
MHC

BY BEN KADISH

President
Maverick Commercial Mortgage Inc.

LAY DOWN A PATH TO AFFORDABLE HOUSING

Understand the lay of the land in manufactured housing and tap the market's potential

As the affordable-housing crisis rages on, the demand for affordable-living options continues to rise, providing new opportunities for commercial mortgage brokers and their investor clients seeking to enter the market. The limited supply of affordable housing makes manufactured-housing communities (MHCs) an attractive opportunity within the affordable-housing market. ● MHCs have undergone a significant transformation over the past two decades and have been established as a niche in commercial real estate financing. This asset class, however, still faces long-ingrained negative perceptions that are simply untrue today.

Photo Illustration by Karen Steichen

<< **Affordable Housing** continued from Page 89

The new MHC owner and financing model have completely changed. Potential investors looking to break into this niche, and the mortgage brokers representing them, should adjust their mindset and learn more about what lenders are looking for in MHC owners.

Rethinking MHCs

MHCs continue to face negative perceptions from the lender side that they are simply old "trailer parks." The contemporary MHC could not be further from this outdated stereotype. More commonly referred to as mobile-home parks, the properties in MHCs are not actually mobile. The only mobile element of any of the properties is that the homes are constructed in a factory and transported to their final location. Some 95 percent of mobile homes are never moved once installed.

The mobile-home park of yesteryear had owners who considered the parks net-leased properties that didn't require much from an operational standpoint. But these days, an MHC owner serves as property manager and as the governing body of property operations. They are responsible for the delivery of basic utilities, like water and sewage, as well as other services that enhance the quality of life and improve the safety and well-being of the residents. These services can include communitywide amenities, enforcement of rules and regulations, and maintenance and implementation of capital-improvement projects.

Many new MHCs include communitywide amenities like clubhouses, swimming pools, and tennis and basketball courts. The majority of homes are move-in ready, three-bedroom units with full kitchens, bathrooms and laundry facilities. The subdivision setup of MHCs allows for private parking, individual gardens, lawns and patios on small, easy-to-maintain lots.

Affordability comes into play considering that the quality of new MHC units are equal to site-built homes, but the costs are a fraction of that of site-built homes. This allows residents to possibly save hundreds of dollars per month on their monthly rent or mortgage payments, as well as utilities, when compared with living in an apartment or site-built home.

Buying an MHC

The affordability factor also makes owning an MHC an attractive opportunity. If you're considering buying an MHC, be sure you have thoughtful answers to the following questions:

- **Can you get three months** of bank statements that prove all of the rents are being collected and deposited?
- **Do you have any experience** owning and managing MHCs, or any other type of commercial real estate?
- **Do you have good credit**, a personal financial statement, proof of liquidity, a driver's license, a resume and two years of federal tax returns?
- **Do you have the 25 percent cash equity** in the bank required for the acquisition of this property?

Although some of these points seem like no-brainers, ensuring your client is prepared to provide all of this information will help you, the broker, in the pursuit to secure financing. Additionally, the lender's first impression of the site is a make-or-break factor, because many lenders won't make a loan on a property that does not seem safe or secure, or one that lacks the potential to be well-maintained. If the site's first impression is positive and you can answer the lender's key questions, your project may be viable.

Getting creative

Many commercial lending institutions still frown on the MHC market segment, but that narrow thinking opens the doors for numerous other lenders and financing options. Commercial banks may shy away from MHC lending for various reasons, including unfamiliarity with MHCs or because they want to focus on local properties and borrowers.

For out-of-state buyers, this challenge opens up the opportunity for national lenders, such as debt funds, that will make loans and are agnostic as to where borrowers are based, or where the properties are located — so long as there is good cash flow and demand generators for the long-term viability of the asset.

> **As a commercial mortgage broker, it pays to get creative and source loans from any type of lender that understands the emerging significance of the MHC asset class.**

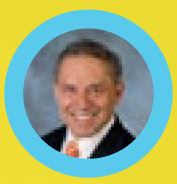
As a commercial mortgage broker, it pays to get creative and source loans from any type of lender that understands the emerging significance of the MHC asset class. Vast possibilities exist in MHC financing, which can be secured for park improvements and new-home inventory, or cash-out refinancing so owners can achieve liquidity without having to sell the property.

Many MHC financing deals can include a value-add component, like new streets, landscaping, sites, amenities, utility upgrades, rebranding or the installation of new homes. There have been very few new MHCs developed in the U.S. over the past 15 years, so the trend is toward upgrading existing communities with modern amenities and improvements. MHC owners need to make strategic decisions about how they fill vacant sites. The options include: acquiring homes and renting them out, acquiring homes and renting them with a lease-to-own option, or selling homes to residents with financing.

■ ■ ■

New lenders are flocking to fund loans on MHCs because they realize that many lenders are avoiding this asset class. This dynamic allows these forward-thinking lenders to make loans that are more profitable than those in the highly competitive multifamily-lending business.

To get a loan financed, borrowers and the brokers working with them need to be fully prepared with a business plan; a park-improvement budget; management expertise; local contractors for projects; a creditworthy borrowing history; liquidity for unforeseen circumstances; and the ability to develop new inventory, sell and/or finance homes and to market the properties to quality, creditworthy borrowers. ■



Ben Kadish is the president and founder of Maverick Commercial Mortgage Inc. and is a mortgage banking professional with more than 37 years of experience. Kadish's primary focus is funding commercial mortgages ranging from $1 million to $40 million for income-producing properties. Reach him at (312) 268-6000, (312) 953-4344 or ben.kadish@mavcm.com.