

CONVERSION: THE BEST SOLUTION FOR YOU?

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There are several areas of the mobile-home park business that financially plague park owners. Rent control, loss of land value, exit strategy options are all issues for which traditional industry solutions provide inadequate and frustrating answers.

If any of these aspects of the business have proven financially exasperating for you, then the ultimate solution may be a subdivision of your park, otherwise known as conversion to resident ownership. There is a State statutory method by which parks are subdivided into individual lots. The lots are then sold at market value to the residents.

Market value of the lots depends on the location of your park and the value of "stick built" homes in the area. A four or five star park in a desirable location worth \$80,000 per space as a rental park can be worth \$200,000 per space when subdivided. In other words, a 200-space rental park worth \$16 million could be worth \$40 million when subdivided.

A park is converted by a one-lot subdivision with a condominium overlay through a tentative tract map ("the Entitlement Process"). To encourage park conversions to resident ownership, State law restricts the ability of cities to place expensive conditions on the subdivision. Cities must approve the subdivision if State rules are followed. Although this rule has been challenged, the courts have continued to uphold park owners' rights in this area.

After approval by the city and by the California Department of Real Estate ("DRE"), residents have an opportunity to purchase their lot at its fair market value. The buyers also obtain an undivided interest in the park's common areas (the clubhouse, recreation facilities, roads, etc.).

No resident is required to buy his or her lot. They may stay and continue to rent their space from the park owner.

Upon the sale of the first lot, local rent control is replaced by State rent control. For non-low income residents, State law provides that the preconversion rents will



Pictured with Richard Close (center) are Attorney Thomas Casparian and Senior Paralegal Susy Forbath.

be raised to market level in equal increments over a four-year period. After that, there are no restrictions on the rent.

For low-income residents who decide not to purchase their lot, their rents will increase annually by the Consumer Price Index (CPI). If a low-income resident wants to purchase their lot at its market value, the State has a financing program (MPROP) that provides a loan up to 95% of the price at an interest rate of 3% amortized over 30 years. In many cases the loan payments are deferred until the resident sells the home and lot. Under this State MPROP program low income residents often buy their lot and pay less each month than their existing rent.

When a non-purchasing resident later sells his or her home, the buyer must buy the lot from the park owner at its market value. In this manner, the entire park will eventually become resident owned. In the meantime, you as the owner of the unsold lots continue to realize the increased land values of those lots.

Cities and counties benefit from the increase in property tax revenues, which is generated as lots are sold. Also the subdivision of the park eliminates rent control litigation between owners, residents and municipalities because local rent control no longer applies to the property.

When parks transition from rental to resident ownership, cities and counties are still preserving affordable housing while

providing the opportunity for residents to have a choice between affordable rental or purchase housing.

Conversion provides residents with the opportunity to acquire an ownership interest in the park, which certainly would not otherwise occur. So why do certain individuals oppose conversions? Non-low income residents who do not want to buy their lots do not like the fact that under State rent control their rents will increase to market.

However, many seniors and young families residing in mobile home parks want the opportunity to purchase their lot. Senior residents see the purchase as enhancing the value of their home and having an asset to pass on to their heirs. Young families see it as the only way they can have an investment in California real estate that they otherwise could not afford.

Because there is no certainty of the current law remaining unchanged, some park owners are subdividing their parks now with the intention of selling lots in the future. Obtaining entitlement now through a vested final parcel map, secures your future ability to recapture the market value of your land.

While not for the best option for every mobilehome park, for the right owner and park, a subdivision/conversion is a solution that benefits the park owner, the residents and the city in which the park is located. It is a win - win - win.↑

Editor's Note:

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Gilchrist & Rutter has successfully litigated more subdivision challenges than any other law firm in the State.