

Mobile Home Parks Seen as Redevelopment Targets

Investors like the stable income, but construction potential can't be overlooked

By Mandy Jackson
CREJ Staff Writer

The next hot property for redevelopment in cities where large sites are sparse may be mobile home parks.

While investor interest hasn't cooled for the stable returns the properties provide, developers are looking at mobile home parks for a future beyond rent collection, though transactions have slowed as less debt is available for all types of real estate investment.

Richard Close, partner at Gilchrist & Rutter PC in Los Angeles, said the ongoing credit crunch has reduced the amount of capital available for mobile home park acquisitions, so investment activity has slowed.

However, Close said more and more owners are becoming interested in redeveloping their mobile home parks or selling the assets to investors that plan to close the parks and redevelop them.

"Generally, they're not making as much income off of the mobile home parks compared to what the value of the land is," Close said.

Cities also are interested in redevelopment as well, now that mobile home parks that once seemed far away are in the middle of more recently developed areas.

"A mobile home park is generally not the highest and best use," Close said. "They were generally built in the 1970s on the edge of town. Now, 35 years later, they're in the middle of the community."

Englewood, Colo.-based Archstone-Smith paid \$15 million last year for the 119-space Mission Valley Village mobile home park in central San Diego near the eastern edge of

the city. Archstone is seeking a community plan amendment to remove the mobile home overlay zone for the 10.45-acre property at 6850 Mission Gorge Road, which the company wants to redevelop with 442 luxury apartments.

David Pendery, a spokesman for Archstone, said it is early in the development process for the company's apartment project at Mission Valley Village. Pendery could not address the specifics of Archstone's plans beyond what has been discussed publicly.

He said Mission Valley Village is "a great piece of property that was brought to us in a great location," but acquiring and redeveloping mobile home parks is not a specific strategy Archstone is trying to pursue.

"For mobile home parks, one of their popular characteristics is they serve as a land bank opportunity with cash flow until such time that the properties can be redeveloped for a higher and better use," said John McDermott, senior vice president at Sperry Van Ness in Newport Beach.

"Mobile home parks in the path of development have become more valuable," McDermott said.

Relocation Issues

Affordable housing and senior housing have been typical reuses for mobile home sites, but McDermott said they are gaining in popularity for industrial projects. However, with the real estate slowdown and turmoil in the capital markets related to problems in subprime home loans, prices for raw land are becoming more affordable.

"Most developers today are able to find land parcels at substantially less money than it would take to buy a mobile home park and go through the two- or three-year process of relocating tenants," McDermott said.

He said there are few mobile home parks with vacancies and the cost to relocate tenants can range from \$5,000 to \$25,000 each.

Close said a lot of park owners are asking him about the process of closing mobile home parks and redeveloping them for retail centers and industrial parks. State law provides a process for closing mobile home parks and relocating residents, who usually own their mobile homes but rent the lots beneath them.

Mobile home owners are entitled to relocation assistance under state law administered by the California Housing and Community Development Department. The state set uniform standards for closing mobile home parks so that every city has the same rules to protect residents and property owners.

Close said generally there is resistance from residents when redevelopment is proposed. And while cities often want mobile home

Continued on back.



Richard H. Close is a partner at Gilchrist & Rutter in Santa Monica, Calif. His practice focuses on real estate, financial & business transactions and formation of & advising professional entities.

Redevelopment Targets *continued*

parks to be redeveloped, officials focus on making sure the residents are treated fairly.

Close often advises his clients to incorporate moderate-income housing in their redevelopment proposals to accommodate mobile home park tenants.

In San Diego, Archstone has offered to set aside 90 apartments in its redevelopment of Mission Valley Village for affordable housing. The mobile home park residents are protesting the project because they say they will lose their already-affordable homes. A lawsuit is pending against the previous park owner because the mobile home residents were not given a chance to buy the property and maintain their rents.

“Cities need moderate-income and low-income housing to fulfill state requirements,” Close said. “It’s difficult if you have a tiny piece of land, but if you have 50 acres you can accommodate multiple uses.”

Investment Opportunities

When many mobile home parks were developed in the 1970s, Close said cities believed it would be a transitional land use until the areas were ready for redevelopment.

Now these large pieces of land have exceeded their expected lifetime and investors are considering the redevelopment possibilities. And because of their location and size, the properties are considered to be quite valuable.

“There are 4,800 mobile home parks in the state of California, so the potential for redevelopment of these properties is tremendous,” Close said.

Bret Rosol, an associate at the brokerage O’Donnell/Atkins in Irvine, said mobile home parks are a good investment for developers, especially in Orange County where there’s not a lot of vacant land left.

“It’s a place to park their money with an attractive cap rate now and a big payoff down the road,” Rosol said.

Earlier this year, he worked on the sale of a mobile home park in San Clemente to the property’s tenants. In another mobile home transaction Rosol brokered in Huntington Beach, the park sold to an investor.

“It’s a conservative play,” Rosol said. “There’s a lot of upside and a lot of rents in these parks.”

John Saunders, president of Newport Beach-based Saunders Property Co., said his company bid on one other coastal mobile home park before it acquired the 37-acre, 304-space Huntington Shorecliffs Mobile Home Park in January.

Saunders Property lost out on a San Clemente asset called Capistrano Shores when the 94 mobile home owners there acquired the leasehold for the park from Amherst College.

“We’ve had an interest for some time in coastal and well-located mobile home parks,” Saunders said. “I think most of our competition was developers that wanted to close the park and build homes. We wanted to operate the park.”

Even though homebuilders were offering to pay more for Huntington Shorecliffs than Saunders Property, he said they also wanted to tie the transaction up with contingencies while they looked into developing the property. Since the sellers wanted more assurance that the transaction would close, they opted to sell to Saunders instead.

Rents for lots in coastal mobile home parks are a really good deal for the mobile home owners, he said, especially for residents of Huntington Shorecliffs, whose park is surrounded by multimillion-dollar single-family homes.

“It give us a good return over time and good, relatively affordable housing for the people who live there,” Saunders said.

While he said his company would never say never about selling its mobile home park to a developer, right now Saunders likes the lower risk—although it may involve a lower

return—of renting affordable mobile home lots to tenants who continue to pay their rent every month.

In May, Marcus & Millichap Real Estate Investment Services represented both buyer and seller when a syndicator that owns a large number of mobile home parks in the western United States acquired the 27-acre Oakcrest Estates in San Jose for \$14.8 million to hold as income property. The capitalization rate was 5.6 percent.

McDermott said there always has been a deep-rooted interest in mobile home parks, but they do not come to market very often. He said the assets appeal to private investors toward the end of their investment careers, because they are low-maintenance, low-management properties.

“Typically, the motivation to sell in today’s market is that they are retiring and getting out of real estate investment completely, because they want to travel,” McDermott said.

Another motivating factor for sellers is the limitation on rental income, according to Close. He said a lot of mobile home parks are under rent control and owners are not receiving what they believe to be a reasonable profit, so they want to change the property’s land use.

Property owners also can increase their return on mobile home parks by subdividing the lots and selling them to the mobile home owners. Close said his firm represents a lot of park owners who want to subdivide their properties, but he noted that redevelopment has the potential for bigger rewards to pay for the higher level of risk involved.

“It depends on how entrepreneurial the park owner is,” Close said. “Subdivision is easier, but closure is more profitable.”

This article was originally published in the August 4, 2008 issue of California Real Estate Journal. Copyright © 2008 Daily Journal Corporation. All rights reserved.