



## FAQ Park Conversion

### Park Conversion FAQ and Information

The information provided here is general in nature and is not intended to replace the advice of legal counsel. Each conversion is unique. If you are contemplating a conversion of a mobile home, manufactured home or recreational vehicle park, or are in a park being converted, please contact one of our attorneys for further information.

### Park Conversion Information

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### How Do I Convert My Manufactured or Mobile Home Park?

- ***What is meant by a “conversion”?*** Typically, a “conversion” refers to a change in the ownership structure of the park from a rental park owned by a park operator/investor to a resident-owned community. For the purposes of this FAQ, this is what we are referring to. Rarely, a conversion of a park can be a conversion to a different use where a park ceases to be operated as a mobile or manufactured home park. If you are seeking information on a park closure, please contact our office.
- ***What are the different ways to convert a mobile home or manufactured home park?*** Parks can be converted to resident ownership as (i) a standard subdivision, (ii) a condominium overlay (air space condominium), (iii) a cooperative, (iv) a limited equity housing cooperative and (v) a corporate ownership.
- ***What is the difference between the different types of conversions?*** While this is a complex question, the short and simple answer is that in a subdivision or condominium overlay situation, the park owner will sell individual lots (the actual land) to the person who owns the home on the lot; but in a cooperative, limited equity housing cooperative and a corporate ownership, residents purchase a membership share in the corporation that owns the park, and the membership brings the ownership rights.
- ***Will the park continue as a mobile home or manufactured home park?*** In almost all conversions, the answer is YES, the community will remain a community for manufactured and mobile homes (a recreational vehicle park if applicable). No other home will be able to be placed on the lots.

- ***If the park is age restricted, will the park continue to be a senior community?*** Although there is no legal requirement for the community to remain a senior or age-restricted community as part of the conversion, most communities do remain age-restricted. Once converted, it becomes more difficult for the park to change away from an age-restricted community as it requires a vote of all the owners.
- ***What are the benefits of the conversion?*** There are many benefits to participating in a conversion. 1) *Choice*: each household will have the choice to participate in the ownership or stay and rent within the community. 2) *Control*: for those residents who purchase, they will become a member in the homeowners association and will have the opportunity to participate in the control of the community. 3) *Appreciation*: as a landowner, residents will be able to reap the benefits of the real estate market increases (or decreases as they occur). 4) *Tax Benefits*: if you used a loan to purchase the lot, the interest on the loan (as well as the payment of real property taxes) can become a tax deduction (assuming such deductions are not eliminated and the owner qualifies for such deductions).
- ***With the unknowns, why would I want to buy a home in a park undergoing a conversion?*** As with all real estate transactions, there are unknowns; however, the largest unknown is when and will the conversion be complete. Due to the protections afforded to residents during and after a conversion, owning a home in a park undergoing a conversion allows you the opportunity to ultimately choose if you want to participate in the ownership or continue to stay and rent.

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## Conversion as Cooperative Style Communities Processing Questions

- ***What are “cooperative style communities”?*** A cooperative, limited equity housing cooperative and a corporate ownership all function very similarly, but each has separate processing requirements. Collectively, this FAQ refers to these three types of resident ownership as “cooperative style communities.”
- ***What is required to get a traditional cooperative approved?*** A true cooperative must obtain approval from the California Department of Real Estate through the issuance of a Final Public Report. See DRE processing requirements discussed below.
- ***What is required to get a limited equity housing cooperative (LEHC) approved?*** There are two main governmental approvals required to complete a conversion to a LEHC. First: the entity that will own the park must get approval from the IRS as a 501(c)(3) nonprofit corporation. This can be a time-consuming process and is usually the biggest hurdle in completing a LEHC. Second: a permit to sell shares must be obtained from the California Department of Corporations. This step is usually one of the last steps as the permit is only valid for one year.
- ***What is required to get a corporate ownership approved?*** The simplest of all conversion methods, corporate ownership only requires a permit to sell shares to be issued from the California Department of Corporations.
- ***What do residents/buyers purchase in a cooperative style conversion?*** In each, a corporation is the owner of the park; it sells to individuals a share in the corporation, with that share comes an exclusive right to use a specific lot within the park under the terms of

a long-term lease (or occupancy agreement). With share ownership comes the rights to participate in the corporation's governance, including voting on park issues and for board of directors and even running for a board position.

- ***How is a cooperative style conversion funded?*** Because the corporation will purchase or own the park, the corporation becomes the main entity seeking funds. Those funds may come from a traditional lender, from the U.S. Department of Housing and Urban Development (HUD), from the state of California's Department of Housing and Community Development's MPROP program or from bond financing (in the case of a LEHC). The residents who purchase a share will also assist in funding through their purchase of a membership share in the corporation.
- ***Is a cooperative style conversion, true resident ownership?*** We believe it is: while the residents will not own the land (the park) directly, they will be the owners and operators of the corporation that does own the land. By controlling the corporation, the residents control the park.
- ***How is the park operated after the conversion to a cooperative style community?*** Just like any other homeowners association-governed community, there will be a homeowners association (the corporation) formed with governing documents. The homeowners association is strictly governed by California law and will be required to operate in accordance with its governing documents, its budget and any lender requirements. Residents will pay association dues (assessments) on a monthly basis and the corporation will pay all obligations out of the dues received. The corporation will be managed by a board of directors elected by the resident owners (members) and with the assistance of a professional management company.
- ***If a cooperative style conversion is simpler to obtain governmental approvals, why are not all communities converted this way?*** There are times when it is beneficial to use a cooperative style conversion and the circumstances of each community need to be evaluated before a decision can be made on which conversion method is most beneficial. The biggest hurdle to a cooperative style conversion is obtaining financing for the corporation to purchase the park.

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## Conversion as Subdivisions Processing Questions

- ***What is the process to complete a conversion as a subdivision?*** Most mobile or manufactured home parks are converted to subdivisions as single lot subdivision with a condominium overlay — meaning the park is a single lot for legal title purposes and a condominium plan is recorded to delineate the individual lot lines. This is the process we will discuss in these FAQs. In short, the park owner (or resident association with the park owner's authorization) submits an application to the local jurisdiction for a tentative and ultimately a final map. Additionally, that applicant will submit an application to the Department of Real Estate for the issuance of a Final Subdivision Public Report. The two processes can be done in conjunction with each other, but certain steps with the map must be completed before steps with the DRE application can be completed. For a detailed summary of the process, please see our flow charts.

- ***How long does a conversion to a subdivision take?*** This is a great question and each community is different, so unfortunately, there is no absolute answer on this. Assuming everything moves quickly, residents support the conversion, the local jurisdiction is timely and efficient in its responses and there are no snags in any of the governmental application processing; from the first notice to the residents to the issuance of a Final Subdivision Public Report, the time can take approximately 18 months to three years. If there are any problems, such as litigation, disagreements between the owner/applicant and the local jurisdiction, government furloughs or natural disasters, the time to complete the process can take much longer.
- ***What rights does the resident association have when a park owner initiates a subdivision conversion?*** One of the first steps for a conversion as a subdivision is to obtain a survey of the residents. Residents are asked if they support or do not support the conversion to resident ownership. The resident association works with the owner to reach an agreement on the survey language. The biggest benefit to conducting the survey is that it allows residents an opportunity to learn about the process and begin to get involved.
- ***What notices will I receive relating to the conversion?*** California law requires you to receive several notices relating to the conversion, including the following: a notice of intent to convert the park, notices relating to all public hearings, notices that applications to the local jurisdiction have been made, a notice that the application to the DRE has been submitted to obtain a Public Report, a tentative price notice to provide you with the tentative price of the lots, notice that the Final Subdivision Public Report has been issued, notice of 90-day right of first refusal, and notice of rent increase to notify non-purchasing residents if their rent will increase after the conversion has been completed.
- ***How will the Park operate after the Conversion?*** A homeowners association governed by a board of directors will operate the park. The board will oversee day-to-day operations with the assistance of a professional management company. The members of the homeowners association will be all persons who own a lot. The association will have a set of governing documents that are prepared in accordance with California law, including [The Davis-Stirling Conversion Table](#), Corporations Code and laws relating to mobile home parks. The association's governing documents and budget will be reviewed and approved by the California Department of Real Estate prior to the issuance of the Final Subdivision Public Report.
- ***Who will own the common areas?*** The common areas are usually owned by the lot owners as tenants in common and are governed by the homeowners association in accordance with the homeowners association's governing documents.

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## Sale of Lots

- ***When can the lots be offered for sale?*** In order for a park owner to offer lots for sale, certain governmental approvals must be satisfied first: (i) the local jurisdiction must approve a tentative map and ultimately a Final Map for the community and (ii) the park owner must obtain a Final Subdivision Public Report ("**Public Report**") from the California Department of Real Estate ("**DRE**") before the lots can be advertised for sale, offered or actually sold to individual owners.

- **When can lot prices be determined?** When residents are first presented with the idea of a conversion, the first question they always ask is, “What will the lot prices be?” quickly followed by, “What will the association dues be?” Unfortunately, these two questions are not able to be answered at the time the first notices are sent out to the residents. Lot prices are determined at the time the lots are offered for sale, which cannot be done until DRE has issued at least a Preliminary Public Report, which can be several months if not a year or more into the conversion process. With the ever-changing real estate market, prices cannot be set too early, or else they will simply be an estimate and lot prices will likely change. Association dues are also not estimated until a budget is prepared in connection with the application to DRE, something that again does not happen for several months to a year into the process.
- **What will the Homeowners Association’s dues be after the conversion?** For those residents who purchase a lot, they will pay monthly association dues to the homeowners association (also commonly referred to as “assessments” or “HOA dues”). The amount of such dues is determined by a professional budget preparer in connection with obtaining the Public Report from the DRE. Only lot owners will pay association dues. Residents who remain renters will not pay association dues; they will just pay rent.
- **Will only those lots that are purchased by a resident pay association dues?** Association dues will be paid to the homeowners association for every lot within the park; however, the dues will be paid by the lot owner (which may be the park owner). This means that if a resident does not buy, he or she will only pay rent to the lot owner and the lot owner will pay the association dues to the homeowners association.
- **What is being purchased? Will I get a grant deed? Will I get a grant deed?** Residents who purchase a lot are purchasing a manufactured home condominium airspace. It is a condominium because the boundaries of the lot are set forth on a Condominium Plan (this is not applicable to traditional subdivisions). It is considered “airspace” because residents are purchasing a portion of the land upon which the home sits, up to a height of 40 feet. The area beneath the lot (unit) is owned by the homeowners association so that the utilities that run under each lot can be commonly maintained. Yes, each buyer will receive a grant deed granting “fee simple” title to the condominium unit and a fractional interest in the entire park as well as membership in the homeowners association. The grant deed will also be insured by a title insurance policy from a nationally recognized title company.
- **What will the property taxes be on the lot?** For each purchasing resident, the property taxes will be based upon the lot purchase price. However, if 51 percent of the residents purchase their lot within one year of the first lot closing escrow, those residents who purchase within that one year will receive the current park owner’s property tax basis, pro rata. Example, if there are 100 lots and 51 residents (or more) purchase their lot within the first year and the existing property taxes are \$100 per year for the whole park, then the residents who purchase would pay \$1 per year in real estate taxes.
- **What financing is available to buy the lot?**
  - **Traditional Financing:** There are lenders who provide loans in subdivided, condominium-manufactured home communities, many of which do not require a permanent foundation to be placed on the home. The loans are traditionally 30-year loans with interest rates that are typically about a half to three-quarters of a percent higher than rates for single family home loans; however, the interest rate

will vary depending upon lenders, the loan selected by the buyer and the buyer's credit score. Additionally, veterans can use CalVet to fund the purchase of their lot.

- **Low Income Financing:** Through the California Department of Housing and Community Development's Mobilehome Park Resident Ownership Program (MPROP), low-income households can obtain 30-year, 3 percent simple interest loans with the potential for deferred payments for a portion of the total purchase price of the lot, including costs. Each community must specifically apply for MPROP funds and the availability of such funds are unique to each project and the timing of the community's conversion. Please visit MPROP's website for further information: <http://www.hcd.ca.gov/fa/mprop/>

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### **Non-Purchasing Residents/Rent Information**

- **What happens to residents who do not want to buy?** Any resident who elects to not purchase his or her lot will have the right to stay and remain a renter in the community for as long as he or she continues to pay rent and abide by the park's rules and regulations. The same legal protections that residents have in a rental mobile home, manufactured home or recreational vehicle park will continue after the conversion.
- **My park is subject to rent control. Will rent control continue for non-purchasing residents after the conversion?** The existing local jurisdiction's rent control will not continue within the park after the conversion is complete. However, under the rent protections in California Government Code Section 66427.5, a new, state-enacted rent control will be in place for parks converted as subdivisions or condominium overlay communities.
- **What are the rent protections under state law?** California Government Code (commonly referred to as the Map Act Rents) provides rental protections based on the income of the resident as follows:
  - **Low Income Households:** For any household that is classified as a "Low Income Household," the monthly base rent increase is the average of the increase for the previous four years but not more than the increase that would be reached if it was calculated by the Consumer Price Index. Essentially, the increase is the lower of a CPI increase or the average increase for the last four years. This rent increase protection remains as long as the resident resides in the park and is low income (but it does not carry forward to new tenants).
  - **Non-Low Income Households:** For any household that is not a low income household, their rent can be raised to "market rent," which is determined by an appraisal conducted in accordance with nationally recognized appraisal standards over four lease years.
  - **What are the income levels?** The income limits for low-income households are set each year by the U.S. Department of Housing and Urban Development. The numbers are typically released in the spring of each year. For any resident who seeks to be classified as a low-income household, he or she will have to be certified as such each year.

- **What about “pass-throughs”?** *The rents set forth in the California Government Code are all that is permissibly allowed by law. The park owner cannot charge additional rent during the period that the tenant is protected by the Map Act Rents for increases such as increases in assessment dues, capital improvements, government-mandated expenses or to obtain a fair return on investment. Residents will continue to be obligated to pay for any submetered utilities.*
- **What happens to nonpurchasing residents when they want to move out of the community?** *The ultimate goal is to have 100 percent of the lots owned by the residents who own the home. Therefore, after the conversion is complete, when a homeowner who rents his or her lot desires to move from the park, the new buyer of the home will buy the lot as well. After the conversion, there is typically a greater interest by prospective buyers for a converted community because of the greater security and financing options made available in a resident-owned community as compared to a rental community.*