

FEBRUARY 2018

MHR

MANUFACTURED HOUSING REVIEW

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

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Predictions for 2018

The Insider's 7 Tips on Buying Insurance for Your Factory Built Home

Buying Property: Everything is Fine Until It's Not

Revolution: The 2018 New Federal Tax Law

2017 Industry Persons of the Year

Financing Manufactured Home Communities

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I was recently asked about the printed magazine that appeared at the Louisville Show, and produced by MHVillage. I think my response shocked people. I explained that I was happy to see more professional content on the industry. This is a big industry and it can certainly handle more than one publication. When we started the **Manufactured Housing Review**, the goal was to fill the void resulting from the departure of **The Journal of Manufactured Housing**. I felt that having no professional quality publication was harmful to our sector of real estate - especially at a time of industry consolidation and the entry of more professional groups that view our industry as a diamond in the rough. I am very proud of what we've built to date, with each issue filled with great content and an inclusive atmosphere offering many different viewpoints on affordable housing.

That said, I'm worried about the survivability of any printed publication in an on-line world. While I enjoy a good printed magazine on a flight, most of the time my laptop is my library. Printed magazines are extremely expensive to produce and ship, and the content is not very timely as it is often written weeks or months before publication. I believe these were the same reasons that **The Journal** exited the business in 2016. I'm not sure of MHVillage's long term intention of producing their magazine on a continual basis, but the first issue did work well as a public relations piece for the Louisville Show. Only time will tell.

Regardless of what other publications may come and go, the **Manufactured Housing Review** will be here for the long term. I'm having too much fun to ever stop, and I feel that every issue offers a terrific boost to this great industry. I hear nothing but positive feedback, and terrific articles keep getting submitted from varied, unique, and great writers and industry figures. And, of course, the price is always free, so we don't have to appease any group, and we write what we truly think, and you can either read it or push the exit key, and there's no hard feelings.

I hope you enjoy this issue of the Manufactured Housing Review!



Thank You!

Kurt D. Kelley, J.D.
Publisher

kkelley@manufacturedhousingreview.com



ROC USA's Paul Bradley Inducted into the Cooperative Hall of Fame

By Della Holland

Well known and highly respected MH industry executive Paul Bradley of ROC USA has been selected for induction into the Cooperative Hall of Fame. The Cooperative Hall of Fame honors those distinguished individuals whose contributions to cooperative business have been genuinely heroic. The induction will take place at the National Press Club in Washington DC on May 2nd. For more information on how to congratulate Paul, purchase a ticket to the event, and or place an ad in support of his induction, go to www.heroes.coop.

ROC USA assists community residents with buying the communities in which they live. They do this via technical

assistance and CDFI financing. Today, ROC USA serves 213 communities and more than 13,500 homeowner members in 15 states.

Della Holland
Manufactured Housing Review

Ms. Holland is an Editor for the Manufactured Housing Review. She owns and operates real estate investments and acts as an Administrative V.P. in the Manufactured Housing Industry.



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Davenport fire department to install free smoke alarms at manufactured home community

It takes only 30 seconds for a fire to double in size, regardless of what type of home it starts in.

That's why having working smoke alarms is vitally important, Davenport Fire Lt. Zach Soliz said Thursday. "The quicker we have that notification, we can respond faster and mitigate that situation," he said during a media briefing at the Five Seasons mobile home park on Fairmount Street.

From 10 a.m. to noon Saturday, the fire department and the American Red Cross of the Quad-Cities and West Central Illinois will install free smoke alarms to homeowners at the mobile home park as part of an ongoing program to help prevent property damage, serious injury and death. Five Seasons reached out to the fire department following a fire that broke out Dec. 21 in a mobile home fire in the park that took the lives of Kelsey Clain, 23, and her children Jayden Smead, 5, and Carson Smead, 2. Two other children, Isabella Smead, 9 months, and Skylar Smead, 4, died later at University Hospitals, Iowa City. The cause of that fire is undetermined. Fire officials have said there were no working smoke alarms in the mobile home.

Angie Moss, regional director of YES! Communications which operates the mobile home park, said the company reached out to the fire department after the fire. "We realize with the recent tragedy that awareness is imperative and we want to be extremely proactive and make sure that our residents are aware of the resources available to them," she said.

The Davenport Fire Department launched its smoke alarm program in 2012 and has installed around 150 alarms to-date. About 50 of them have been installed since the fall, Soliz said. The fire department's year-round program works specifically with home owners who don't have smoke alarms installed. As they do the installations, firefighters talk to home owners about how and where to install them – on every floor off the kitchen and sleeping areas. Landlords are required to provide smoke alarms to tenants, who in turn are required to maintain them.

The winter months tend to be busy for area firefighters as several factors, such as holiday cooking and the use of fireplaces, furnaces, space heaters and electrical cords present the potential for starting a fire. Soliz said Davenport firefighters have handled 25 building fires, 11 cooking fires and three other fire-related incidents since Nov. 1.

"The loss of property, and unfortunately the loss of lives, has made this year unique compared to years past," he said. Soliz said that some people think that a fire can't happen to them or "I'd wake up, my dog would wake me up."

That's why early alert through a functioning smoke alarm is so important for the home, he said.

"It's just important to reflect on what happened, reflect on what's available and learn from it," he said. "We'll try to help out the best we can."

Soliz said the fire department already has had requests to install about two dozen smoke alarms during Saturday's event. Moss said the mobile home park currently has 222 occupied units on the property and that the majority of the residents are homeowners.

She said the park staff frequently checks smoke alarms in the rental units and makes free smoke alarms available to homeowners who need them. "This is truly something that hit home for us and something that we're very happy to be a part of," Moss said of Saturday's event.

Amber MacGrath, disaster program manager of the local Red Cross chapter, said that there has been a record number of fire responses in the Quad-City area this year. The Red Cross has been called in to assist at 199 fire-related incidents since Jan. 1, she added. Typically, they typically respond to 60-90 calls in January. "I think part of that also is our continuing work and partnership with our fire departments," she said. "We work really hard to make sure our first responders are reaching out to the Red Cross so that we can be there to support the families that are impacted."

The Red Cross launched its own smoke alarm campaign in 2014 with the goal of decreasing death and injuries by 25 percent. Since then, the Red Cross has installed thousands of smoke alarms. They also hosted "Sound the Alarm, Save a Life" in the fall, which aimed to put 100,000 smoke alarms in homes across the country. The Red Cross will again host the event in April, MacGrath said.

*Tara of The Quad City Times
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Over 200 industry professionals attended the sold out 2nd Annual Texas Community Owners (TexCO) event in League City, Texas on February 7th. This event was created in order to bring the value and idea sharing created by the wildly popular Southeast Community Owners (SECO) event held each Fall in the Atlanta area to the South Central U.S. The event is the result of a collaboration between the Texas Manufactured Housing Association, Sunstone Manufactured Housing Consultants, and Mobile Insurance.

TexCO adopts many of the great ideas authored by SECO sponsors Spencer Roane, David Roden, Chuck Meek, David Protiva and other industry leaders in the Southeast U.S. This year's event featured multiple short information filled sessions. The following were session topics and the authors that graciously presented them:

- Recommendations for working effectively with Real Estate brokers by Waylon Grubbs
- MHC valuations and market trends by Casey Thom
- Preparing to borrow money and How to behave after you've secured financing by Carl Pankratz
- The regional economy by Harold Hunt
- Texas MH Regulations and Laws by Joe Garcia

- Due diligence in Acquisitions by Steve Edel
- New Texas Laws by DJ Pendleton
- Mistakes sellers and buyers make when under contract by Kolman Bubis and Robert McBroom
- Hurricane and other catastrophic disaster planning strategies by Kurt Kelley
- Community Management best practices by Maria Horton
- Branding and fighting city hall by Keynote Speaker Frank Rolfe

The preliminary event ratings by the attendees exceeded even the high event ratings from the 2017 TexCO event. For information on attending or sponsoring TexCO 2019, contact Ms. Julie Teitelbaum at Julie@sunstonemhc.com.

Ms. Holland is an Editor for the Manufactured Housing Review. She owns and operates real estate investments and acts as an Administrative V.P. in the Manufactured Housing Industry.

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Part Three: The Agencies

Welcome back for the third installment of the five part series we started in November's issue on financing sources for manufactured home communities. Last month, we took a deeper look at Bank financing, the types of banks and when to use them. Today, we embark on understanding Agency financing a little more deeply.

You may have heard the term "Agency Financing" or someone refer to "The Agencies", but what are those? When one refers to "The Agencies" they are referring to a group of companies that were created by the US Congress with the express purpose of providing liquidity (typically in the form of purchasing debt from private lenders) to the United States' housing market. They are not government entities, but their loans are guaranteed at some level by the government. Their goal is to make housing more affordable for Americans across the country and, specifically, for those who need more affordable options for their housing. The two largest in the Manufactured Housing space are Fannie Mae ("Fannie") and Freddie Mac ("Freddie").

When it comes to Manufactured Housing, the Agencies, Fannie Mae and Freddie Mac combined, account for nearly half of the debt financing completed during the last couple of years. One of the biggest reasons for this is that the Agencies offer some of the best terms around for non-recourse loans on Manufactured Housing Communities. Since their mission is to provide capital for affordable housing, MHCs fit right in the heart of their purpose which leads to attractive rates and terms. Let's take a look at what the Agencies provide and the subtle differences between the two.

1) General Agency Terms

- Minimum loan size of \$1,000,000
- Non-recourse
- Have interest rates anywhere from mid-3% to 5% range and amortization is typically 30 years. Can be floating or fixed and have fixed terms from 3 years to 30 years. They will also offer interest only on many transactions.
- Can lend anywhere in the United States, cannot lend in other countries. Prefer more established markets and, while they do lend in most areas, there are some places (such as Odessa, TX and Williston, ND) where they will have a higher amount of scrutiny and may limit loan amounts.
- Can lend up to a maximum of 80% LTC on an acquisition and 75% LTV on a refinance. Their typical minimum DSCR

is 1.25x.

- Like to have a maximum of 25% park owned homes in parks, though they will lend on higher percentages on lower LTV loan amounts.
- Prepayment penalties are either defeasance or yield maintenance as a standard
- Offer supplemental mortgages for owners who increase their value during the loan term. A supplemental mortgage is, in-essence, a second mortgage where the Agency will increase its loan amount to the original LTV of the loan (provided that the other loan terms are still met). This allows operators to protect themselves against rising interest rates by fixing a loan long term but also allows them to pull out additional proceeds if the value goes up. This is one of the biggest selling points of an Agency loan.

2) Fannie Mae

- Fannie Mae has a small loan program (between) \$1,000,000 and \$3,000,000 in loan size) that comes with reduced costs from the main loan program (usually about 65% of the cost or less). Freddie typically looks at loans starting at \$3,000,000.
- Fannie also has the ability to do flexible pre-payment options such as declining prepayment and longer open pre-payment periods on their loans that Freddie cannot do.
- Fannie Mae has more options for fixed rate terms than Freddie, offering 3, 5, 7, 10, 12, 15, 20 and 30 years fixed. Freddie offers 5, 7 and 10 year loans (as well as floating), typically.
- Fannie loans are underwritten and originated by DUS lenders (Bellwether Enterprise is an example of a DUS lender). DUS lenders complete the entire loan package in-house, which can allow for more speed and quicker response times than a Freddie Mac deal. However, when major changes are needed, they can take longer than with Freddie Mac.
- Are looking for the net worth of the Sponsor to be equal to the loan amount and the liquidity equal to 10% of the loan amount (or, in some cases, 9 months of debt service).

3) Freddie Mac

- On the first transaction with Freddie, they will fix the spread portion of the interest rate once the application is signed for 75 days. On the second transaction, they will fix the entire

Financing Manufactured Home Communities – A Series cont.

interest rate for the first 75 days after the loan application is signed.

- Freddie Mac is slightly less formulaic in how they make their credit decisions. While they have guidelines, each deal is looked at on its own merits, so they can often look a little more outside the box than Fannie Mae.
- Has lower requirements on net worth for Sponsors on loans larger than \$5,000,000 than Fannie Mae's standard.

As you can see, the Agencies provide some very attractive terms for MHC finance. They also compete very strongly against one another, so your best bet, when going after an Agency financed loan, is to work with a group that is both a Fannie Mae DUS lender and a Freddie Mac Seller/Servicer. In this way, you can get the Agencies to compete for your business and get better terms than you might otherwise receive.

As with the banks, here are the times when to use and not to use the Agencies.

Use an Agency when:

- You have a good quality (3 star or better) community
- You have a stabilized (85% occupied or better) property
- You have a loan size above \$1,000,000
- You want a low, fixed rate and some interest only at higher leverage points
- Are an experienced MHC owner (2 years or more) and have adequate net worth and liquidity
- Want non-recourse financing

Use another lender when:

- You or your property does not fit Agency criteria
- Have a transitional or turn-around property
- Have a very high amount of park owned homes
- Have a lot of issues or quirks with either the property or with your Sponsor team

Agency financing is the largest lender to the MHC industry for a reason. They provide loans at very attractive rates and terms for most communities and are aggressively trying to do more. While not every deal or situation fits, it's worth talking to an Agency lender (like Bellwether Enterprise) to see if your community qualifies for one or both of these great programs. Next time, we'll take a look at the other large source of non-recourse lending in the MHC space: CMBS.



MJ is a Vice President and co-head of the National MHC platform at Bellwether Enterprise located in Minneapolis MN, a lender to the manufactured housing industry. Bellwether Enterprise is an approved Fannie Mae DUS lender in both the small loan and MHC programs in addition to being a Freddie Mac certified MHC Seller/Servicer. In addition to being a professional lender, MJ's family business is an owner of multiple manufactured home communities, primarily in the Central U.S. MJ can be reached at mvukovich@bwecap.com and 612-335-7740.



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It's Time to Pause and Evaluate Your Investments

Equity markets around the world had a very, very good year. U.S. stocks were up 20%. International stocks were up 25%. Emerging market stocks were up 36%.

We are currently enjoying the second-longest bull market since World War II. The Federal Reserve has been hoping and fighting for this outcome for a long time. The Fed has played a significant role in this current market, but that role has recently changed, and we should take notice.

By driving down short term interest rates, the Fed has incited investors to sell bonds and buy stocks with the hope of higher returns. This has fueled historic returns in the stock market. The S&P 500 has gained more than 200% in the 7 years from 2009 to the month before the 2016 election. The total increase is now about 300%.

But the Fed has reversed its course. It raised short-term interest rates several times last year, and more increases are planned for this year. Why?

Stock valuations have become elevated. The price/earnings ratio for the S&P 500 is at 26.8, about 50% higher than its historical average. Inflationary pressures are gaining momentum, and we are at full employment.

How Long Can This Last?

No one knows for sure, and don't trust anyone who says they do. But we can draw several commonsense conclusions from what is going on.

No one has abolished the business cycle. There will be a correction eventually. We just don't know when. At this point, I believe we are much closer to a market top than we are to a market bottom, but that is not always clear.

Central banks are no longer trying to stimulate the economy - they are trying to restrain it. The Federal Reserve is tightening the money supply by raising short-term interest rates several times this year. Central banks around the world are pulling back on further economic stimulus. This should slow down economic growth over time.

Expectations of continued earnings growth are high, which means that even good earnings may disappoint high market expectations.

Volatility has been at historic lows. Behavioral finance experts warn that even a small amount of downside volatility may surprise some investors who have grown to expect placid

markets. Some investors have forgotten (or did not experience) the painful periods of volatility in 2008-2009.

We may be experiencing a "melt up" this year. A melt up is a dramatic and unexpected improvement in the investment performance of an asset class driven partly by a stampede of investors who don't want to miss out on its rise, rather than by fundamental improvements in the economy. These investors create upward momentum in stock prices

How Are You Feeling?

Many business owners are feeling good these days. They are excited about the potential positive impact of tax reform and other business friendly measures finally coming from Washington. This is good to see. But as a professional investor, I find myself feeling cautious when others are feeling confident. My favorite Warren Buffett quote is that you should be fearful when others are greedy and greedy when others are fearful. This is how my world works.

Here are a few things to consider.

First, be smart about risk. I advise business owners that the more risk they take in their businesses, the less risk they should take with their other investments. Take some time to rebalance your asset allocation.

Second, stay diversified. I see many business owners make additional investments in their chosen industry. Since they are experts, they feel more confident investing close to home. I get it, but I advise against it. If there is an industry-wide downturn, you don't want all your investments to tank at the same time.

Third, be prepared. Do you have sufficient reserves if the economy turns? What happened to your revenue the last time the economy turned south in your industry? Back in 2008-9, revenues in my industry dropped about 25%. Some folded simply because they did not have sufficient reserves to weather the storm and banks where no where to be found.

Times are good. We should all make hay while the sun shines. But remember take some of that hay and keep it reserved for winter.

Austin Lewis

New Tax Law Brings 20 Percent Pass-Through Income Deduction to MH World

By DJ Pendleton

Everyone is aware Congress passed a major tax bill right at the end of 2017. The Tax Cuts and Jobs Act of 2017 makes significant changes to the Internal Revenue Code (IRC). The broad highpoints range from changing individual rates, to increasing the standard deduction, to lowering corporate rates and creating a 20 percent deduction for pass-through income.

Of course, on a personal level this is exhilarating for me. A nerd challenge that combines policy, politics, law, accounting, and some good old-fashioned Excel work. What can I say; for me it was a Christmas present.

For this piece, we are just going to focus on one area of the new law - the 20 percent deduction on pass-through income. For us in the MH industry this area seemed particularly relevant with most of the independent retailers, MH community operators, and owner-finance lending businesses structured as some form of an income pass-through entity (sole-proprietors, partnership, LLC, or S-corps).

Quick Disclosure, Cliff's Notes, and A Warning:

First, this article, like all our articles, is not legal or accounting advice. TMHA cannot represent any member for any of their individual tax or accounting needs. As always, we strongly encourage all our members to consult with their own attorneys and accountants.

Second, at the end of this article I include a Gross Over-Simplified Quasi-Summary of the new law as it pertains to the majority of persons in the MH industry. If you are short on time, or, let's be honest not exactly all that charged up to read about tax law, you can scroll to the bottom and see the summary.

Just be careful relying too heavily on the Cliff's Notes version. It is only there to serve the highpoints. Said more bluntly, if that is all you read and then you don't consult with your own accountant and find yourself in an IRS audit, there is a good chance for your individual business you made some costly mistakes and showing my summary to your not-so-friendly auditor will not save you.

The Basics and Policy Reasoning:

Businesses want the personal liability protection offered by a traditional corporation (C-Corp), but don't like the fact that the company's income is taxed at the corporate rate (albeit down to 21 percent now from the previous 35 percent), and then again individually with corporate dividends. Pass-through entities are not taxed at the entity level, but rather the income

passes through the entity and lands with the individual where only the individual income tax rates are applied.

Under the previous tax law, assuming the highest tax rates apply, the difference in a C-Corp and a pass-through is a tax rate about 10 percent lower for a pass-through. But when the new law dropped the C-Corp rate to 21%, if nothing was done for pass-through income the tax advantage would shrink from about 10 percent to 2.8 percent. Thus, the policy reason for why something had to be done on the pass-through side of things to preserve the 10 percent advantage.

Enter Section 199A. This is the section of the new law that allows for the 20 percent deduction of pass-through income. I'd be happy to show the math of this, see I told you there was Excel fun involved, or you can take my word for it that by lowering the C-Corp tax rate, and then also lowering individual rates and including a 20 percent off the top deduction for pass-through income, the historical 10 percent tax advantage is preserved for pass-through income over corporate income and dividends.

Who Gets It?

First, everyone who is not a C-Corp is eligible with some limits on certain types of service businesses. But if you are not a C-Corp, and you are a "trade or business" as defined in the new law, then you get the new deduction.

In the MH retailer, MH community owner, and MH lender industries structured as pass-throughs - sole proprietor, partnership, S-Corp, or LLC - these will nearly always be eligible for the deduction.

There are some potential exceptions for businesses with very little active management or operations, but for the most part our industries are going to be eligible because they are the right type of "trade or business" defined under the new law.

Who Doesn't Get It?

C-Corps and "specified service trade or businesses."

The new deduction does not apply to "specified service trade or businesses." If you or your spouse is involved in other businesses in the fields of: health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investing services, investment management, trading, dealing in securities, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees, then, based on specific income levels, those business may or may not be eligible for this new deduction.

What Is Qbi?

The pass-through deduction applies to “qualified business income” or QBI. Section 199A(c) defines QBI as: the term ‘qualified business income’ means, for any taxable year, the net amount of qualified items of income, gain, deduction, and loss with respect to any qualified trade or business of the taxpayer. Such term shall not include any qualified REIT dividends, qualified cooperative dividends, or qualified publicly traded partnership income.

See, isn't this great? Within the definition is the phrase “qualified items of income, gain, deduction and loss,” which is then later defined itself. Definitions within definitions, citations to embedded citations, ahhh, wouldn't be federal tax law without them.

Qualified business income is essentially your ordinary business incomes less your ordinary business expenses. Best to think of this as the normal income, less normal expenses, from operating your business.

If you are also paid from the business that you get pass-through income from as an employee, the employee wages you earn are not counted towards the business' QBI.

Also, remember this is normal income and expenses, so investment types of income for the business from dividends and interest are not included. Specifically, the law lists as not included in QBI investment income for the business in the form of: short-term capital gain or loss; long-term capital gain or loss; dividend income; or interest income.

QBI = Ordinary business income - ordinary business expenses
- business investment income - W-2 wages paid to the tax payer

For example: Alexa is in the MH community rental business and reports the rental income on her Schedule E of her 1040 tax return of \$100,000. The MH community ordinary expenses are \$40,000. Alexa has \$2,500 in investment income from the business of running the community. The MH community business also pays a W-2 salary from the MH community business of \$25,000/year to Alexa. What is the MH Community business' QBI?

$\$100,000 - \$40,000 - \$2,500 - \$25,000 = \text{QBI of } \$32,500$

Deduction Time

Now we know what type of income that it applies to, it's time for the fun part - taking that 20 percent deduction. Surely, it is simply multiplying your QBI by .20 to get your deduction, right?

Not exactly. And stop calling me Surely.

We must back up a bit before we get to QBI and more fun with Excel.

The new law says the deduction is an amount equal to the sum of:

1. the lesser of-

- the “combined qualified business income” amount of the taxpayer, or
- an amount equal to 20 percent of the excess (if any) of-
 - the taxable income of the taxpayer for the taxable year, over
 - the sum of any net capital gain (as defined in section 1(h)), plus the aggregate amount of the qualified cooperative dividends, of the taxpayer for the taxable year, plus

2. the lesser of-

- 20 percent of the aggregate amount of the qualified cooperative dividends of the taxpayer for the taxable year, or
- B. taxable income (reduced by the net capital gain (as so defined)) of the taxpayer for the taxable year.

Some of this we will save for another day, otherwise this will get too unwieldy. Therefore subpart (2) on cooperative dividends I'm skipping, also because probably most have zero in the form of cooperative dividends, which means subpart (2) for most is zero ($20\% * 0 = 0$, which will be less than even \$1 of taxable income).

Quick Recap Before Moving On. What's Going On Here?

While far from daily conversational speech, what this section says we must do to determine the deduction is compare “combined qualified business income” to 20 percent of a taxpayer's taxable income (less capital gains). When we do this comparison whichever one is less is the amount that we use for the deduction.

Calculating Combined Qualified Business Income:

And now is where things get fun. To determine “combined qualified business income” this deduction amount is the sum of two provisions and those two provisions have two options of which the lesser amount of both is what is added together. Let me guess, you are thinking “Huh?”

Let's focus on the key provision of “combined qualified business income.” Combined qualified business income is the sum of the deductions calculated for each trade or

business based on its QBI plus 20 percent for REIT dividends and qualified publicly traded partnership income.

The new law says in 199A(b)(2) that the deduction amount is the sum of the:

1. lesser of–

- 20 percent of the taxpayer's qualified business income with respect to the qualified trade or business, or
- the greater of–
 - 50 percent of the W-2 wages with respect to the qualified trade or business, or
 - the sum of 25 percent of the W-2 wages with respect to the qualified trade or business, plus 2.5 percent of the unadjusted basis immediately after acquisition of all qualified property.

2. Then add to (1) above: 20% of qualified REIT dividends and qualified publicly traded partnership income

The additional provisions in (2) that you add to (1), are straight forward. You add in 20 percent of qualified REIT dividends, which does apply to some of the community investors who have invested in REITs, and qualified publicly traded partnership income, which if you don't know what that means it is probably because you don't get any publicly traded partnership income and you shouldn't worry about it.

Let's Focus On (1), But First, We Have to Introduce the Income Threshold Savings Clause Magic:

Before we get into the distinctions between (A) and (B) and all this W-2 wages and acquisitions of qualified property we run into what I call the, "Income Threshold Savings Clause magic."

The law lays out a magical threshold of \$315,000 if married filing jointly (\$157,500 other tax payers) in taxable income. Alright, it isn't actually magical, but in terms of tax policy it's pretty close. The punchline is a taxable income level of \$315,000 is a defined income threshold – at and below it, life is much simpler; above it and life gets more complicated. The policy behind the "magic" is easy to understand; it is a direct benefit for small to medium size businesses.

The benefit of the threshold when calculating combined QBI is that the law says for those at and below \$315,000 all you need to worry about is subpart (A), which is the simpler 20 percent multiplied by QBI. The "lesser of" possible limitations on the deduction related to W-2 wages do not apply if you are at or below \$315,000. See there, magic.

There is a phase-in range between \$315,000 and \$415,000, where a taxpayer is not subject to the full W-2 limits, but those

limits are phased-in as income increases. Once a taxpayer exceeds \$415,000 the W-2 limitations become fully effective. Addressing the details and math of the phase-in is beyond the scope of this article.

Ok, I'm going to pause again. Before we go further on the W-2 wages and qualified property, let's do an example of a smaller business where the W-2 and qualified property stuff doesn't come into play. A taxpayer who gets the magical Income Threshold Savings Clause.

Example: Taxpayer Alexa files a married filing jointly return. Alexa is the only owner of an eligible trade or business, say Alexa owns and operates an MH community renting homes and lots, that generates \$175,000 in combined QBI. Alexa's taxable income is \$125,000 (less than the \$315,000 magical threshold) with \$10,000 in capital gains. What is Alexa's deduction?

Trade or Business QBI Calculation: $\$175,000 \times .20 = \$35,000$

Taxable Income: $\$125,000 - \$10,000 = \$115,000 \times .20 = \$23,000$
 $\$35,000 > \$23,000$

Alexa's deduction is \$23,000

What If Your Taxable Income is Above \$415,000?

Alright, if you are bigger and have taxable income above \$415,000, then you do have to concern yourself with subpart (B). For you, the deduction is the "lesser" of two options, and one option has two components.

Subsection (A) is easy now that we know what constitutes QBI and which businesses are eligible (and simple for all those at or below \$315,000 since only (A) applies to them).

Subsection (B) is new, and if the amount calculated under (B) is less than QBI multiplied by 20 percent, then you must use the lesser (B) amount.

Subpart (B) is established this time by the larger of two options: (i) based on W-2 wages and (ii) based on W-2 wages and qualified property. Crunch the numbers between the two, take the bigger one, and then compare that to QBI multiplied by 20 percent.

W-2 Limitations

Subsection (B)(i) provides for W-2 limitations on the deduction amount. You might be asking why on Earth they threw in subsection (B), which greatly complicates the entire process and clutters up our Excel sheet?

New Tax Law Brings 20 Percent Pass-Through Income Deduction to MH World cont.

The quick answer is to prevent a loophole that would have allowed for quite a bit of gaming the new system. Without a throttling-down of the deduction based on W-2 limitations, a tax payer who was a wage employee could quit his or her job, set up their own LLC, then contract with their former employer and now take a 20 percent haircut off the top of their taxable income.

So, Congress threw in there these W-2 limits to prevent this from happening. The way the W-2 limit prevents this abuse is by saying that if a pass-through entity pays no W-2 wages, presumably because there is only one person who owns the entity and rather than paying any wages all income flows through to the single owner, then that taxpayer cannot deduct anything under the new law because 50 percent multiplied by \$0 in W-2 wages = \$0. Zero is less than whatever the QBI multiplied by 20 percent is, so you have to use zero. Nice try, but you Do Not Pass Go, and you do not collect your 20 percent deduction.

To know what number to multiply by 50 percent we must know what exactly are "W-2 wages." Think of this as the amount of wages that a business would pay the business' portion of Social Security Tax on.

To take the more complicated route, technically the law says that W-2 wages mean, *"amounts described in paragraphs (3) and (8) of section 6051(a) paid by such person with respect to employment of employees by such person during the calendar year ending during such taxable year"*

Super clear once again, since we all have in our heads as walking-around knowledge what paragraphs (3) and (8) of section 6051(a) of the IRC says. No? Ok, well for those that might not have this readily available in your prefrontal cortex, here are paragraphs (3) and (8):

(3) the total amount of wages as defined in section 3401(a) (8) the total amount of elective deferrals (within the meaning of section 402(g)(3)) and compensation deferred under section 457, including the amount of designated Roth contributions (as defined in section 402A)

Well, that certainly cleared it up, didn't it? You are pulling your hair out right now, aren't you?

Don't fret.

Wages are all remuneration paid to an employee for their services, including the cash value of benefits paid. Granted, under 3401(a) there are then 23 (not kidding) specific

exclusions as to what are not considered wages, but I'm not going to go into those (only to say, yes, if you are curious in the IRC it says that if you are under 18 years old, and you get paid for delivering newspapers those are not taxable wages).

So "W-2 wages" are, well, wages paid, including 401(k) benefits.

But per section 199A(b)(4)(C) wages do not include (other than a teenager's paper route) anything paid that doesn't hit the business' Social Security payroll obligation. This means costs like contractor fees and vendor fees do not count towards your W-2 wages. For an MH community owner if you have outsourced the administration of your water submetering or pay property management fees, these are also not considered W-2 wages. Those fees and amounts you pay to vendors and service providers that get a 1099, and don't hit your payroll are not W-2 wages.

Unadjusted Basis of Qualified Property:

The other subpart that you compare to the 50 percent of W-2 wages to, is 25 percent of W-2 wages plus 2.5 percent of the unadjusted basis immediately after acquisition of all qualified property.

Terrific, wait, what in the world is "unadjusted basis immediately after acquisition of all qualified property?"

Enter Section 199A(B)(6)(A), which says essentially that "qualified property" is tangible (you can touch it) property that is depreciable under Section 167; held by and available for use by the close of the tax year; used, at any point, in the tax year to produce QBI; and who's depreciation period did not end before the close of the tax year.

Inventory for retailers and community operators are not depreciable under Section 167, and therefore, are not included as "qualified property." Also land and loan costs fail to be "qualified property" because land is not depreciable, and loan costs are not tangible.

But other land improvements, like an MH you rent in your rental community, and the personal property used in the business, like equipment that you depreciate, are all "qualified property."

The "depreciation period," which remember can't end before the end of the tax year to be included, is defined in Section 199A(B)(6)(B) as:

The period beginning on the date the property was first placed in service by the taxpayer and ending on the later of–

- the date that is 10 years after such date, or
- the last day of the last full year in the applicable recovery period that would apply to the property under section 168 (determined without regard to subsection (g) thereof, which is the Alternative Depreciation System).

The date the depreciation period ends is critically important because remember if the date ends before the year, then you don't include that property in your calculation.

The new law creates a minimum of 10 years for any depreciable property. Meaning if you buy property that has a depreciation schedule less than 10 years, you still get to count it for 199A purposes for 10 years. But if you buy property, like an MH that you are going to put in your community and rent the home, then the IRC says your depreciation schedule is 27.5 years, so under 199A for the pass-through deduction you use 27.5 years.

Last point to reiterate, the new law under subpart (ii) requires that you use the "unadjusted basis immediately after acquisition" of property. This is good news. This means what you paid to originally buy the property.

So, if you bought depreciable property, like an MH for your community that you are going to use as a rental, for \$40,000 but over the years you have depreciated the MH down so that the current basis is \$5,000, when you go to calculate (ii), assuming the property is still within its deprecation period, you use the original \$40,000 to multiply by 2.5 percent.

W-2 and Acquired Qualified Property Example:

Bill has a job and owns an MH community business. Bill's total taxable income from Bill's day job, spouse's income, and Bill's rental MH community business is \$475,000.

So, Bill has taxable income over \$415,000, which means the full W-2 limits will apply.

Bill's MH community business generates \$100,000 in QBI.

Bill's MH community business has an on-site manager whose total compensation for salary, sales commission and onsite living accommodations comes to \$38,000.

Bill's MH community business for the current tax year has tangible, in use, depreciable property used to produce QBI that is still within its depreciable period for the current year, including five MHs originally purchased for \$30,000 each, of \$165,000.

What is Bill's pass-through deduction?

Calculations:

Taxable Income $\$475,000 \times .20 = \$95,000$

MH Community QBI $\$100,000 \times .20 = \$20,000$

MH W-2 Wages $\$38,000 \times .50 = \$19,000$

MH W-2 Wages $\$38,000 \times .25 = \$9,500$

Unadjusted basis of qualified acquired property $\$165,000 \times .025 = \$4,125$

Comparisons:

Greater of 50 percent W-2 Wages or 25 percent W-2 wages plus 2.5% acquired property:

$\$19,000 > \$13,625 (\$9,500 + \$4,125)$

Lesser of 20 percent QBI compared to, in this example, 50 percent of W-2 Wages:

$\$20,000 > \$19,000$

Lesser of 20 percent of Taxable Income compared to, in this example, 50 percent of W-2 Wages

$\$95,000 > \$19,000$

B's pass-through deduction is \$19,000

I told you I promised lots of Excel fun.

Don't Forget Your Allocable Share:

For both 50 percent W-2 wages and the 25 percent W-2 wages, plus 2.5 percent of acquired qualified property limits, the taxpayer can only calculate those numbers based on their allocable share. Now if the business only has one owner that all income flows through to, then, yes, the owner determines his or her numbers by using all W-2 wages and qualified property of the business.

But if the business has multiple owners, like a partnership, shareholders (S-Corp), or members (LLC), then each taxpayer must determine their allocable share and factor that against the business' W-2 wages and qualified property.

Determining an allocable share would normally vary in complexity depending on the entity, with some complicated partnerships agreements taking the cake. But Section 199(A)(f)(1) takes all the super complexity out and thankfully leaves us with just something mildly complex.

For a partnership or S-Corp the allocable share of W-2 wages is the same share the partner or shareholder receives for wage expenses.

New Tax Law Brings 20 Percent Pass-Through Income Deduction to MH World cont.

For a partnership, the allocable share of the unadjusted basis immediately after the acquisition of qualified property is determined in the same way the partner's share of depreciation is calculated. For an S-Corp the allocable share is the shareholders pro rate share of an item.

Allocable Share Example:

Let's stick with the same numbers as the last example, except this time the MH community business is a partnership between Bill, Cathy, and Doug. We are calculating Bill's deduction. In the partnership agreement, the partners all have an equal one-third (33.33%) share in income and expenses. However, Bill is more the sweat equity partner while Cathy and Doug are more the money investors, so the partnership agreement says Bill gets 10 percent of the partnership depreciation, and Cathy and Doug split the remaining 90 percent.

What's Bill's allocable share?

*Bill's Allocable Share of QBI is $\$100,000 * .3333 = \$33,333$*

*Bill's Allocable Share of W-2 Wages is $\$38,000 * .3333 = \$12,665$*

*Bill's Allocable Share of Acquired Property is $\$165,000 * .10 = \$16,500$*

Now what is Bill's pass-through deduction?

*QBI $\$33,333 * .20 = \$6,666$*

*50 percent wages are $\$12,665 * .50 = \$6,333$*

*25 percent wages and 2.5 percent property is $(\$12,666 * .25) + (\$16,500 * .025) = \$3,166 + 413 = \$3,579$*

$\$6,333 > \$3,579$

$\$6,666 > \$6,333$

Bill's allocable share of the pass-through deduction is $\$6,333$ because 50 percent of the wages is greater than 25 percent wages plus 2.5 percent property, and less than QBI multiplied by 20 percent. And $\$6,333$ is less than B's taxable income multiplied by 20 percent ($\$95,000$).

Additional Items of Interest (Come On, You Know You Are Still Interested):

Owning Multiple Eligible Businesses - What happens when a taxpayer has multiple eligible businesses? How are multiple businesses considered? The current consensus is the new law requires that each business be treated individually for each businesses' applicable pass-through deduction and then each of those deductions are aggregated for the taxpayer.

Assuming this interpretation continues to hold true, some taxpayers will need some detailed planning on exactly how their multiple businesses are run. The eventual set

up will all depend on the math and which configuration is most beneficial. And this is especially true for those bigger taxpayers with taxable income over the threshold which brings into play both service business ineligibility and the W-2 and acquired property possible limitations.

Ineligible "specified service trade or business" - As previously mentioned, if you or your spouse is involved in other businesses in the fields of: health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investing services, investment management, trading, dealing in securities, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees, then, those businesses' eligibility will depend on taxpayer income. At or below $\$315,000$, then the taxpayer receives the full 20 percent pass-through deduction regardless of the type of business. Above $\$415,000$ and the service related businesses are ineligible and the taxpayer does not get the new deduction. Between $\$315,000$ and $\$415,000$ you get some deduction that is reduced as income approaches $\$415,000$.

Taxable Income; Not Adjusted Gross Income Used - It is important to understand that when calculating various deductions, as well as determining if a taxpayer is under the $\$315,000$ threshold, that the number we are looking at is the taxpayer's total taxable income (not including the possible 20 percent pass-through deduction). This is good.

We do not use the taxpayer's Adjusted Gross Income. Why is taxable income better than AGI?

Because taxable income is going to be lower than AGI. AGI only subtracts from income the "above the line" deductions. But total taxable income includes all the "above the line" deductions, plus all the "below the line" deductions like Itemized or Standard (which is now $\$24,000$) personal deductions, as well as things like the now larger child tax credit. The more deductions against income the better shot you have of being under the threshold.

What Did I Leave Out? - I know, I know you are thinking that there is no possible way I have left anything out. Sadly, I have left quite a bit out. I'm going to quickly mention some of them in case they might apply to a select few of you so you can double check with your accountants and lawyers.

Phase In - When dealing with the W-2 limitations and the "Magical Incomes Savings Threshold Clause" this article only addresses situations where income is below $\$315,000$ or above $\$415,000$. Within the $\$100,000$ range a taxpayer must calculate an applicable percentage of the W-2 limitation

because the limit is “phased-in” as income climbs. At \$415,000 and above the taxpayer is the subject the full limits of the W-2 wage limitations. This same phase-in range between \$315,000 and \$415,000 also applies when determining if a specified service trade or business is eligible for the pass-through deduction. The detailed discussion of the phase-in provisions is left for another day.

Impact and Planning with Self-Employment Taxes – In many cases there are going to be other things to consider when you start considering types of entity structures and relationships with W-2 wages including paying or not paying yourself wages. The possible impact on triggering self-employment taxes that you might not otherwise be paying, or are paying in low amounts. Expert help will be needed to run the numbers to see which is more beneficial for each individual weighing the possible new pass-through deduction against any increase in self-employment taxes that might be needed to generate the pass-through deduction.

Conclusion:

The conclusion I have is that this new deduction is going to reduce the taxes on the majority of businesses in the MH retail, community, and lending industries.

The big boy corporations won’t get it, but remember they are far from being left out in the cold; their tax rate dropped from 35 percent to 21 percent. Not to mention there are still more things to discuss in the bonus depreciation and new “full expensing” provisions of the new law.

While there was arguably some simplification of the IRC with things like doubling the standard deduction this pass-through deduction, while a nice tax reduction, is far from simple. The new law will require better record keeping, monitoring throughout the year, some changes to some businesses and the need for expert advice and counsel – which, again, is not from me, but from your own lawyers and accountants who are steeped in tax law experience and understand the new provisions far better than me.

For those that made it this far, here is your after the credits treat – a wildly gross over-simplification of an exceedingly complex new law that makes vast assumptions and disregards huge swaths of law as to be completely unreliable:

Gross Over-Simplified Quasi-Summary

- For those in our MH industry as active retailers, MH community owners/operators, and lenders that operate as a pass-through business (sole proprietor, partnership, LLC, S-Corp) you are going to be entitled to a new 20 percent deduction off your business pass-through income.

- If your taxable income is at or below \$315,000, then your deduction is determined by taking your business operating income less your business operating expenses, business investment income and any W-2 wages you pay yourself (i.e. QBI) and multiplying that number by 20 percent. Compare that number to 20 percent of your total taxable income. Whichever one is less, that’s your deduction.
- If your taxable income is more than \$315,000, but less than \$415,000, you must consult with your accountant. Within this \$100,000 range there is a strong likelihood you will still receive some amount of deduction, but the exact calculations will depend on your unique situation.
- If your taxable income is above \$415,000, then you must make four calculations rather than only two.
 - Your QBI (business operating income less your business operating expenses, business investment income and any W-2 wages you pay yourself) multiplied by 20 percent.
 - 50 percent of the total (which includes any wages you pay yourself) amount of W-2 wages the business pays.
 - 25 percent of W-2 wages the business pays, plus 2.5 percent of available depreciable property bought by the business that is used in the production of business income that has not fully depreciated using the original property acquisition cost when the business first bought the property.
 - Your taxable income multiplied by 20 percent.

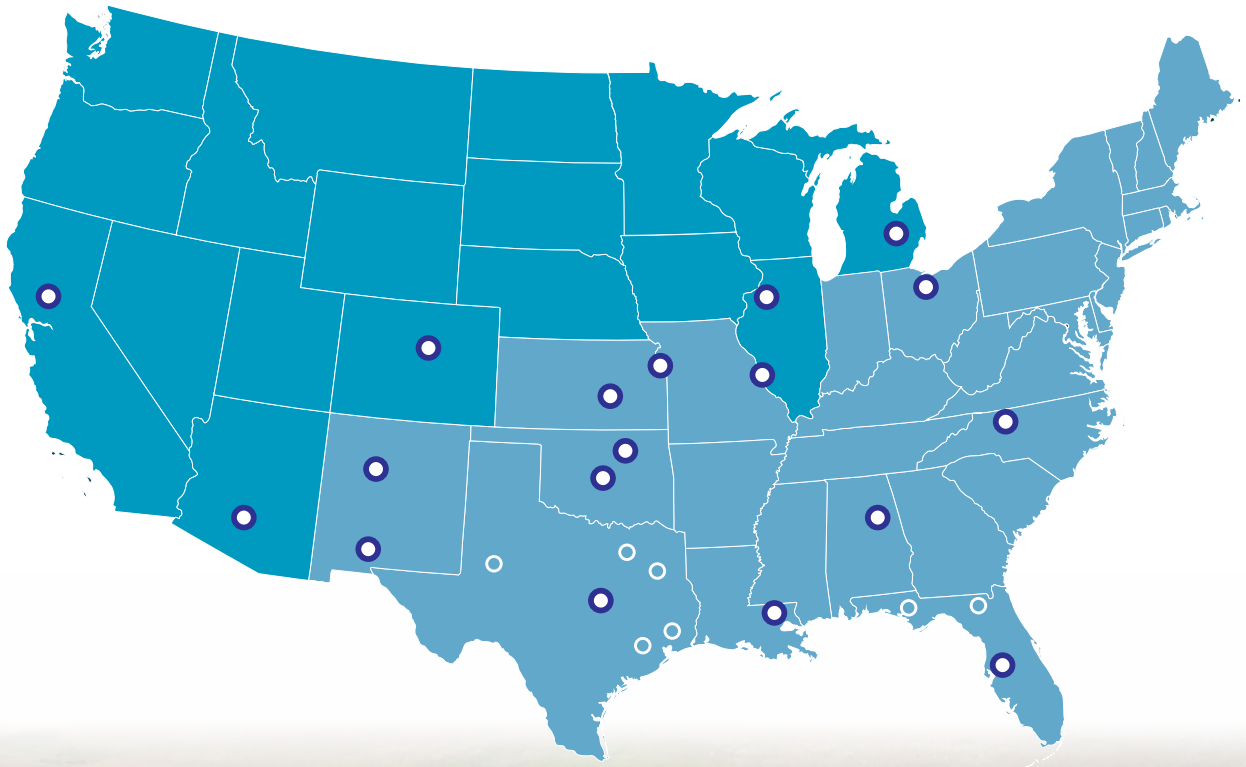
Then compare: Which is bigger between (2) and (3)? Then compare the bigger of (2) and (3) to (1), which is smaller/less? Then compare the smaller to (4), which is smaller? The smaller is your deduction.



DJ Pendleton has worked for the Texas Manufactured Housing Association since July 2006. First as general counsel and then in 2008 became the executive director, which is the position he holds today. Pendleton has Bachelors of Business Administration in Accounting from Texas A&M University, a Master of Science in Accounting from Texas A&M University, and a Juris Doctorate degree for Baylor University School of Law. Pendleton has been a licensed attorney in the state of Texas since May 2006.

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People within our industry often discuss the appropriate ratio of lot rent to apartment rent. We embarked on a yearlong study to determine that rate. The study consisted of over 4200 communities in more than 140 different geographically diverse metro areas across the US equaling almost one million pad sites.

We needed a standardized approach. Many park owners have different ways of operating. Some include water, sewer, trash, landscaping, cable etc. in their lot rent, while others don't or rebill and recaptured the expenses. To create an apples-to-apples comparison we utilized formulas to strip out any additional costs and compared lot rents only.

Apartment unit sizes vary, each renting at different rates. To standardize this, we chose two bedroom units. Three bedroom units might be a fairer comparison. However, there are far less three bedroom units in existence. As we were merely trying to come up with an accurate ratio for comparison sake, we felt that it would be more accurate to use two bedroom units. We also set geographic constraints based on the unique address of the park, ensured that we had a large enough sample size, and used the median rent instead of the average to ensure outliers didn't impact the results.

Here are some takeaways.

- The average occupancy across the data-set was 92%. This reconfirms our belief that there is substantial demand.
- The median lot rent/ 2 bed-room apartment rent. for this data set is 47% with a national average slightly over 50%.
- The highest ratios tend to be in Florida where there are a higher number of 55+ communities with Vero Beach, Florida exceeding 80%.
- The lowest ratios are in Lafayette, LA, and Baton Rouge, LA at 20% and 26% respectively.

We also tracked lot rent compared to a variety of other economic metrics, such as median income, median home price (PI-mortgage payments¹). Here are some insights from that data.

- The median annual lot rent/ median income is just below 12%. The highest is Fort Myers, FL at 25% followed closely by Los Angeles at over 22%. Again, the lowest is Lafayette, LA at 5% followed closely by Hastings-Grand Island-Kearney, NE MSA at 6%.
- The median lot rent/ PI mortgage payment is 43%. Some markets including Dayton, OH, Gary, IN, Wayne, MI, and Toledo, OH have lot rents exceeding PI mortgage payments indicating that manufactured home communities are preferred.

There are many ways to utilize the data to understand the real strengths, weaknesses, or opportunities in a marketplace, but one thing is clear, in most markets manufactured home communities provide a necessary affordable option, with continue room for rent growth.

For more information contact Casey Thom at: cthom@sunstonemhc.com.

Casey Thom, CCIM- Casey began his journey as a real estate investor. He began to focus his investments in Manufactured Housing Communities, allowing him to understand the challenges and opportunities park owners face. He has since shifted gears to focus on park brokerage. Formerly of Marcus & Millichap, Casey joined Sunstone in 2016. In that short time, Casey has closed transactions equaling over thirty communities.

Casey resides in League City, Texas with his family.

¹Utilizing current rates, 30-year Amortization and 3.5% down FHA Loan

The Changing Role of RVs in Manufactured Home Communities

By Dave Reynolds

I am often faced with trying to determine the value of RV lots inside manufactured home communities. This is one of the most complicated issues in the manufactured home community sector – which is odd because, at one time, they were all part of the same happy family. Traditionally, RV lots were valued less than those with manufactured homes. But that's rapidly changing as American retirees' are altering their housing preferences.

Let's start with a quick history of MH/RV

Let's face it, even the industry museum in Elkhart, Indiana is titled "The MH/RV Hall of Fame and Museum". These two products are closely tied together and have been since the inception of the industry in the 1920s. As the sector matured, these two product types began to demonstrate different attributes, and investors began to take sides on which was the better use of a parcel of land.

The key differences traditionally

Even though both RV and MH usage yields the same lot rent potentially, there are differences that make investors tend to favor one over the other. Most of these preferences are built around the ease in which an RV can move off of a lot versus that of a manufactured home. While it takes around \$5,000 to move a manufactured home from Point A to Point B, an RV can either just start its engine or hook up to a vehicle. This reduces the potential longevity of the tenant and that, in turn, makes the RV resident seem less permanent and worth less as an income stream.

However, these two are starting to converge again

There are roughly 10,000 Baby Boomers retiring in America each day. And a large portion of these are, as part of their retirement plan, down-sizing from traditional residences. Many are choosing RVs, as opposed to MH, as their housing of choice. Some prefer the way they look and their construction standards. Others like the fact that RV has no negative stigma. And still others don't initially plan to retire into an RV, but decide to do so after travelling America in it for a couple years. These individuals see no reason to move around, and choose a lot that is their permanent home. In this way, RV and MH have gone full circle and now represent the same thing in many instances.

So it's really just a matter of intent

That's basically the truth. In buying a property with RVs, the starting point is "what is the resident's long-term plans?" If they have lived in the their RV on the property for years, then it's a good bet that they're never going to leave. Additionally, if they have made improvements to their lot, or skirted their RV, or installed outdoor furniture and a chimenea, then it's obvious that they hold little risk of leaving.

Real "overnighter" RVs rarely are to be found in a manufactured home community these days

The RV industry has changed dramatically over the past couple of decades. One of the biggest changes is the "pull-thru" lot, which was an invention that makes driving and parking an RV much easier for the customer, as they don't have to back into their lot but simply pull forward. Additionally, the typical RV park today has a long list of amenities that no MH community can match. Finally, the desired location for the RV park customer today is outside of town in rural areas, and not inside the city limits where most manufactured home communities are located.

The RV product has changed more than the MH over time

While manufactured homes are strictly for full-time living, RVs have effectively broken into two types: 1) full-time housing use and 2) part-time travel use. And true RV parks have changed into entertainment complexes for American travelers, and not suitable spots typically for full-time living, which has needs like being near shopping and medical options. They have basically surrendered this business model over to the MH community. And smart manufactured home community owners have rapidly accepted it.

Putting it all together

Manufactured home communities do not have to be exclusively MH. Instead, they represent a community of those that desire to live in a nice location with access to shopping and services, and enjoy the privacy of their own yard and nurturing neighbors. In this way, RVs can be viewed as effectively the same as MH residents, if their goal is full-time living. As time has marched on, the phenomenon of having Baby Boomers retire into RVs in your community has rapidly expanded in scope.

Conclusion

It is becoming more common to see RVs in manufactured home communities, being used as full-time housing, and not as a temporary use. It is interesting how this segment has come full circle, and that the RV and MH product are starting to merge into each other once again.



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.

The Top Ten Reasons You Should Join Your State Manufactured Housing Association

By Frank Rolfe

Many people are unaware that Dave and I are very active in the state manufactured housing associations in the states in which we have holdings. I serve on the Board of Directors of the Iowa Manufactured Housing Association, and have served on the Illinois MHA Board, as well. Aimee Kimberling, our Regional Manager for Texas, the Carolinas and Florida, serves as a member of the Board of Directors of the Texas Manufactured Housing Association. As a large portfolio owner, we pay substantial dues to the more than 25 state MHAs that we belong to. So why do we put in so much money and effort? Here are the Top Ten reasons.

Community owners are under constant attack

The average manufactured home community routinely faces attack from a number of sources, including city hall, litigious residents and managers, and Governmental agencies, such as HUD. Most of these potential actions are the result of poorly written legislation (such as the SAFE Act), abuse of the legal system, or lack of understanding by governmental employees. Getting in the crosshairs of these groups is fairly random and often unfounded, but the result is typically legal cost, time and worry.

State MHAs form a strong first line of defense against these actions

Your state MHA is an excellent first line of defense against these issues. They are often aware of their existence, and stand ready to help when problems arise. Typically, they have resources – in both people and information – to help you in battling whatever the issue is, and some will even work with you in the form of making contact with the offending party. It's very reassuring when you can call someone the minute something happens and they can tell you what to do and how to do it.

The opportunity to have instant access to certain professionals We recently encountered an extremely complicated zoning case, and the state MHA was able to give us the name and number of an attorney that had represented a community owner on a similar problem and won. Within hours, we located this resource and had them on the case. Shortly thereafter, they met with the city and the problem was solved. Had we not had access to this state MHA and their wealth of information, we would have surely spent weeks or months in discussions and potential litigation with an attorney who had no prior experience, and had to pay for their learning curve, as well.

A source of fast data

Sometimes you will get a call from a lender (or potential lender) who asks you for some selective industry data. Don't bother looking on Google, because it's not there. Typically,

the only source of this data is your state MHA. While there is a great amount of information that was never collected or stored – particularly stats on community occupancy and rents – the state MHA is your only possible hope of arriving at much industry data.

The camaraderie of other community owners with similar issues

Being a manufactured home community owner is a lonely business. It is rare to casually run into a fellow community owner in your regular life. But your state MHA is filled with them – and they all live nearby. It can be a great place to build a network of peers to run issues by or just stay in contact with. Many great partnerships have even sprung from state MHA meetings.

Proactive direction of state laws

In many states, the MHA actually can create legislation that is favorable to community owners. This is a huge item, and worthy of your dues alone. In Texas, for example, the MHA was able to amend the laws of the state to preclude cities from intervening and blocking the use of grandfathered lots. Meanwhile, Iowa has been able to pass a number of similarly attractive initiatives. What's better than helping you solve problems with state and city officials? Changing the law to make any issues irrelevant.

Access to timely reports and warnings

Most MHAs send out regular notices of pending votes on legislative issues, as well as warnings of laws that have been passed. We see this as hugely valuable, as it keeps us informed of important changes and gives us a collective chance to try and overcome or modify pending bills. It's sad, but some government changes, such as the SAFE Act, were so poorly rolled out that community owners have still not heard of them ten years later. Having the MHA send you these timely warnings keeps you fully informed and safe from making dumb mistakes.

Educational options

Most MHAs have periodic classes and meetings to discuss a myriad of important materials – from how to properly paper a sale to how to properly install and anchor a home. While you may think that you had enough of high school or college, these classes are designed to save and/or make you money, so they are much easier to sit through.

A positive outreach to the media

It comes as no shock that our industry has probably the worst stigma and stereotype of any form of commercial real estate. This requires a constant stream of positive press to

The Top Ten Reasons cont.

counterbalance even a small portion of the negative press the industry garners on a regular basis. And this positive force is often your state MHA, which typically responds to negative stories or contacts reporters and networks to create positive reports on many fronts.

It's the right thing to do

Most all of the great things in America exist because people thought they were the right thing to do even if there was no immediate reward on the part of the participant. Only when society invests in the future does the next generation make positive strides. Most of these MHAs were formed by the "Greatest Generation" that just happened to also build virtually all the manufactured home communities in the U.S. These folks were selfless and did things for the greater good. If we do not keep these state associations running and well-funded, it damages all of us. Let's not let that happen.

Conclusion

So those are the Top Ten reasons to join your state MHA, if you have not done so already. How many more reasons do you need? Give them a call. Their dues are reasonable and your benefits are huge.



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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"With strong market fundamentals and demand indicated by high occupancy rates, we would expect much higher rents."

	Houston	National Median*
Occupancy	97%	94%
Avg Lot Rent#	\$378.61	\$477.03
Median 2 BR Apt Rent	\$1023	\$934.58
Lot Rent/ Median 2 Bedroom Apt. Rent	37%	47%
Median Income	\$60,840	\$51,591
Lot Rent/ Median Income	7%	11%
Median SF Home Price	\$219,992	\$198,100
Lot Rent/ PI Mortgage Payment@	34%	43%

The following report contains data from communities equalling over 10,000 pad sites in the Houston MSA. The national data is from over 3000 parks equalling over 900,000 pad sites nationwide.

**For the data set*

Net of utilities- Any utilities or services provided are subtracted

@Assuming 3.5% down FHA Loan, 30 year amortization at current rates



Lot Rents:

From the data, we can see that there is still a considerable amount of room for lot rent growth across the Houston market. With an average lot rent of \$378.61, it trails the national median by nearly \$100 per pad, while maintaining stronger apartment rents, income levels, and single family home prices. Compared to 2016 Houston has closed the gap, but only marginally. In 2016 Houston lot rents equaled 35% of the Median 2 bedroom apartment rent, and it has advanced 2 percentage points towards the median. Houston was ranked 119th in lot rents compared to apartment rents, 114th in terms of lot rent to income, and 102nd in lot rent to single-family home mortgage payments of 129 markets included in the study. With strong market fundamentals and demand indicated by high occupancy rates, we would expect much higher rents. A prime reason for this is limited institutional ownership. Institutional owners tend to be more aggressive and sophisticated in raising rents. This allows smaller operators to draft on their tailwinds. Given the 10% delta between the national median and Houston we still firmly believe there is plenty of room for owners to continue to increase rental rates.

Hurricane Harvey Updates:

In addition to current strong occupancy, there are recent reports that the government is looking to place 2000-5000 temporary rental units in South Texas following Hurricane Harvey, which will absorb most of the remaining vacancy. Most parks in the Houston area fared extremely well following Hurricane Harvey. Losses reported for Manufactured Home Communities were less than those of other asset classes, due in large part to the fact that the units are elevated.

Casey Thom, CCIM- Casey began his journey as a real estate investor. He began to focus his investments in Manufactured Housing Communities, allowing him to understand the challenges and opportunities park owners face. He has since shifted gears to focus on park brokerage. Formerly of Marcus & Millichap, Casey joined Sunstone in 2016. In that short time, Casey has closed transactions equalling over thirty communities.

Casey resides in League City, Texas with his family.

The dilemma of getting a manufactured home loan refinanced is a real one. Since the sub prime meltdown, lenders on manufactured homes are more conservative than in the past and some have even withdrawn their MH lending. I've been refinancing manufactured/mobile home loans for 20 years. If I were to advise an individual on how to refinance their existing MH loan, I would first suggest they contact their existing lender. Tell them you want to refinance your home and want to give them the first chance. In order not to "lose" your loan that company may well offer you a better interest rate. That lender will have all the information they need to view your payment history, will know your outstanding amount due on the loan, and will know exactly what your home is. Should they be unwilling to accommodate you needs, I would suggest you get information ready BEFORE contacting any other MH lender. You will need: Approximate loan payoff on your MH loan. If you only know the principal balance owed, you can use that figure adding the amount of one monthly payment to get a good approximation of what you currently owe on your home. Know your payment history on that loan. Were you ever more than 30 days late getting the payment to your lender? Contact your existing lender to find out this information if you are uncertain. You WILL BE ASKED and there is no sense in not knowing or misrepresenting.



Know how long you have had your MH loan. It matters to some lenders the number of months you have been paying on the loan. Know exactly what the home is. You will need to know all of these:

- The model year of the home, and maybe the date it was built.
- Length and width of the home.
- The name of the company that built the home.
- The model name of the home. Like an automobile, there is a huge difference in the value of a Jeep Wrangler versus a Jeep Grand Cherokee - manufactured homes are the same.

If your home is fairly new and/or the dealer is still around, contact him to find out info on your home. Also, your loan contract has some information. Additionally, from your MH serial number, the home manufacturer may be able to provide you with all of the above. Try the Internet to find their phone number. Now that you are armed with the information you will need, where do you go from here? As above, your dealer or another MH retail sales company may be able to put you in touch with a known refinance company. The dealership may offer its services (for a fee usually) to find a lender that will refinance your home. You may search the Internet under "mobile home refinance", and in some instances your State (HUD) Code Agency may give you some direction. Talk with your local banks, and ask them about refinancing. Don't give up easily. Don't be afraid to go forward. The small (or large) monthly savings over the years add up to real money. It pays you to get it done.

For help with getting some of the information or lending sources, you may contact me at mhl.corp@yahoo.com and I'll see if I can't assist you in getting information so you may refinance your mobile home. Good luck!

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"With strong growth and market fundamentals we would expect continued strong lot rent growth in 2018."

	Chicago MSA	National Median*
Occupancy	97%	94%
Avg Lot Rent#	\$531.36	\$477.03
Median 2 BR Apt Rent	\$1155.35	\$934.58
Lot Rent/ Median 2 Bedroom Apt. Rent	46%	47%
Median Income	\$55,216	\$51,591
Lot Rent/ Median Income	8%	11%
Median SF Home Price	\$331,000	\$198,100
Lot Rent/ PI Mortgage Payment@	31%	43%

The following report contains data from 25 communities equalling over 8000 pad sites in the Austin MSA. The national data is from over 4196 parks equalling over 968,602 pad sites nationwide.

**For the data set*

Net of utilities- Any utilities or services provided are subtracted

@Assuming 3.5% down FHA Loan, 30 year amortization at current rates



Lot Rents:

Lot Rents advanced 4.8% in Austin 2017. With steady growth and market fundamentals, we would expect continued strong lot rent growth in 2018.

Compared to Apartments:

Lot rents in Austin are currently 46% of the median two bedroom apartment rents based on the unique address of the community. The national median is 47% with the national average of 51%. Based on market fundamentals and attractiveness of the location we feel rents should supersede the national average. 10,200 apartment units were absorbed in 2017, the highest levels in the last decade. With new construction geared towards Class A complexes, demand for Class C units is outpacing supply, pushing the average effective class C unit over \$1000 per month leaving an excellent opportunity for MH to fill the need.

Single Family Homes:

November reports from the Texas A&M Real Estate center indicate that the median single-family home prices grew 3.5% from 2016 and supply remains exceptionally tight at 2.5 months of inventory. With supply limited, we would expect prices to continue to climb. Zillow indicates that the median price of homes now listed in Travis County is \$374,000. With home prices outpacing income growth, an affordability gap is forming that would make manufactured housing a more attractive option for a higher income earning residents in Austin. At the current pace and as lot rents adjust to market fundamentals, average lot rents should surpass \$600 in 2019.

For more info contact Casey Thom cthomb@sunstonemhc.com

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