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Due Diligence for a Mobile Home Park Purchase (part 2)



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As noted in part 1 of this article from the July 2015 issue we discussed our fictional account of acquiring a mobile home park through EBay. The lens we used focused on acquiring a mobile home park as a business (i. e. , a going concern). This article will focus on the aspect of due diligence that a buyer of a mobile home park should consider because a mobile home park is a piece of real estate.

The essential asset of a mobile home park is the land that the tenants lease from the park. A buyer will want to know the state of title of the property. To that end a buyer should request the most recent title policy and order a preliminary title report. A good title report addresses whether you are acquiring what you think you are buying.

Proper governmental approvals to use the real property as a mobile home park are also necessary. Determine what government entities have oversight over some aspect of the mobile home park and ensure that all proper approvals exist and are current. Presumably a seller can provide this information, but verification with the appropriate government agencies can avoid unforeseen headaches down the road by identifying issues of which the seller may be unaware. Likely candidates include the city in which the park is located, the county, or a statewide agency such as the Department of Housing and Community Development in California. There are likely to be a number of permits that the park is required to carry which may include pool permits, building permits and conditional use permits.

A buyer will also want to identify the “metes and bounds” of the mobile home park. The title report will have a legal description. One of the relevant government agencies may maintain a current site plan specific to the land’s use as a mobile home park. A survey should be conducted by a licensed civil engineer to further supplement information regarding the literal internal and external boundaries of the mobile home park. The combination of these pieces of information will specify the layout and boundaries of your new mobile home park and should assist in any future boundary disputes.

Environmental approvals are a large part of government oversight of mobile home parks. A buyer should ask for any and all environmental reports that have been prepared, including those in response to or anticipation of government action or government approval. This information will help with future compliance issues and might be of value in the future for mitigation of government actions regarding environmental approval issues.

A buyer should also seek out all records of regulatory actions taken by any government agency against the park, environmental

or otherwise, along with records of the park’s responses. In addition, records of every law suit that the park has been involved in within the past 5 to 7 years involving the property including the disposition or settlement terms (if available). These records will alert you to the prevalence of certain types of actions the park has been required to litigate and alert the buyer about what to expect going forward as well as help develop potential prophylactic measures.

The mobile home park will almost certainly have structures of its own, including infrastructure, in addition to the mobile homes themselves. Having copies of the plans for the park and any capital improvements could be essential when construction needs to be done in the future to update utilities or add any new capital improvements. The buyer should also request any and all engineering reports regarding the construction of the park or its maintenance. Having these documents on hand will make the construction or repair process easier in the future, whether on a near-term or long-term time scale.

Last, but not least, you will want to look for information regarding local politics vis-à-vis mobile home parks. This may require some research of local publications for articles regarding mobile home parks generally or the mobile home park to be purchased specifically. Such politics can affect how much rent may be charged, the types of red tape that may be encountered when seeking any government approvals, and even whether or not the use of the land the mobile home park is sited on can be used for a different purpose. Does the local city or county government view the park as attractive in its current state? Does the park have a “bull’s eye” on it by a particular government agency or city council? Are the local courts excessively tenant friendly? These are all questions a buyer will want to ask. Rent control ordinances may limit the amount rents can be raised in a given time period, and may limit the types of expenses, such as capital expenditures for utility improvements, that can be passed along to tenants. Also assess the local court and talk with local counsel who represents mobile home parks. Certain locales are tenant biased when disputes do arise, which a buyer should be aware of in evaluating the overall picture of the value of a mobile home park.

Having gathered the information suggested above as well as in the July 2015 article, you are well equipped to evaluate the purchase and operation of a mobile home park.

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