Purchasing Methods for a Housing Community

Key Benefits of Purchasing your Community:

- Ability to stabilize rent
- Control of the area itself
- Security – mitigate the threat of eviction
- Improved sense of community

PURCHASE METHOD – 501C3 Affordable Housing Provider/Housing Authority

CHARACTERISTICS

- A Not for Profit (NFP) purchases the community and holds it in trust for the residents
- The NFP owns the community.
- Residents lease their site from the NFP
- Residents continue to own their homes, which are unaffected by the NFP purchase
- Residents do NOT control the NFP

ADVANTAGES

- Residents need do very little
- Residents may not have to pay anything
- Communities in rent control areas stay on rent control unless residents agree to voluntarily increase their rent tofacilitate the transaction
- Residents may have some limited influence on community operations
- The tax-exempt status of the nonprofit or public agency may enable funding via tax exempt bonds, and can help inattract grants and low interest loans from foundations and governments, which may make the transaction more affordable to residents because it can pass along savings in terms of low rent

- The nonprofit staff may be able to handle community infrastructure issues better than the resident group
- Residents may be able to purchase the community in the future

DISADVANTAGES

- Residents do not control the NFP corporation
- Operating decisions are made by the NFP’s Board of Directors
- Resident site rents will be set by the NFP at a level to generate positive cash flow to pay for other NFP programs and staff (the NFP must have a positive flow of proceeds in order to remain active)
  Transactions of this nature are complex, expensive and may require substantial amounts of time to complete
- Interests of the nonprofit corporation may differ from the interests of the resident group

PURCHASE METHOD – LIMITED EQUITY COOPERATIVE/LAND TRUST

LEC – Limited Equity Cooperative

This purchase model usually consists of a relatively small equity contribution (typically as low as $500 per participating member) from the individual community residents, combined with a relatively large package of financing from a group of community development lenders, grant providers, low interest loan sources, etc. The financing often has additional provisions to ensure the continued affordability of the homes in the community and provides for ongoing training, technical assistance and management guidance.

Land Trusts

Generally, a Land Trust is a state or local entity that receives funding from community development lenders, grant providers, low interest loan sources, HUD, municipalities, etc. to acquire real estate for preservation as affordable housing. Many Land Trusts focus on single family housing whereby the Land Trust acquires the ground and provides a long-term lease to the persons acquiring the home located on that lot. They typically target persons with income ranges from very low income to moderate income (using HUD median income guidelines). The effect of such programs is to greatly lower the cost of home ownership. The Land Trust usually includes some form of homeowner education and training, and often, upon resale of the home by the owner, shares in the appreciation in value. Appreciation is often reinvested into the home resale to ensure continued affordability of the property.

CHARACTERISTICS

Limited Equity Cooperative:

- The community residents continue to own their homes, which are not affected by the purchase process.
- Participating community residents own a share in the cooperative at nominal cost.
- The cooperative itself owns the community.
- Financing to the cooperative is from a consortium of community development lenders and other low interest loan sources.
- There is often a Technical Assistance Provider who organizes the community residents, coordinates the financing, and provides on-going training and management guidance to the cooperative.

Land Trust

- Land Trust community purchase models are less standardized than Limited Equity Cooperative purchase models.
- The Land Trust may purchase the entire community and operate it in a manner similar to a NFP Affordable Housing Provider
- The Land Trust may also purchase the community in conjunction with the residents, such that the residents own a long-term leasehold estate on the entire community. (This portion of the transaction would be similar to a Limited Equity Cooperative.) Thus, the residents own and operate the community leasehold, while the Land Trust is a relatively passive investor receiving a lease payment. There are typically affordable housing conditions (such as home resale restrictions, both in terms of price and eligible buyers) attached to the transaction.

ADVANTAGES

- The low share price can lead to a broad-based membership. Share price increases in the future are often limited.
- The availability of Technical Assistance provides the residents with operational and management guidance.
- This method may be the best purchase method for low-income resident groups.
- This method provides a relatively high level of resident control, but requires high resident involvement, organization and responsibility.

DISADVANTAGES

- Both the LEC and Land Trust purchase process can take a long time because of the complexity of organizing the residents and the coordination required for the funding sources (sufficient local funding is very difficult to obtain). The community owner may be unwilling to wait for the transaction to be arranged.
- Each method requires a project manager (either a Technical Assistance Provider or the Land Trust staff) to coordinate the transaction. Such organizations may not be available locally, have no specific skills, or may be uninterested in becoming involved with manufactured home community projects.
- Limitations on the resale of homes (either or both as to the resale price of the home or as to eligible low-income buyers) may discourage home upgrades and cause resident unrest.
- Sufficient community development funding sources may not be available.
- Very few (under 20) cooperatives exist in the western United States, so there is a long learning curve in terms of acquiring the skills to successfully using this method.

PURCHASE METHOD –Mutual Benefit Corporation

WHAT IS IT?

A Mutual Benefit Corporation is an entity established under state law as a not for profit (NFP) corporation for the benefit of its shareholder/members. In the case of a manufactured home community, the residents in the community create a corporation and those residents who chose to participate purchase shares/memberships in the corporation. Residents choosing not to participate remain as tenants with the same legal status they had prior to the resident purchase. With this purchase method, the NFP corporation owns the community and the participating residents, in turn, own the corporation. This is similar to but not the same as a cooperative, which is also referred to as a Limited Equity Cooperative (LEC).

This method is considered “Market Rate” due to the fact that most if not all the funding for the purchase is obtained from conventional lending sources, rather than subsidized (low interest rate) funds from sources such as the state, local government, affordable housing providers or technical assistance providers. This method is considered a reasonable purchase option because Market Rate funding is readily available. The typical funding types include a first mortgage loan made to the resident corporation, share loans made to individual residents needing financing for their share in the corporation, and equity from residents who can afford to pay cash for their share.

CHARACTERISTICS

- Community residents continue to own their homes, which are not affected by the purchase process
- Typically 60% - 80% of the residents participate as members, with the remaining residents continuing to rent home sites from the corporation
- Participating residents are purchasing their share in the corporation and the right to occupy their site, subject to a long-term membership agreement/lease.
- Members elect a Board of Directors of the corporation who oversee the operations of the community
- The Board hires a management company to run the day-to-day activities
- Members along with the Board establish the rules of community operations
- The purchase process is relatively quick (the process can take under 6 months to complete)
- The funding provided has relatively few restrictions. The corporation is subject to state corporate law and whatever state manufactured home regulations apply to investor owned communities
- In situations where state or local rent control applies, members are no longer subject to rent control, while nonparticipating tenants remain subject to rent control
- Transfer of home/share ownership to new resident is relatively simple

ADVANTAGES

- Attractive to community owners because the process proceeds rapidly
- Doesn’t need 100% resident participation to succeed
- No limitations on home resale prices
- Funding is readily available

DISADVANTAGES

- Requires a larger investment by residents than some other methods
- Requires a high level of involvement, responsibility and organization on the part of participating residents

SUMMARY & ISSUES

Mutual Benefit Corporations are mostly found on the West Coast and Florida. There are many reasons:

- Lender communities are receptive to this purchase method,
    - Lack of Technical Assistance Providers with manufactured home community experience limits availability of other purchase methods,
    - Interest by resident groups in this method is higher due to the lack of restrictions on the resale of homes,
    - Financial and life experience backgrounds of residents tend to make groups view this purchase method as an attractive alternative,
- State laws permit or encourage Corporate ownership,
- Subsidized funding sources for other purchase methods are limited or nonexistent.

PURCHASE METHOD - SUBDIVISION

WHAT IS IT?

There are several names for this purchase method, such as Subdivision, Condo, Fee Simple or Planned Unit Development (PUD) ownership. However, they all describe a situation where the community is divided into separate parcels and each parcel is then sold to the individual resident occupying that specific parcel. Usually an interest in the common area is sold with the parcel. There are typically three ways a subdivision of an existing Manufactured Home Community can occur:

1. The community owner subdivides the community and sells individual lots to homeowners,
2. The homeowners as a group approach the owner with a proposal to subdivide and purchase the community, or,
3. An intermediary (such as a private company or local government) purchases the community in coordination with the resident group and then subdivides the community with sales to individual members.

CHARACTERISTICS

- The community residents continue to own their home
- The community residents own the land (or ‘condo air space’ rights) underneath their home,
- The community common areas and infrastructure are owned by all the participating residents together, usually through a homeowner association.

ADVANTAGES

- Some residents considered this purchase method as attractive because it is ‘fulfilling the American Dream’ of dwelling ownership.
- Individual lot owners have limited involvement with their neighbors and have no concern if a neighbor has financial difficulties and limited concern if the community has issues.
- Although the homeowners association has a Board of Directors to administer the common areas and infrastructure, such a Board has limited control over lot owners, and conduct within the subdivision is governed by the Covenants, Conditions & Restrictions (also called CC&Rs) recorded when the subdivision is created.

DISADVANTAGES

- Individual residents must be able to afford to buy (or to finance, if appropriate) their lot, based upon their personal credit worthiness and income.
- Locating financing for the lot purchase may be difficult. Lenders interested in such financing may require that the home be placed on a permanent foundation.
- Lots in a Subdivision may be subject to higher property taxes.

- Local municipalities having jurisdiction over the subdivision may require upgrades for water, sewer, roads and storm water systems, resulting in individual assessments on each lot to pay for such upgrades.
- Actual completion of the subdivision process may take substantial time (often years before the final lot is sold) as each resident attempts to qualify for their lot purchase.
- Some residents feel forced to move from the community since they cannot afford to purchase their lot and the home/lot itself is in demand from potential new residents.
- Many homes in communities are older (pre-1976) homes and such homes often do not qualify as collateral for financing. Consequently, even though a homeowner may believe that there is substantial equity in the home, such equity is not available to facilitate lot financing.
- Some owners (notably in California) are using the subdivision process as a pretext to force residents off of local rent control restrictions, resulting in higher site rents for those residents unable to purchase their lot.
- The process of valuing individual lots can be complex and may appear to be unfair – Is a large, doublewide corner lot with a view worth the same as an interior singlewide lot?
- Any debt on the community prior to purchase typically must be paid off (often with a prepayment penalty) since most loans will NOT allow the release of individual lots.
- Use of a financial intermediary can be very expensive, since the intermediary is purchasing the community from the owner, usually at a ‘market price’, and then adding the intermediary’s costs and markup to determine the lot price.

SUMMARY & ISSUES

Subdivisions are currently found mostly in Florida, probably because of the high-income nature of the resident groups in that state and the availability of lot purchase financing from local lenders. Information about other states is difficult to obtain. There some communities built as subdivisions in Texas. California has possibly 20 or more, mostly created in the late 1980s and early 1990s when appropriate financing was more readily available.

This method (outside of Florida) of converting an existing manufactured home community to resident ownership may have a very high probability of failure. Not enough residents can qualify for financing, and amounts and sources of financing are often not available to ensure success.

Here are some important questions you should ask any consultant that wants to help with your resident community purchase. Do not accept vague or incomplete answers to these questions:

-- How long have you been a community purchase consultant to manufactured home community resident groups?

-- How many communities have you helped convert to resident ownership?

-- Who owned these communities at the completion of the purchase? Were they owned by the residents themselves, or by some outside corporation?

-- Where are these communities? Please name them, so that we can contact residents there to learn how things have worked out.

-- When was your most recent community purchase completed? (Deals the consultant is trying to complete at the moment don't count). Describe generally how mortgage financing was accomplished for that transaction. (If the consultant has not completed a deal lately, they may have problems arranging a mortgage loan in the current market).

-- Show us the specifics of how our community purchase would be financed. How much will need to be borrowed? Where will that money come from? Will it come from private or public sources? How much money would come from each source? Have you successfully arranged mortgage loans from these sources before? Give us some specific examples.

-- Can you provide us with "Expression of Interest" letters from the lenders who would potentially finance our community purchase?" Resident leaders should insist that, before hiring him or her, the consultant produce accounting spreadsheets showing how the deal would work. *You have a right to know - and need to understand - this information.* The consultant should be ready to explain the purchase financing for your community in detail. At the very least, the spreadsheets should include:

> -- The price to be paid for the community (and an explanation of how the price was calculated);

-- Source(s), amounts, estimated interest rates and terms for mortgage financing;

-- Minimum number of residents who need to participate for the purchase to succeed;

-- Amount each household would pay as a down payment;

-- Any financing plans available for a resident’s down payment;

-- Total amount of equity required from the resident group;

-- Estimated new monthly “rent” (or member payment) for households that participate in the community purchase;

-- Estimated new monthly “rent” for those households that don’t participate in the community purchase;

-- Income and Expense schedule for community operations after the residents own it;

-- Amount of cash reserves the residents will have for repairs, emergencies, etc. after they own the community;

-- Closing costs for the transaction, including all fees or commissions to be paid.

Last updated on December 12, 2011.

Mobile Home Issues

About text formats

Plain text

- No HTML tags allowed.
- Lines and paragraphs break automatically.
- Web page addresses and email addresses turn into links automatically.

This question is for testing whether or not you are a human visitor and to prevent automated spam submissions.

Save

Print

Table of Contents

NEWS

News & publications

The news about recent activities for needed peoples.

More News

25 Aug 2017

Court Rules that Same Sex Parent can Move Forward with Discrimination Suit Against the State of Idaho

In an important step in securing equal rights for same-sex couples, a federal court ruled yesterday that an unmarried, lesbian mother can continue her fight to be recognized as the parent daughter.

Continue Reading

17 Jan 2017

ILAS receives funds to help seniors from Idaho National Laboratory

IDAHO LEGAL AID RECEIVES $1,440 GRANT Idaho National Laboratory, on behalf…

Continue Reading

Our Partners

LSC's support for this website is limited to those activities that are consistent with

America's Partner for Equal Justice

LEGAL SERVICES CORPORATION

Idaho's Aging & Disability Resource Center

An Initiative of the U.S. Department of Health and Human Services And The Idaho Commission on Aging