



Due Diligence for a Mobile Home Park Purchase (Part 1)

BY SEAN G. O'HAIR

There is a story that an investor bought a mobile home park on Ebay, the popular online auction site. It is unclear how proper due diligence can be done when acquiring a park in that manner. There are a lot of moving parts to acquiring and operating a mobile home park.

In general terms, the two areas that a potential investor should research in determining whether to purchase a mobile home park, regardless of the location of the park are: 1) the park as a business and 2) the park as a parcel of real property. This article will focus on the first issue.

Presumably the goal in operating a mobile home park is to make a profit. So the first point of discussion will be the park as a business.

A buyer needs to know the identity of the business he or she (or it) is acquiring. To that end the buyer should request the organizational documents of the business along with any fictitious business name statements (also known as a d. b. a.) that may be filed with the city, county or state.

The primary business of a mobile home park is collecting rent from individuals who lease lots in the park. Therefore, it is absolutely essential to know how much money is theoretically coming in, as well as how much is actually coming in. To that end, a current rent roll should be obtained that identifies, for every resident, the essential terms of their rental agreements (month-to-month or long term lease, when the lease commenced, when it is scheduled to terminate, current rent, scheduled rent increases, as well as adjustments that might cause actual rents to be lower than scheduled). This data will tell you how much money would or should be collected in a perfect world.

This is not a perfect world. As such, any buyer should also request and review any and all delinquency or accounts receivable reports for a reasonable period of time (two to five years) prior

to the purchase. This should tell you how much money is actually being collected. Furthermore, a park operator does not get to keep all the money that comes to the owner. Thus, to get a sense of the park's overhead a buyer should obtain copies of all the utility bills for at least the past two to three years to get a sense of the average costs associated with park operations and if there are any trends and the magnitude of those trends. Payroll is also important to know, unless you plan on doing everything yourself (not recommended).

All businesses are similar in certain ways: they try to make a profit and they have to pay taxes. With that in mind, owner-certified or CPA certified financial statements are important to acquire, going back at least two to five years. Also obtain: ledgers, bank reconciliations, insurance policies, contracts (employment and otherwise), tax returns, and tax bills (real estate, business, personal property).

You will also want to know the nature of the difference between the amount of revenue that should be coming in and what revenue is actually coming in, and should obtain and review a record of evictions (past and pending) and uncollectable rents that have been written off. This will give the buyer a picture of how easy or difficult a task it will be to maintain the park's residents. The reasons for any evictions may also give the buyer a clue as to the character of the park. Not all evictions are for mere non-payment of rent. Thus, this area of inquiry may help discover that the park you have your eye on is a hotbed of criminal activity or other disruptive behavior.

Any reasonable buyer wants to plan for the future. You will want copies of the current form leases and any Rules and Regulations. You should definitely have these documents reviewed by an attorney to identify potential changes that will improve the park. Specifically, you should find attorneys that specialize in mobile home parks. Such attorneys will be familiar with com-

mon problems that should be considered, such as why it is important to have a specific guest policy and pet policy, for example.

Never forget that sometimes one of a business' greatest assets is human capital. Thus, you will want to take stock of these assets (payroll, benefits which may include arrangements to live in the park, job titles and duties). A list of the names and addresses of park employees for the past two to five years will always be helpful if there are questions down the line regarding park operations and the information is held by an employee who has left the employ of the park prior to acquisition.

Also do not forget to obtain a detailed inventory of any property that is being transferred along with the park including: park owned mobile homes (along with all the licenses and title documents thereof), equipment, tools, and vehicles. There should be no room for error as to what personal property is being transferred with the park and what, if anything can be lawfully removed by the seller.

With the above information at your disposal you will have the information you need to understand the business as it currently exists, and also how it can be improved by you as the new owner. In next month issue the discussion will turn to due diligence with respect to the acquisition of the mobile home park as a parcel of real property.



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