ Mobile Home Park?			

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How many homes are you selling each month? Where are the buyers setting these homes up (parks, land/home)?			
Will you refer home buyers to _____ Mobile Home Park?			
Do you have any good used homes for sale at a reasonable price? Any trade-ins?			
Will you place homes (new, used, junkers) in the park and sell them if we don't charge rent until sold?			
Do you know of any Lonnie Investors in this market that I could contact to work a deal with?			
Are there any land/home developments in the area that will hurt the rental parks?			
What can you tell me about the competition (lot rents, move-in specials, quality, etc)			
Other Questions:			
MH Dealer 2			
Contact Name	Phone#	Fax#	Email
Do you have any knowledge of _____ Mobile Home Park?			
How many homes are you selling each month? Where are the buyers setting these homes up (parks, land/home)?			
Will you refer home buyers to _____ Mobile Home Park?			

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Do you have any good used homes for sale at a reasonable price? Any trade-ins?			
Will you place homes in the park and sell them if we don't charge rent until sold?			
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Are there any land/home developments in the area that will hurt the rental parks?			
What can you tell me about the competition (lot rents, move-in specials, quality, etc)			
Other Questions:			
Real Estate Broker 1			
Contact Name	Phone#	Fax#	Email
Get an idea of home values and whether they are going up or down. Also find out rental rates for single family, apartments, etc.			
Find out rental rates and vacancies for single family, apartments, etc.			
Who are the biggest employers?			
Are there rumors of new employers coming to town or employers shutting down or cutting back?			
Are there any new real estate developments in town?			
What types of businesses are doing well here?			
How are the local schools rated?			

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Do you have any knowledge of _____ Mobile Home Park?			
What is the land value of _____ Mobile Home Park as currently zoned? With another zoning?			
How long would it take to sell at Land Value Price?			
Other Questions:			
Real Estate Broker 2			
Contact Name	Phone#	Fax#	Email
Get an idea of home values and whether they are going up or down. Also find out rental rates for single family, apartments, etc.			
Find out rental rates and vacancies for single family, apartments, etc.			
Who are the biggest employers?			
Are there rumors of new employers coming to town or employers shutting down or cutting back?			
Are there any new real estate developments in town?			
What types of businesses are doing well here?			
How are the local schools rated?			

30 Days of Successful Due Diligence

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Other Questions:			
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Contact Name	Phone#	Fax#	Email
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What types of businesses are doing well here?			
How are the local schools rated?			

30 Days of Successful Due Diligence

Do you have any knowledge of _____ Mobile Home Park?

What is the land value of _____ Mobile Home Park as currently zoned? With another zoning?

How long would it take to sell at Land Value Price?

Other Questions:

MH Mover 1

Contact Name	Phone#	Fax#	Email

Do you have any knowledge of _____ Mobile Home Park?

Will you refer customers to _____ Mobile Home Park?

Where are you typically moving homes to? (parks or land/home)

What are your typical charges for tear down, moving, and set up? If I use you exclusively will there be any discounts?

Do you ever run into good used homes for sale that you would let me know about?

What can you tell me about the competition (lot rents, move-in specials, quality, etc)

Other Questions:

MH Mover 2

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Contact Name	Phone#	Fax#	Email
Do you have any knowledge of _____ Mobile Home Park?			
Will you refer customers to _____ Mobile Home Park?			
Where are you typically moving homes to? (parks or land/home)			
What are your typical charges for tear down, moving, and set up? If I use you exclusively will there be any discounts?			
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Other Questions:			
MH Mover 3			
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Will you refer customers to _____ Mobile Home Park?			
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What can you tell me about the competition (lot rents, move-in specials, quality, etc)

Other Questions:

Capital Expenditures			
Cap X Type	Description	Expected Cost	Timeline
Roads			
Water Lines			
Sewer Lines			
Gas			
Electricity			
Landscaping			
Buildings			
Park Owned Homes			
Other			
Other			

Physical Inspections of Park - Walk Throughs		
Date Inspected	Problems Found	Problems Corrected Since Last Inspection

Items for Negotiation with Seller			
Problem	Solution	Estimated Cost	Timeline

NOI Maximization Plan		
Increase Income	NOI Affect	Timeline
Reduce Expense	NOI Affect	Timeline

Park Owned Home & Building Report						
Space #	Status	Year	Size	Condition	Market Value	Cost of Repairs
Park Owned Homes						



Buildings & Other Structures				
Type	Use	Condition	Repairs Needed	Cost of Repairs



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Rent Roll - For the Month of _____, 2008														
Lot#	Name	Sec Dep	Move in date	Bal Fwd	Lot Rent	Rental Home (over Lot Rent)	Note Payments	Other Charges	Utility Billback	Total Due	Note Balance	Interest Rate	Date of First Payment	Term in Months
1	a	\$200	3/21/2008	\$450	\$200	\$0	\$250	\$0	\$41	\$941	\$7,500	9.50%	3/21/2008	30
2	b	\$200	3/21/2008	\$0	\$200	\$0	\$350	\$0	\$62	\$612	\$8,750	9.50%	3/21/2008	25
3	c	\$200	3/21/2008	\$0	\$200	\$0	\$0	\$0	\$58	\$258			3/21/2008	
4	d	\$200	3/21/2008	\$0	\$200	\$0	\$200	\$0	\$41	\$441	\$5,400	9.50%	3/21/2008	27
5	e	\$200	3/21/2008	\$0	\$200	\$0	\$0	\$22	\$38	\$260			3/21/2008	
6	f	\$200	3/21/2008	\$0	\$200	\$0	\$0	\$0	\$75	\$275			3/21/2008	
7	g	\$200	3/21/2008	\$0	\$200	\$0	\$0	\$0	\$63	\$263			3/21/2008	
8	h	\$200	3/21/2008	\$0	\$200	\$0	\$0	\$0	\$55	\$255			3/21/2008	
9	i	\$200	3/21/2008	\$0	\$200	\$0	\$0	\$0	\$50	\$250			3/21/2008	
10	j	\$200	3/21/2008	\$0	\$200	\$0	\$0	\$0	\$35	\$235			3/21/2008	
Total		\$2,600		\$450	\$2,600	\$0	\$800	\$22	\$700	\$4,572	\$21,650			

MH Park Evaluation		Sellers Numbers	Your Numbers	Potential Numbers
Name of Mobile Home Park				
Frank & Daves Sunny Acres Mobile Home Park				
Number of Lots	55	55	55	55
Occupied & Paying Lots	55	55	55	55
Vacant Lots	0	0	0	0
Allowance for Collections	5.00%	5.00%	5.00%	5.00%
Average Space Rent	\$180.00	\$180.00	\$180.00	\$240.00
Number of Park Owned Homes	5	5	5	5
Average Value of Park Owned Homes	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00
Discounted Percentage (if any)	100.00%	100.00%	100.00%	100.00%
Total Park Owned Home Value	\$25,000.00	\$25,000.00	\$25,000.00	\$25,000.00
Seller Financed Notes to Be Transferred	\$0.00	\$0.00	\$0.00	\$0.00
Discounted Percentage (if any)	0.00%	0.00%	0.00%	0.00%
Value of Seller Financed Notes	\$0.00	\$0.00	\$0.00	\$0.00
Purchase Price	\$600,000.00	\$600,000.00	\$600,000.00	\$600,000.00
Maximum Cap Rate you are willing to pay	10.00%	10.00%	10.00%	10.00%
Down Payment Percent	25.00%	25.00%	25.00%	25.00%
Down Payment Amount	\$150,000.00	\$150,000.00	\$150,000.00	\$150,000.00
Amount of Mortgage	\$450,000.00	\$450,000.00	\$450,000.00	\$450,000.00
Term of Mortgage (in months)	300	300	300	300

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Interest Rate		8.50%	8.50%	8.50%
Income	Sellers Numbers	Your Numbers	Potential Numbers	
Income from Lot Rent Only	\$ 118,800.00	\$ 118,800.00	\$ 158,400.00	
Other Income - Don't Include Park Owned Home or Note Income	\$ -	\$ -	\$ -	
Less: Collections Allowance	\$ (5,940.00)	\$ (5,940.00)	\$ (7,920.00)	
Total Income	\$ 112,860.00	\$ 112,860.00	\$ 150,480.00	
Expenses (only include expense related to lot rent - not rental of homes)				
Advertising	\$ -	\$ 600.00	\$ 600.00	
Amortization	-	-	-	
Auto Expenses	-	-	-	
Bank & Credit Card Fees	-	-	-	
Contract Labor	-	-	-	
Depreciation	-	-	-	
Employee Benefits	-	-	-	

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Insurance - Liability	1,006.00	1,850.00	1,850.00
Insurance - Property	-	-	-
Insurance - Workers Comp	-	-	-
Interest - Mortgage	-	-	-
Interest - Other	-	-	-
Landscaping	369.00	-	-
Legal & Accounting	-	600.00	600.00
Licenses	105.00	-	-
Maintenance Supplies	-	-	-
Office Supplies	-	360.00	360.00
Payroll - Management & Maintenance	-	8,400.00	8,400.00
Payroll Taxes	-	1,600.00	1,600.00
Rent & Lease Payments	-	-	-
Repairs & Maintenance - Buildings	48.66	-	-
Repairs & Maintenance - Equipment	-	-	-
Repairs & Maintenance - Roads	-	-	-

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	-	-	-
Repairs & Maintenance - Utilities	-	5,500.00	5,500.00
Reserve for Capital Improvements (suggest 2-5%)	-	5,000.00	5,000.00
Taxes - Other	-	-	-
Taxes - Property	-	13,900.00	13,900.00
Telephone	-	600.00	600.00
Travel	-	1,500.00	1,500.00
Utilities - Gas & Electric	-	200.00	200.00
Utilities - Trash	2,028.32	2,500.00	2,500.00
Utilities - Water & Sewer	8,854.15	20,000.00	20,000.00
Other Expenses - Admin	-	500.00	500.00
Other Expenses - Misc	-	1,500.00	1,500.00
Other Expenses	-	-	-
Other Expenses	-	-	-
Total Expenses	\$ 12,411.13	\$ 64,610.00	\$ 64,610.00

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Net Income	\$	100,448.87	\$	48,250.00	\$	85,870.00
Adjustments to Get to Net Operating Income						
Amortization	\$	-	\$	-	\$	-
Depreciation		-		-		-
Interest - Mortgage		-		-		-
Interest - Other		-		-		-
Other Personal Expenses Paid by Business		-		-		-
Total Addbacks	\$	-	\$	-	\$	-
Net Operating Income (Net Income + Addbacks)	\$	100,448.87	\$	48,250.00	\$	85,870.00
Mortgage Payment	\$	43,482.26	\$	43,482.26	\$	43,482.26
Net Cash Flow	\$	56,966.61	\$	4,767.74	\$	42,387.74
Cash on Cash Return		37.98%		3.18%		28.26%
Total Year 1 Return (Cash on Cash + Debt Paydown)		\$62,198.87		\$10,000.00		\$47,620.00

30 Days of Successful Due Diligence

Value Based on Cap Rates & Separating out Park Owned Homes			
Net Operating Income (Calculated Above)	\$ 100,448.87	\$ 48,250.00	\$ 85,870.00
Maximum Cap Rate you are willing to pay	10.00%	10.00%	10.00%
Value of Lot Only Portion	\$ 1,004,488.70	\$ 482,500.00	\$ 858,700.00
Value of Park Owned Homes	\$ 25,000.00	\$ 25,000.00	\$ 25,000.00
Value of Seller Financed Notes	\$ -	\$ -	\$ -
Total Park Value	\$ 1,029,488.70	\$ 507,500.00	\$ 883,700.00

Maximum Sales Price Based on Amount Mortgage will Support			
Net Operating Income (Calculated Above)	\$ 100,448.87	\$ 48,250.00	\$ 85,870.00
Debt Coverage Ratio (usually 1.25)	1.25	1.25	1.25
Net Operating Income / Debt Coverage Ratio	\$ 80,359.10	\$ 38,600.00	\$ 68,696.00
Maximum Annual Loan Property Supports	\$ 831,640.10	\$ 399,473.23	\$ 710,938.17
Divided by Loan to Value	75.00%	75.00%	75.00%
Equals Max Sales Price Based on Mortgage	\$ 1,108,853.47	\$ 532,630.98	\$ 947,917.56
Purchase Price	\$ 600,000.00	\$ 600,000.00	\$ 600,000.00
Down Payment Percent	25.00%	25.00%	25.00%



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Down Payment Amount	\$	150,000.00	\$	150,000.00	\$	150,000.00
Amount of Mortgage	\$	450,000.00	\$	450,000.00	\$	450,000.00
Term of Mortgage (in months)		300		300		300
Interest Rate		8.50%		8.50%		8.50%
Monthly Payment	\$	3,623.52	\$	3,623.52	\$	3,623.52
Yearly Payment	\$	43,482.26	\$	43,482.26	\$	43,482.26
First Year Debt Paydown	\$	5,232.26	\$	5,232.26	\$	5,232.26