

August 2018

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MANUFACTURED HOUSING REVIEW

News and educational articles to help you run your business in the manufactured home industry.

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IN THIS ISSUE:

Calculating Repair and
Maintenance on a Manufactured
Home Community

Encouraging Signs From a
Younger Demographic

Safer Manufactured Housing
Communities are Possible with
Mobile Inspections

... and much more!



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Publisher's Letter

By Kurt D. Kelley, J.D.
Publisher

It is the mission of the Manufactured Housing Review to share valuable business information specifically related to the manufactured housing industry. Our contributors come from all parts of the industry and offer interesting and unique perspectives and advice. If you have something you believe would be valuable to share, please send it to me. If writing isn't your strongest talent, we have our editorial staff at the ready to help you clarify your message.

The Southeast Community Owners (SECO) event is one of the best manufactured housing community operator educational event offered. Started by a grass roots group of community owners interested in sharing information with fellow operators in the region, it has grown into an large annual event supporting 40+ vendors and 400+ attendees. This year's event is scheduled for October 9th through the 11th at the Atlanta Airport Marriot. For more information, go to www.secoconference.com/seco18temp/.

Recognizing a good idea when they see one, the Texas Manufactured Housing Association (TMHA) and a group of their members started TexCO two years ago to serve community owners in the South-Central U.S. TexCO 2019 is scheduled for January 23rd and 24th at the beautiful Woodlands Waterway Marriot Resort. TexCO 2019 will focus on future operational trends and feature short, information packed sessions by several industry experts.

To find out more information, go to www.eventbrite.com/e/texco19-houston-conference-tickets-48279664777.

Never stop learning!



Kurt D. Kelley, J.D.
Publisher
kkelley@manufacturedhousingreview.com

A graphic for the MHI 2019 Congress & expo. The background is split into a purple top half and a green bottom half. A large, stylized trumpet is depicted, with its bell pointing towards the top right. To the right of the trumpet, there is a faint, light green fleur-de-lis symbol. The text 'MHI 2019 CONGRESS & expo' is in the top left, and the event details are in the bottom right.

**MHI 2019
CONGRESS
& expo**

May 6 - 8, 2019
Hyatt Regency New Orleans
New Orleans, LA

Calculating Repair and Maintenance on a Manufactured Home Community

By Dave Reynolds

Of all the expense categories to get a handle on when buying or operating a manufactured home community, perhaps the hardest is “repair and maintenance”. In over twenty years of pouring over budgets for various properties, I’ve discovered many facts and assumptions that I use today when tackling this difficult calculation.

Inaccuracy of seller data

Seller numbers on repair and maintenance are notoriously wrong. They either don’t even report these costs (as they often do the labor themselves) or they do so incorrectly. Let’s take, for example, a repair to the main water line. If you called a normal plumber to come out and fix it, the bill would be \$1,500. But the mom & pop seller used their own back-hoe to dig the hole and then bought some parts for \$20 and installed the patch (even though the repair is not done correctly) and, as a result, the repair cost \$20 on the owner’s books. Is that accurate? Only if your intention is to keep on fixing leaks that way yourself, and you value your own time at zero.

Too many variables

And then what happens when the patch fails and the water is leaking again two weeks later? Should you count that as a real additional repair cost, or is that still part of the original problem? And then what if the backhoe breaks while your digging it and costs \$3,000 to fix? As you can see, there are many variables that make trusting mom & pop’s numbers somewhat risky. And, unlike the water, sewer, electrical, insurance and every other line item cost on the budget, the repair and maintenance number has no source for the information but the seller.

Capital expense vs. repair cost

Another problem is that many sellers get confused on the accounting issue of “capitalizing” vs. “expensing” the cost. A “capitalized” cost is one that is based on adding permanent value (like pouring a new concrete pad for a home to sit on) and a repair “expense” is one that is just a one-time cost to keep something working. “Capitalized” costs go on your General Ledger as an asset which can be depreciated, while an expense goes on your profit and loss statement. I’ve seen sellers capitalize repair expenses and vice-versa. I’ve even seen sellers buy new cars and put them in as repair costs. These are huge issues when trying to provide accurate estimates.

Using an estimate for “older” properties

So if it’s nearly impossible to track down the real repair costs for most properties, how do you budget going forward? I have found the answer to be using a “plug” number that is reflective of past experiences. The industry “plug” number for repair on older properties is \$100 to \$175 per lot per year. In a 100-space property, that would equate to \$10,000 to \$17,500. Is that 100% accurate? No, it’s a best guess. It may be that your

property only has \$6,000 in repairs that first year, and then \$14,000 in year two, so my general experience has been that it’s pretty darn close. And what is an “older property”? That would be one that has older utility lines, such as galvanized metal water lines and clay-tile sewer line construction.

An estimate for “newer” properties

The industry defines “newer” properties as ones that have modern PVC water and sewer lines. And on these properties most operators use a “plug” number of \$50 to \$100 per year per lot. The reason that it is substantially lower is that PVC garners only a fraction of the water line leaks and sewer blockages/cave-ins as the communities with the older lines. That being said, you are still going to have many of the same issues as the older communities – people driving over water risers on vacant lots and cooking with lots of grease that blocks the lines and requires roto-rooter. While the repair costs may be lower, they are never going to go completely away regardless of how your property is constructed.

Being patient

Most manufactured home communities we buy have been around for over a half-century and will be here for centuries to come. Repair costs go up and down and you have to see your performance over a long timeline. Just because your older community has only \$2,000 in repairs for the first two years, don’t mark your budget down to \$2,000 for year three, as that year you might be at \$20,000. It’s all in normalizing numbers over the long term, and you may need ten years of operations to truly see what this property’s repair numbers should be. If you use my “plug” numbers, don’t mistake being lucky for having uniquely low repair issues. Give it time.

Conclusion

Calculating proper repair and maintenance expense estimates requires a leap of faith, as you really can’t take past performance, as reported from mom & pop, as accurate. Consider using a “plug” number based on past experience, and you’ll be miles ahead in formulating an accurate budget.



Dave Reynolds has been a manufactured home community owner for almost two decades, and currently ranks as part of the 5th largest community owner in the United States, with more than 23,000 lots in 28 states in the Great Plains and Midwest. His books and courses on community acquisitions and management are the top-selling ones in the industry. He is also the founder of the largest listing site for manufactured home communities, MobileHomeParkStore.com. To learn more about Dave’s views on the manufactured home community industry visit www.MobileHomeUniversity.com.

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The other day I was driving through one of our communities in Illinois and I noticed a nicely dressed young couple on the deck of a new Clayton home we had brought in. I'm seeing more and more of that these days, and it's great news for the industry, as we seem to be attracting a more upscale, youthful crowd all of a sudden. Is this a fad or a permanent trend?

Attraction to smaller living spaces

It's no surprise to anyone who watches the "Tiny Homes" show on HGTV that young people are willing to live in spaces much smaller than other age groups. Some say that Millennials are the next "Greatest Generation" and, if that's true, then they are definitely on the right path regarding housing expectations. Of course, manufactured homes are perfect for those who are seeking small square footage in a detached dwelling. Unlike Baby Boomers - who often have bathrooms as big as some manufactured homes - Millennials are not that in tune with the concept that bigger is better.

Focus on relationships

About a year ago I was given a private tour of Airstream Village, the manufactured home community that was built by Tony Hsieh, the billionaire founder of Zappos.com. He chose to live in this property over a penthouse condo he owned nearby. The attraction was the concept of living shoulder-to-shoulder with a group of about 60 people in a very confined environment. All of the units in Airstream Village are either tiny homes or Airstream travel trailers - with no unit over 30' in length. There's a giant stage in the middle, as well as a converted cargo container structure for a business center and another for a laundry. So why did he want to live like that? The answer is that Millennials are huge believers in the power of relationships. Studies have shown that relationships are one of the top goals of this younger crowd both in business and their personal life. Manufactured home communities are perfect for this goal of building relationships, as the social interaction of residents is well known (just look at Time magazine's article "The Home of the Future" for their take on this).

More respectful of their budget

Millennials seem to be much better at keeping their expenses in check than other age sectors (the reverse of Baby Boomers). Since they value relationships over materialism, they don't need a lot of stuff to be happy. In this manner, manufactured homes offer one of the least expensive methods of having a detached dwelling with privacy and a yard. And millennials are huge into getting good deals, as they were born of the internet shopping age where everything is a commodity and seeking the lowest price becomes a sport. With most manufactured homes costing around \$1,000 per month less than a traditional apartment, the price attraction for Millennials is huge.

Everything old is new again

Everything in life seems to cycle over time from hot to cold and back again. Furniture from the 1950's ("Mid-Century Modern") is extremely collectible and valued by young people today because it's different and interesting to them. And manufactured homes are also a big part of 1950s and 1960s culture which, frankly, makes them "cool" again. If you never had any prior exposure to our product's design, you would find it unusual and intriguing - kind of like the first time you see "Viva Las Vegas" or a film in which Elvis lives in a "trailer park". Every decade has its time to shine in this perpetual design circle of life, and the current era is the time of the manufactured home. Up to bat next, I imagine, is a return to appreciation of the ranch house.

Lower negative stigma

Let's be honest, our industry has a really bad stigma. There's no denying this. The good news is that the Millennials missed out on all the television and movie programming that built that stereotype. "8-Mile", "Trailer Park Boys" and other offerings were produced either before the Millennials were born or when they were in kindergarten. As a result, they do not harbor the same negative thoughts that other age groups do. This allows Millennials to give our product an unbiased, fresh perspective.



Encouraging Signs From a Younger Demographic cont.

RVs are leading the way

One of the main reasons that Millennials are attracted to the manufactured housing product is because of the extremely positive marketing and efforts of our cousin, the recreational vehicle industry. Just as we have done such a lousy job of putting our best foot forward with American consumers, the RV industry has hit home run after home run. Their sales are the highest in U.S. history, each and every year! They have created the perfect blend of product design and price point, and then coupled that with one of the best public relations efforts I've ever seen. I see the "Go RVing" in many of America's most upscale publications such as Town & Country magazine, and then on TV during such events as the X-Games. They've snuck RVs into everything from the Neiman's catalogue to Hot Wheels. And, in so doing, our close relative has opened the door to a higher opinion of our product. It should be noted that young people are the second strongest segment buying RVs behind Baby Boomers.

Conclusion

I expect Millennials to be a significant part of the manufactured home community business going forward. Our product matches well with their goals and lifestyle choices. It's affordable and "cool". But let's all try to be more like the RV industry in promoting to this age group - this is our chance to finally put the negative stigma to rest.



Frank Rolfe has been a manufactured home community owner for almost two decades, and currently ranks as part of the 5th largest community owner in the United States, with more than 23,000 lots in 28 states in the Great Plains and Midwest. His books and courses on community acquisitions and management are the top-selling ones in the industry. To learn more about Frank's views on the manufactured home community industry visit www.MobileHomeUniversity.com.



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Safer Manufactured Housing Communities are Possible with Mobile Inspections

By Jindou Lee

Today, nearly 22 million Americans live in prebuilt homes with the manufactured housing industry experiencing steady growth over the past decade. More than a third of the 93,000 new manufactured homes built in 2017 are located in communities comprised exclusively of manufactured homes. These communities meet a critical need by offering an affordable housing option in prohibitively expensive markets. The average price of a “traditional” home in the U.S is currently \$215,600, and the average apartment rent costs \$865 per month. The low \$69,000 median cost for manufactured homes (with rents dipping below \$350 in some parts of the country) offers an attractive option for many Americans – from working families, to retirees living on fixed incomes, and beyond.

Operators of manufactured communities (whether people rent or own their homes) are responsible for ensuring the safety and well-being of residents in their homes as well as in common areas. Failure to consistently inspect property conditions often brings injuries, loss of life, negligence lawsuits, and significant financial loss. Owners need to check everything from smoke detectors, fire extinguishers, and moisture penetration inside homes, to the parking areas and laundry facilities shared by multiple residents in order to keep their properties safe and in compliance with relevant codes and laws.

Inspections have traditionally been conducted on paper checklists with managers scrawling in pen as they walk their properties. In practice, paper and manual inspections have proven inadequate in identifying systemic problems responsible for unsafe conditions. This isn't a trivial or hypothetical problem, as fire statistics illustrate. Each year, an average of 206 deaths and 434 injuries – although highly preventable – result from 11,400 annual manufactured home fires, according to the National Fire Protection Agency (NFPA).

By continuing to rely on paper-based inspections, property managers and owners are missing out on ways to reduce the risk of accidents or quality deficiencies that can harm residents – and are exposing themselves to serious legal repercussions in the process. On the other hand, operators who've recognized the shortfalls of an outmoded paper inspection system are now

adopting mobile inspection tools to gain increased visibility into property conditions and more control over preventative maintenance. Empowered by the ability to record photographic property documentation that's backed up to the cloud, these owners and managers are taking advantage of new technology to protect both their residents and themselves from risk.

The Mobile Inspection Advantage

Information about unit and common area conditions is only helpful if owners and managers can access and use the data in real time. Unlike paper inspections that require extensive analysis and number crunching before the results become available, data gathered through digital inspections is instantly accessible, so problems can be addressed before tragedy strikes. When issues arise, such as burned-out lights in parking areas or electrical problems in individual homes, operators can turn to real-time dashboards with photos integrated into a central database. Troubling trends are more easily identified, earlier – giving owners and managers an edge in averting a domino effect of potential liabilities.

This approach is ideal for owners/operators of manufactured communities, but it is also critical for residents, who feel more secure knowing their safety is being facilitated by up-to-date technology, when they might have previously viewed inspections as annoying or intrusive. Manufactured home communities can be confident that mobile inspections are preventing problem areas from becoming danger zones or the sites of future tragedies. It's hard to put a price on peace of mind.

Regular inspections are always the best first-line defense for guaranteeing safety and quality. Mobile inspection tools now give manufactured housing owners and managers the visibility they need to pinpoint and resolve onsite hazards before they become disasters – and ensure safety, quality, code compliance and resident satisfaction at their communities.

Jindou Lee is CEO of HappyCo, a San Francisco-based software company that builds mobile and cloud solutions to enable real-time property operations. Its Happy Inspector product is used by thousands of companies and has captured more than 100 million items inspected. The company was founded in 2011 and is privately held.

A banner for the MHI 2019 Congress & expo. The left side has a purple background with the text "MHI2019 CONGRESS & expo" in white and yellow. Below this, it says "May 6 - 8, 2019 Hyatt Regency New Orleans New Orleans, LA". The right side features a green background with a stylized illustration of a manufactured home and a trumpet. The MHI logo is in the bottom right corner.

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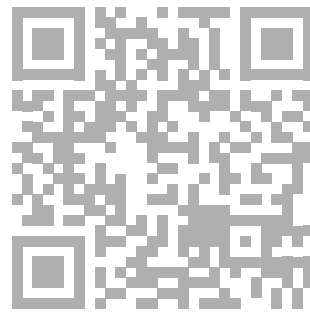
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Properly Categorizing and Paying Workers: Are Community Managers Contractors or Employees?

By Kurt D. Kelley, J.D.

The most litigated issue in America is worker claims against their employers. Among those, the hottest category is litigation by workers claiming the legal status of an employee when they were paid as contract labor, also referred to as 1099 labor.

There's multiple reasons for businesses to pay workers as contractors versus as employees. Five primary ones are:

1. it's simpler for employers to pay workers as contractors than as employees;
2. workers often prefer to be paid as contractors as there is no withholding of federal taxes;
3. employers aren't required to carry Workers Compensation insurance for contract labor;
4. work terminations are easier and many employment laws don't apply; and
5. unemployment insurance costs aren't incurred.

However, there are penalties incurred when an employer incorrectly labels a worker as a contractor who should have been labeled as an employee. These penalties include back overtime pay due, back withholding due (for employee and employer match), double damages, and attorney fees. And once you are technically in violation of the rules, the available legal defenses are very limited. Within the manufactured housing industry, a common worker group that is misclassified is community managers. They are often paid as contractors even though many could easily claim employee status.

When determining whether a worker is an employee or a contractor, local and state law matters. In California, the definition of an employee is broad and that of a contractor severely limited. California courts have determined that many workers who are part time and control their own schedule and work are employees. The same worker in Texas would clearly be defined as a contractor. Other states that have limited definitions of contractors include Oregon, Massachusetts, Illinois, New York and Connecticut.

The following are typical attributes of Contractors, not employees:

1. paid by the job, not the hour
2. part time
3. works for others
4. supplies their own tools, supplies, materials

5. has experience and professional skills not possessed by the employer
6. free to hire helpers as they please
7. free to set their own hours and methods of work
8. periodic relationship
9. does the job with limited instruction from the employer
10. can realize a profit or a loss on a job

These are typical attributes of Employees, not contractors:

1. paid by the hour or salary
2. takes direct instruction from the employer
3. trained by another employee
4. long term relationship
5. works the hours dictated by the employer
6. pay is regular and in intervals
7. not liable if don't complete their work or a project
8. works only for the employer

No one answer will determine the legal status of a worker. Courts and Administrators review all of these issues and then make their determination. Business owners should seek to properly classify and compensate their workers. Using both private and state workforce agency provided contracts are recommended. And when the legal status isn't clear, there's much less risk to a businessowner when they incorrectly pay a contractor as an employee versus paying an employee as a contractor.



By Kurt D. Kelley, J.D., Publisher of the Manufactured Housing Review and President of Mobile Insurance. 281-367-9266, x 117 or Kurt@mobileagency.com

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The Texas Manufactured Housing Association

The Texas Manufactured Housing Association is the state of Texas industry trade organization. TMHA's primary focus is state level advocacy to lobby and pass good bills, defeat bad ones, while serving our dual mission to protect and promote the manufactured housing industry, including our MH communities (MH parks).

On September 17, at the Four Seasons Resort in Dallas, Texas, more than 300 industry professionals, 40 sponsors/exhibitors, and 16 speakers will come together for a day to learn from industry leaders, academics, and successfully entrepreneurs in the MH industry. MHP's own, Frank Rolfe, is slated to speak at this year's convention.

The single Education Day offers a wide array of topics and speakers with three simultaneous tracks throughout the day. Attendees can customize their experience and pick the topics and speakers that interest them the most. The event offers something for everyone, but particularly in the community owner space with topics like Frank's Tips When Buying and Selling Communities; Due Diligence in Acquisitions of Communities with Steve Edel; and Fighting City Regulations that Impact MH Communities with attorney Laci Ehlers. There are also topics for the day-to-day concerns of operating a community such as MHC Valuation & Market Trends with

Casey Thom; MHC Evictions in Texas with attorney Jack Skaggs, and Sales, Management and Leadership Training with Tim Connor.

The Education Day will conclude with a presentation by Dr. Charles Becker from Duke University who is arguably the leading academic researcher in the country on mobile home parks. Dr. Becker will address attendees on his Trailer Park Economics research and analysis.

The Monday event offers the entire slate of speakers, breakfast and lunch included, prize giveaways during breaks, more than 40 vendor booths to tour in the exhibit hall, and a day to network and converse with one of the largest gatherings of manufactured housing professionals.

The Monday rate is \$100, with additional add-ons for those who want to stick around that night for dinner and entertainment.

For all the information go to <https://www.texasmha.com/events/convention>; and for any questions, email Caitlin at caitlin@texasmha.com. In order to guarantee adequate seating and meals, TMHA requests all registrations be completed by September 14th.

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Kurt D Kelley, J.D., President



The Kevlar Economy

By Brian S. Wesbury
and Robert Stein

Since March of 2009, the predictions of economic, and stock market collapse have been non-stop. Doom-and-gloomers have been unrelenting. And it's doubly frustrating since you can't disprove a negative until it doesn't happen.

We have written hundreds of pieces since the recovery - and bull market - began, arguing that the pessimism was unjustified. We've argued that Brexit, Grexit, resetting ARMs, student loans, government debt, Obamacare, no QE4, tapering,...etc., would not stop growth. The doomsayers have been wrong. Constantly. For our troubles we get labeled "perma-bulls", despite our arguments proving true. Meanwhile, the "perma-bears" have never had to answer for their fallacious forecasts.

Now they're talking Turkey, tariffs, a strengthening dollar, China selling US debt, Fed rate hikes. They never give up. But, we still aren't worried.

The United States, for the time being, is a Kevlar economy. It's practically bulletproof. By allowing other countries to maintain higher tariffs, America, the world's biggest consumer, has helped those countries grow. By holding corporate tax rates higher than most other countries, the US has subsidized non-US growth.

But under new management, the self-sabotage is being eliminated. Cutting corporate tax rates and reducing regulation have made the US more competitive. No, we are not ignoring the negative impact of tariffs on some US producers and consumers, but tariffs hurt foreign countries more than they hurt America.

Countries without the Constitutional rule of law, property rights and true free markets need foreign help to grow. The US is removing some of that help in making itself more competitive. As a result, the US will continue to grow, while other countries suffer a loss of investment and sales. Once again doomsayers will be proven wrong.

Yes, it's true that a slowdown in the growth of other countries can impact corporate earnings, or even have some impact on US growth, but the damage will not be nearly as great as the pouting pundits proclaim. We still forecast 3%+ real GDP growth over the next few years, along with continued jobs growth and the lowest unemployment rate in decades.

Doomsayers, take note. There are five real threats to prosperity: 1) Excessively tight Fed policy. 2) Excessive government spending. 3) Excessive regulation. 4) Tax Hikes and 5) Trade protectionism.

Right now, the Fed is not tight, far from it. Government spending is too high, that's why growth isn't even higher. The Regulatory environment is improving. Tax rates have been cut and are not likely to be hiked anytime soon. Finally, tariffs are going up, but by a much smaller amount than taxes were cut. We also do not expect a protracted trade war because that would harm other countries much more than the US. Ultimately, we expect deals to bring tariffs down.

In other words, of the five threats, two are negatives (with trade likely to turn) and three are positives - and don't forget new and unbelievably positive technologies! Someday, a recession will happen again, but for now the Kevlar economy will only get stronger.



Brian S. Wesbury, Chief Economist, and Robert Stein, Deputy Chief Economist with Morgan Stanley. Brian Wesbury is an American Economist focusing on macroeconomics and economic forecasting, and regular author with the "American Spectator" as well as a regular on such television stations as CNBC, Fox Business, and Bloomberg.





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