PART III

THE CONVERSION AND MANAGEMENT OF A PARK

Converting a rental park to resident ownership is a logical process. At some stages of the process, professional assistance may be necessary.

The conversion process can generally be divided into three phases.

1. In the first phase, the park purchase committee is organized. The committee tests the level of resident interest and financial capability and considers the organizational structure most appropriate for ownership and management of the park.

2. The second phase is the actual purchase. After appraisal, an offer is made and accepted (perhaps after one or more counteroffers), and financing is arranged.

3. The final phase is conveyance of the park and commencement of resident operation and management.

What is a park purchase committee and how is it formed?

This committee of park residents is elected by residents or appointed by the residents' organization (if already formed) to study the possibility of a park purchase. While perhaps satisfying a need for representation, election may result in exclusion of many highly capable individuals who would have been chosen in an appointment process.

There are advantages and disadvantages to large and small committees. A professional hired to assist residents with the conversion process may prefer working with a small committee which makes decisions quickly. But a small committee may promote elitism and inhibit effective feedback of information to park residents. A large committee may mean a higher level of representation but its members may debate continuously over details, losing sight of the larger goals and objectives.

A committee of five to seven members should be sufficient.

What is the role of the park purchase committee?

At first, the committee acts as a clearinghouse for information on the proposed purchase and its effects on the individual residents and the park as a whole. The committee educates residents as to the feasibility of a purchase and the actual steps involved in converting the park. It also solicits residents' opinions and evaluates residents' enthusiasm for the park purchase.

Throughout the conversion process, the committee is responsible for consulting with various professionals (lawyers, local officials, bankers, appraisers, surveyors, engineers, and title officers) who are involved in different aspects of the conversion process. In some cases, the committee's role is expanded to that of supervising the agent of the residents in negotiations to purchase the park.

The park purchase committee can also serve as the governing and managing body after conversion. Committee work is good training for park management, because it familiarizes members with the park's operational needs.

Effective Use of Resident Talent

Certain members of the park purchase committee may be called upon to perform special tasks. It is very important that the committee match the special talents and personalities of committee members with the types of jobs to be performed. For example, a committee member supervising the park purchase negotiations should be knowledgeable and skilled in real estate. Likewise, members selected to meet with governmental agencies should be familiar with pertinent laws.

Should specialized assistance be used?

As park purchases by residents become more commonplace in California, professionals, including real estate brokers, are establishing themselves as specialists in park conversions. Some of the skills offered include:

- negotiating, and preparing legal documents related to the sale, financing and transfer of ownership of the property;
- performing financial analyses and assisting with the completion

of loan applications;

- complying with local government land use and planning requirements;
- conducting socioeconomic surveys of park residents;
- forming subdivisions, corporations or partnerships;
- creating the governing documents by which the owners' association will operate and manage the park; and
- surveying and engineering.
- Before hiring any specialist, the resident organization should make the appropriate inquiries and background checks.

Entering Into a Contract For Services

There are two general types of contracts a resident organization might enter into with a conversion specialist:

1. A **phased contract** is like a series of single contracts for the various activities necessary to complete the conversion. The specialist is paid at the completion of each phase of the contract. A phased contract usually allows either party to terminate the agreement upon completion of any phase.

2. A **through-to-completion contract** calls for a variety of services to be performed by the contractor. This "total package" contract is completed, and the contractor paid, when all the services contracted for have been performed. This type of contract may have complex and costly provisions for amendment or termination prior to completion, making it difficult to change contractors or add additional services to the contract.

Resident Experts

Park residents with backgrounds in business, finance, management, real estate and the law can often be called upon to provide skills necessary to the conversion. Using residents' skills can be both economical and a way of gaining resident support for the project. Potential leaders, officers and possibly future park managers can also be identified through use of resident expertise.

The potential drawback to relying heavily on volunteer services by resident experts is the lack of control over the quality and performance of the service. The park purchase committee must set standards of performance and be ready to terminate a volunteer for inadequacy just as readily as they would a paid contractor. This can be difficult because of the social environment of the park. A possible solution to the problem of using resident experts is for the park purchase committee to enter into a paid contract with the resident expert. (A resident, whether volunteer or paid contractor, who performs professional services for the park should be aware that he/she may assume considerable personal liability for his/her actions. Before entering into any arrangement with the park purchase committee, the resident should discuss the matter with his/her attorney and insurance agent.)

Is resident ownership feasible?

Once the park purchase committee has determined that there is sufficient interest, the next step is collecting financial information on the residents' ability to participate and the need for any special financial arrangements.

Assessing Financial Feasibility

The park purchase committee must gather financial data and compile a financial feasibility study which includes:

- improvements which must be made to the park and an estimate of cost for the work;
- maintenance costs for operating the park;
- financing available for the park purchase;
- approximate down payment necessary and whether or not it is affordable;
- approximate monthly payment necessary and whether or not it is affordable; and
- kinds of financial assistance needed for residents who could not otherwise participate in the purchase.

An important part of the financial feasibility study is the development of a tentative operating budget for the park. The tentative budget should be provided to residents as part of the feasibility survey and should include the following:

- amount of mortgage payments on the park (if applicable);
- required park repairs and improvements;
- park operating and management costs;
- reserve account required for future replacement of major park components; and
- inflationary factors for the various cost categories (to estimate future costs).

The Department of Real Estate's *Operating Cost Manual for Homeowner Associations* is a helpful tool for preparation of a homeowners' association budget.

The purchase agreement should require that the owner provide the park purchase committee with operating budgets (income/expense statements) and rent rolls for the preceding three years.

The feasibility study should also provide information on the cash flow the association can expect from the homeowners' association membership dues. This estimated cash flow must cover all the maintenance and operating expenses and any required park improvements or repairs. If revenue will not be sufficient, the conversion is not feasible.

Based on the operating budget and the estimated cash flow, the park purchase committee should also be able to determine the amount and type of financing required to purchase the park, and the amount of down payment or price of a share required of each resident.

The park purchase committee must carefully analyze all of the information obtained in the feasibility study. Usually, if the data indicates that there are problems which cast serious doubt on the success of the park purchase, the committee must abandon efforts to purchase the park. Whether or not the purchase effort proceeds, the committee must communicate the contents of the feasibility study to the residents.

Appraisal of the Park

It is important to recognize that an appraisal is an opinion or estimate of value based on an analysis of relevant information about a property. The park purchase committee and the park owner may each obtain appraisals, and those appraisals may vary as to a value conclusion. While an appraisal will not necessarily give the residents bargaining power, it will serve as a starting point for negotiating a fair price and as a basis for making various other decisions concerning the purchase. Indeed, the park purchase committee may deem it prudent to insist on a contract provision specifying that the purchase is contingent on the (residents') appraised value equaling or exceeding the purchase price.

What sources of financing are available?

Before drafting an offer to purchase, the committee should identify sources of loans for the different types of financing needed:

- short term - to pay costs associated with the conversion and, if necessary, the down payment on the purchase;
- long term - to finance the purchase of the park; and
- for individual residents to purchase shares in the resident corporation or individual spaces in the park.

Conventional Lending Institutions

There appears to be a growing awareness on the part of conventional lenders (insurance companies, mortgage bankers, savings and loans, etc.) of the financial needs of residents desiring ownership of their parks, so that park financing guidelines are being developed.

Residents who choose to subdivide their park should find a conventional lender who is willing to treat their mobilehome park subdivision as they would a conventional residential subdivision. On the other hand, residents choosing to take title to the park in the name of a corporation may find that there are more financing opportunities open to them. The fact that title to the park is held by one corporation as opposed to many individuals can make the loan more secure from the lender's perspective.

Seller Financing

Seller financing is frequently used because of the large amount of money required and difficulty in obtaining conventional financing. Seller financing may include a lower interest rate and more favorable terms and conditions.

Clues as to the seller's financial position should be gained during the early stages of negotiations and seller financing should be pursued if there are indications that this would be agreeable.

Some Possible Loan Terms and Conditions

If the park purchase committee is considering financing for the park purchase, it must review and understand all the terms and conditions in order to explain the financing to the residents. Here are four provisions with which the committee should be familiar.

- A **balloon payment**. When installment payments do not pay off a loan, a significantly larger payment than the regular installment payment is required. This is usually a final payment for payoff.

- An **acceleration clause** gives the lender the right to demand full payment of a loan upon delinquency in loan payments, sale of the property, failure to maintain the property, or borrower's violation of some other term of the loan.

- A **subordination clause** provides that present or future liens take precedence over an earlier lien recorded against the property.

- A **blanket encumbrance** is a lien covering more than one parcel of real property. If the loan does not contain provisions so that individual parcels can be released upon purchase, it may be extremely difficult to convert the park to a subdivision.

Public Financing

Public financing may be available for the purchase of a mobilehome park and for loans to individual residents.

Many residents in mobilehome parks under conversion are in need of financial assistance to make down payments, finance the purchase of a space, or pay their share of conversion costs. Certain of these residents may qualify for government sponsored subsidies. The California Department of Housing and Community Development (HCD) provides technical and financial assistance for these mobilehome park residents. HCD coordinates financial subsidy programs for residents who have varying financial needs. HCD also makes referrals to other public agencies serving the needs of mobilehome park residents.

Two financing programs in which HCD is involved are the Mobilehome Park Resident Ownership Program (MPROP) and the Home Investment Partnerships Program (HOME).

The MPROP provides financial and technical assistance for a park conversion if there is at least one low-income (i.e., at or below 80% of the county median income) household involved and the converted project will meet the minimum standards of the Mobilehome Parks Act. At least 2/3 of the residents must participate in the park purchase and the resident organization, representing at least 2/3 of the households in the park, must, for the *conversion* and *blanket* loans described below, apply as co-applicant with a local public entity (city, county, housing authority, redevelopment agency, or community development commission). There are three types of MPROP loans:

- A **conversion loan** to the resident organization as interim financing covers costs such as acquisition of the park; loan origination fees and other financing costs; legal and professional fees; and rehabilitation expenses. Payments are interest-only, with repayment required upon completion of the conversion.
- A **blanket loan** to the resident organization is long-term (usually 30-year) financing for conversion costs (rent subsidies for residents whose income is at or below 80% of the county median; internal loans; etc.) attributable to low-income spaces.

- A 30-year **individual loan** will enable a low-income (i.e., at or below 80% of the county median income and unable to qualify for a conventional or other private sector mortgage) resident to purchase a lot or other individual interest in the park. Alternative repayment schedules can include interest-only payments or deferral of all principal and interest payments for the full term of the loan. The loan is also due upon sale, transfer, or non-occupancy of the lot by the owner/borrower.

Through the HOME program, HCD acts as a conduit for federal funds used by cities and counties to provide direct loans or grants to persons/ families or blanket loans or grants to mobilehome park resident organizations. HOME funds must be used to help make affordable the housing costs of low-income persons/families.

Information on current mobilehome park programs may be obtained by contacting:

Department of Housing and Community Development
P.O. Box 952054, MS - 390 - 5
Sacramento, CA 94252-2054

The park purchase committee should also contact the local housing authority and redevelopment agency.

How To Make An Offer To Purchase

After determining that the park purchase is feasible and of interest to the residents, the park purchase committee must put together an offer to purchase. A real estate broker or attorney will usually be engaged under contract to represent the park residents in the purchase negotiations. It is important that the representative be given specific written instructions in order to conduct the negotiations in the manner desired by the residents.

Dealing with the Owner

After years of tenancy, residents' perceptions of the "landlord" may pose problems in dealing with the owner. Some other factors that may hinder attempts to approach an owner with an offer include:

- Residents see the park as their home; the owner sees it as an investment.

- An owner of a profitable park may have no interest in selling.
- The owner is firm in his price and will not bargain.
- Residents, out of touch with real estate values, may find it hard to equate the value of their space with the price they received for their home 15 or 20 years ago.

Throughout negotiations, the park purchase committee and/or its representative must be prepared to react positively and make the best of what sometimes appears to be an unfavorable situation. For example, if the owner refuses to bargain on price, the committee may be able to obtain more favorable terms.

Enhancing Negotiations

The negotiating agent may find the following tactics useful:

- Presenting a well prepared and reasonable offer to the seller in order to assess the seller's priorities.
- Offering terms of sale to the seller which assure ease and speed of transfer of the property.
- Determining whether the owner will carry the financing, eliminating the need to approach other sources of capital.
- Attempting to negotiate a discounted purchase price with the seller in exchange for immediate participation by the residents. (However, although the possibility of a discount may stimulate resident interest in participation, the "immediate participation" aspect may put extreme pressure on residents struggling with the uncertainties of their personal finances.)

What are the principal factors impacting the length of time it takes to complete a conversion?

The fastest way for park residents to gain ownership is purchase by a nonprofit corporation of which the residents are members or shareholders. Remember, this method of ownership does not necessarily include the formation of a subdivision. Subdividing, obtaining a public report, and conveying separate interests is a process independent of incorporation and can be undertaken after the corporation purchases the park.

If creation of a subdivision prior to transfer of title is a condition of the park purchase contract, the conversion process will usually take considerably longer. The condition and size of the park, as well as the percentage of residents required to participate are major factors in determining the time required to complete the subdivision process. The competency of consultants and professionals doing the conversion and local government agencies' familiarity with mobilehome park conversions also have a direct bearing on the time needed to complete the conversion process.

How do we manage the park after conversion?

Resident owners must decide if they will employ professional management, manage the park themselves, or some combination of the two.

Professional Management

Professional management companies generally provide a full range of services, from collection of homeowners' fees to disbursal of the funds to operate and maintain common areas in the park. Professional management is usually an expensive option. A management contract must provide for a level of management suitable to residents' needs and ability to pay.

Many lenders will require, prior to funding, approval authority over the management agent and contract. This is intended to ensure accountability and successful operation.

The management company is an employee of the residents' organization and should submit operating budgets to the residents' organization and, if required, to the lender. The final decision regarding major expenditures must rest with the residents' organization.

Resident Management

Management by the residents can be an economically attractive option. It encourages residents to get involved and gives them an outlet to express interest and pride in the park. However, disputes can arise about the amount of work required from each resident and services can suffer from a lack of professional expertise.

Combination

A good compromise between professional and resident management is a professional onsite manager responsible to the homeowners' association for overall park operation, assisted by residents or park employees hired to perform certain jobs at the park.

Do I have long-term security in my purchase?

If the park is converted to a common interest development and the purchaser continues to pay the mortgage payment, park assessments, and taxes on the individual interest, he/she is assured of remaining in the park.

If ownership of the park is through a corporation, the security of a purchaser's investment is greatly influenced by the financial performance of the corporation and its members. If the corporation is not able to make its payments on the purchase money loan, foreclosure of the entire mobilehome park is possible. To prevent foreclosure, a reserve fund may be established by the homeowners' association. All shareholders pay into this reserve account, in part to cover any nonpayment of dues by corporation members or shareholders.

Before entering into any contract to purchase, residents should be knowledgeable of exactly what they are purchasing and the possible risks involved. In parks where a subdivision is formed, purchasers must receive a copy of the public report before committing themselves to a purchase. As discussed earlier, a public report discloses consumer information and alerts prospective purchasers to significant aspects and possible risks involved in the purchase. In parks where a subdivision is not formed, prospective purchasers must gather sufficient information to make an informed decision, perhaps with the help of the park purchase committee.