THANK YOU
Wisconsin Housing Alliance
Members!

Thank you Ross, Julie and Amy!

GO PACKERS!

TOP 10 SIGNS THAT YOU HAVE STOPPED THINKING OF YOUR COMMUNITY AS AN INVESTMENT

Overview

The top 10 ways that tell you are not thinking of your property as an investment are really an opportunity to make 10 choices that will have a positive impact on your community and your bottom line.

- Problems
- Opportunities

Take the long view.

#1 – Current Financing and Value

- Not thinking about the timing of when to sell.
- Basing your hold solely on taxes.
- Not knowing your capital gains tax.
- Not knowing what you would do with the money if you sold.

Are you out of touch with the investment world?

#2 – Your Return on Investment (ROI)

Real Estate 101

How much money IN and when?

How much money OUT and when?

It's a T – bar world:

Year	$
0	CFAT*
1	CFAT
2	CFAT
3	CFAT
4	CFAT
5	CFAT

*CFAT - cashflow after taxes

What is your ROI?

Annual Property Operating Data

Toggle Highlighting

Property Name		
Location		
Type of Property		
Size of Property	47	(Sq. Ft./Units)
Purpose of analysis		

Market Value	2028390.6	(at a 8.% Cap Rate)
Purchase Price	2,028,391	
Plus Acquisiition Costs		
Plus Loan Fees/Costs		
Less Mortgages	1,126,839	
Equals Initial Investment	901,552	

Cap Rate	Park Value	Cash on Cash
7.00%	$2,320,000	5%
7.50%	$2,160,000	7%
8.00%	$2,030,000	9%
8.50%	$1,910,000	11%
9.00%	$1,800,000	13%
9.50%	$1,710,000	15%
10.00%	$1,620,000	17%
10.50%	$1,550,000	19%
11.00%	$1,480,000	21%
11.50%	$1,410,000	23%

Assessed/Appraised Values		
Land	0	15%
Improvements	0	85%
Personal Property	0	0%
Total	0	100%

	Balance	Periodic Pmt	Pmts/Yr	Interest	Amort Period	Loan Term
1st	$1,126,839	$7,182	12	5.99%	25.6	25.6
2nd			12			

Adjusted Basis as of 26-Oct-09 $2,028,391

	ALL FIGURES ARE ANNUAL	$/SQ FT or $/Unit	% of GOI				COMMENTS/FOOTNOTES
1	**POTENTIAL RENTAL INCOME**	394			222,432		
2	Less: Vacancy & Cr. Losses		(5.% of PRI)		11,122		
3	**EFFECTIVE RENTAL INCOME**				211,310		
4	Plus: Other Income (collectable)						
5	**GROSS OPERATING INCOME**				211,310		
	OPERATING EXPENSES:						
7	Real Estate Taxes		5.12%	10,814		$1,165	estimate based on payment to bank
8	Personal Property Taxes						
9	Property Insurance		1.50%	3,170			estimate based on payment to bank
10	Off Site Management						
11	Payroll		2.35%	4,956		$413	
12	Expenses/Benefits						
13	Taxes/Worker's Compensation						
14	Repairs and Maintenance		4.54%	9,600		$800	
	Utilities:						
15	electric		2.56%	5,400		$450	
16	sewer and water		2.44%	5,160		$430	
17	heat gas clubhouse		0.85%	1,800		$150	
18	testing		0.28%	600		$50	
19	Accounting and Legal						
20	Licenses/Permits						
21	Advertising						
22	Supplies		0.57%	1,200		$100	
23	Miscellaneous Contract Services:						
24							
25							
26							
27							
28	Reserves		3.00%	6,339			
29	TOTAL OPERATING EXPENSES			23%	49,039		
30	**NET OPERATING INCOME**				162,271		
31	Less: Annual Debt Service				86,185		
32	Less: Participation Payments						
33	Less: Leasing Commissions						
34	Less: Funded Reserves						
35	**CASH FLOW BEFORE TAXES**				$76,086		

The statements and figures herein, while not guaranteed, are secured from sources we believe authoritative.

Prepared for: Joanne Stevens

Prepared by: Aaron Saylor

Cash Flow Analysis Worksheet

Property Name			Purchase Price	2,028,391
Prepared For	Joanne Stevens		Plus Acquisition Costs	
Prepared By	Aaron Saylor		Plus Loan Fees/Costs	
Date Prepared	26-Oct-09		Less Mortgages	1,126,839
			Equals Initial Investment	901,552

Mortgage Data			Cost Recovery Data		
	1st Mortgage	2nd Mortgage		Improvements	Personal Property
Amount	1,126,839		Value	1,724,115	
Interest Rate	5.99%		C. R. Method	SL	
Amortization Period	25.6 Years		Useful Life	39	
Loan Term	25.6 Years		In Service Date	1-Jan-02	
Payments/Year	12	12	Date of Sale	December-06	
Periodic Payment	7,182.12	-	Recapture		
Annual Debt Service	86,185.48	-	Investment Tax		
Loan Fees/Costs			Credit ($$ or %)		

Taxable Income

End of Year :	1	2	3	4	5	6
1 Potential Rental Income	222,432	229,105	235,978	243,057	250,349	257,860
2 -Vacancy & Credit Losses	11,122	11,455	11,799	12,153	12,517	12,893
3 =Effective Rental Income	211,310	217,650	224,179	230,905	237,832	244,967
4 +Other Income (collectable)						
5 =Gross Operating Income	211,310	217,650	224,179	230,905	237,832	244,967
6 -Operating Expenses	49,039	50,510	52,026	53,586	55,194	56,850
7 =NET OPERATING INCOME	162,271	167,139	172,154	177,318	182,638	188,117
8 -Interest - 1st Mortgage	66,976	65,793	64,538	63,205	61,790	
9 -Interest - 2nd Mortgage						
10 -Participation Payments						
11 -Cost Recovery - Improvements	42,361	44,206	44,206	44,206	42,361	
12 -Cost Recovery - Personal Property						
13 -Amortization of Loan Fees/Costs						
14 -Leasing Commissions						
15 =Real Estate Taxable Income	52,934	57,140	63,410	69,907	78,487	
16 Tax Liability (Savings) at 36.0%	19,056	20,570	22,828	25,167	28,255	

Cash Flow

17 NET OPERATING INCOME (Line 7)	162,271	167,139	172,154	177,318	182,638
18 -Annual Debt Service	86,185	86,185	86,185	86,185	86,185
19 -Participatipation Payments					
20 -Leasing Commissions					
21 -Funded Reserves					
22 =CASH FLOW BEFORE TAXES	76,086	80,954	85,968	91,133	96,452
23 -Tax Liability (Savings) (Line 16)	19,056	20,570	22,828	25,167	28,255
24 =CASH FLOW AFTER TAXES	$57,029	$60,383	$63,140	$65,966	$68,197

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Alternative Cash Sales Worksheet

Mortgage Balances					
End of Year:	1	2	3	4	5
Principal Balance - 1st Mortgage	1,107,629	1,087,237	1,065,589	1,042,609	1,018,213
Principal Balance - 2nd Mortgage					
TOTAL UNPAID BALANCE	$1,107,629	$1,087,237	$1,065,589	$1,042,609	$1,018,213

Calculation of Sale Proceeds			
PROJECTED SALES PRICE	$2,351,461	$2,090,187	$1,881,169
	(At 8.% cap)	(At 9.% cap)	(At 10.% cap)
CALCULATION OF ADJUSTED BASIS:			
1 Basis at Acquisition	$2,028,391	$2,028,391	$2,028,391
2 +Capital Additions			
3 -Cost Recovery (Depreciation) Taken	217,340	217,340	217,340
4 -Basis in Partial Sales			
5 =Adjusted Basis at Sale	1,811,051	1,811,051	1,811,051
CALCULATION OF CAPITAL GAIN ON SALE:			
6 Sale Price	2,351,461	2,090,187	1,881,169
7 -Costs of Sale	164,602	146,313	131,682
8 -Adjusted Basis at Sale (Line 5)	1,811,051	1,811,051	1,811,051
9 -Participation Payment on Sale			
10 =Gain or (Loss)	375,808	132,824	(61,564)
11 -Straight Line Cost Recovery (limited to gain)	217,340	132,824	
12 -Suspended Losses			
13 =Capital Gain from Appreciation	158,468		(61,564)
ITEMS TAXED AS ORDINARY INCOME:			
14 Unamortized Loan Fees/Costs (negative)			
15 +			
16 =Ordinary Taxable Income			
CALCULATION OF SALES PROCEEDS AFTER TAX:			
17 Sale Price	2,351,461	2,090,187	1,881,169
18 -Cost of Sale	164,602	146,313	131,682
19 +Balance of Funded Reserves			
20 -Mortgage Balance(s)	1,018,213	1,018,213	1,018,213
21 -Participation Payments on Sale			
22 =Sale Proceeds Before Tax	1,168,646	925,661	731,274
23 -Tax (Savings): Ordinary Income at 36% of line 16			
24 -Tax: Straight Line Recapture at 25% of line 11	54,335	33,206	
25 -Tax on Capital Gains at 15% of line 13	23,770		(9,235)
26 =SALE PROCEEDS AFTER TAX	$1,090,540	$892,455	$740,509

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INTERNAL RATES OF RETURN

BEFORE TAX

	Alternative 1		Alternative 2		Alternative 3
n	$	n	$	n	$
0	(901,552)	0	(901,552)	0	(901,552)
1	76,086	1	76,086	1	76,086
2	80,954	2	80,954	2	80,954
3	85,968	3	85,968	3	85,968
4	91,133	4	91,133	4	91,133
5	96,452 + 1,168,646	5	96,452 + 925,661	5	96,452 + 731,274
IRR=	13.9%	IRR=	9.89%	IRR=	6.14%
NPV=	$0	NPV=	$0	NPV=	$0
@	13.9%	@	9.89%	@	6.14%

AFTER TAX

	Alternative 1		Alternative 2		Alternative 3
n	$	n	$	n	$
0	(901,552)	0	(901,552)	0	(901,552)
1	57,029	1	57,029	1	57,029
2	60,383	2	60,383	2	60,383
3	63,140	3	63,140	3	63,140
4	65,966	4	65,966	4	65,966
5	68,197 + 1,090,540	5	68,197 + 892,455	5	68,197 + 740,509
IRR=	10.33%	IRR=	6.76%	IRR=	3.64%
NPV=	$0	NPV=	$0	NPV=	$0
@	10.33%	@	6.76%	@	3.64%

Cap rate used on Sale = 8.%

Cap rate on Sale = 9.%

Cap rate on Sale = 10.%

INTERNAL RATES OF RETURN

#3 - Not Maximizing Revenue

- Review delinquencies
- Review collection and late fee policies
- Are residents likely to vacate?
- Should monetary or non-monetary relief be offered to residents?
- Bill back operating expense pass-throughs
- Identify other income:
  - Vending machines
  - Storage garages
  - Billboards
  - Cell towers
  - Platting and selling off additional ground

#4 - Expense Management

- Always be working from a position of profitability
- Eliminate non-essential expenses
- Minimize essential operating expenses
  - appeal real estate taxes
  - evaluate property insurance policy and costs
  - evaluate and manage utility usage
  - evaluate and negotiate with vendors and contractors
  - evaluate accounting capability and reporting
  - review leasing / marketing costs and results

#5 – Recordkeeping

Why good records make your property worth more and make you more money:

1) Helps you know your numbers. Are you getting all of your collections? Are your expenses in check?
2) Separate home sales and rental income from real estate income.
3) Separate home sales and rentals and costs as a separate entity.
4) Your property stands out from the competition.

Break out expenses for payroll, repairs and maintenance, capital expenditures, lawn, snow and utilities (water, sewer, garbage).

#6 – Not Knowing Your Market and Your Community

- Buyers have choices
- How does your property stack up in terms of appearance, rent, amenities, resident relations, location and safety?
- Do you need to be at or under market to fill sites?
- What is the gap in the market that manufactured homes in housing communities could fill?
- How do you price your rent, and is it fair and transparent to your resident?
- Is there an advantage to being under market in your rent?

#7 – Not Having a Strategy For Renewing Leases.

When do our residents hear from us?

Why is it that in the MHC business, the only time our residents hear from us is when the rent is going up, or when they are out of compliance on a rule?

What are your residents happy about? What are they unhappy about? Improving your communication with your residents can help you find out.

Consider these options:

continued...

#7 continued......

- How about a letter thanking them for their business, expressing your desire to have them continue as a tenant, and explaining the increase?

- Prior to the rent increase letter, survey your residents about what they like and what they don't like about the community.

- Do a follow up letter showing improvements and changes. Demonstrate responsiveness.

- Give the residents something – for example, the ones that have been there 2 years or more get some additional landscaping, power washing, furnace / ac inspection, gas or grocery card. Perhaps a one month reduction in site rent if you are offering that as an inducement to a new resident.

It doesn't have to be expensive, but improving your resident communication is priceless in terms of resident relations and stabilizing your occupancy.

#8 – Marketing Plan and Marketing Budget

The solution to higher rental income is more filled sites.

A marketing plan is something measurable, observable and affordable.

continued..

#8 continued...

Marketing Plan for
123 Community
Anywhere, USA

Goal: Fill _____ homesites per month

	Task	Cost
1)	Website listing homes with pictures, features, monthly costs, reasons why they will like living in the community.	$1,000 or less
2)	Postcard campaign to apartments in your area: "For about what you are paying in rent, you could own your own home" using a service such as www.expresscopy.com.	$1 per postcard or less (printing, postage, handling)
3)	Regularly visit workplaces in the area. Get to know the managers, assistant managers, ask to put brochures or flyers in the company break room. Examples: Wal-Mart, local factories, etc.	FREE
4)	MLS	FREE until the home sells
5)	Help residents who want to move. Offer a moving / selling home kit. Might be able to move them up and retain a resident. Get name and contact info of buyers for their home that turn out not to be interested in their home.	FREE

#9 – Not Understanding Why Homes Aren't Selling and (even worse) Not Doing Anything About It.

- Do you respect what it takes to sell homes?
- Do you have an ongoing training program for your sales team and yourself?
- Do you have a sales / shipment problem or a marketing / communication problem?
- How often do you go to your local banks with your homebuyers?

The sold homes and filled sites:

- Add cashflow
- Make the community worth more

Buyers are like gold today. Make sure everything you do is geared toward getting buyers. This includes discounting prices. Overpriced homes help sell homes in other communities.

#10 - Not Knowing Your Community's Turnover and Home Loss Numbers

•Go back and calculate turnover of homes

•Go back and calculate homes that moved out

Poll the residents - by PHONE, not by mail. "We are doing a survey" OR "I am working with a buyer who is interested in moving into our community. You have been a great resident and we appreciate your business".   Then ask: "Who do you know in the community that might be thinking about moving? How about you? Are you thinking of moving in the next 6 to 12 months"?

What is your strategy for controlling sale of residents' homes?

•Be in the listing business

•Adds revenue

•Separate business that you can sell

•Great way to add value to residents' experience of the community. They won't mind paying a commission for you selling their home if they can see the value.

continued......

#10 continued...

Market to current residents

A survey asking why customers quit a business revealed that 68% of them stopped being customers because of the owner's, manager's or an employee's attitude of indifference toward them.

The days of "Where are they gonna go" are over.

We are in the customer service business, so we might as well give great customer service.