

May 2024 Newsletter

WHAT IS SELLING?

Written by Mark Timmins



WRITTEN BY



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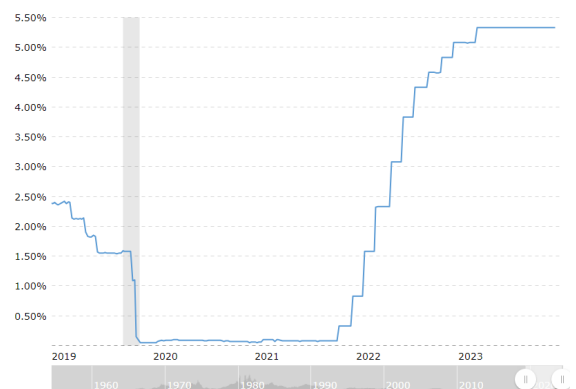


Anyone involved in real estate knows that market conditions have changed drastically since the heydays of 2022. Brokers reminisce of those days when they didn't have to try too hard to make a sale. Interest rates were at their lowest point in history, liquidity was high, and buyers were aggressive (reckless in many cases). It was a great time. Now, interest rates are closer to historical averages, liquidity is much lower and many buyers are holding back their chips. So, what is selling in today's market? This newsletter will delve into buyer demand, specifically size of market, size of parks, quality of parks, and infill parks vs. stable parks. I will also dive into bank-financed sales vs. seller-financed sales.

One of the biggest changes that we have seen in demand over the last two years comes down to population. Buyers are more conscious of local market conditions. Many small towns in the Midwest, 6,000 people or less, are seeing population declines due to consolidation of labor needs into larger communities. Iowa, for instance, has seen a growing

state population of 144,000 between the year 2000 and 2020, but sixty-nine of the ninety-nine counties in the state had decreases in population. Six counties accounted for almost all of the state's population growth. The reason statistics like this matter is because if a transaction is tight financially, the buyer may rely on rent increases to make it financially viable. If rent increases can't be implemented or vacancies filled in a reasonable amount of time, it makes a rural community transaction less desirable. The good news is that parks in low population communities are still able to transact, just at a lower price.

In 2022, size mattered. In 2024, management matters. The company line prior to change in market conditions was one hundred units



This chart shows the shift in the Fed Fund Rate from 2019-present. Rates for borrowers are typically 1.5%-3% above this rate.

or more, but now due to lack of transaction volume, national buyers and syndications are more likely to buy smaller communities within two hours of their current holdings. This allows them to utilize their in-place management in multiple communities. While the preference is still one hundred or more sites, we regularly see activity from the big guys offering on communities with forty or more sites. Many syndications make money on closing transactions, so they are incentivized to bring in smaller deals. Outside of the big guys, we see a lot of demand from smaller or local buyers for parks under fifty sites. It is still a seller's market.



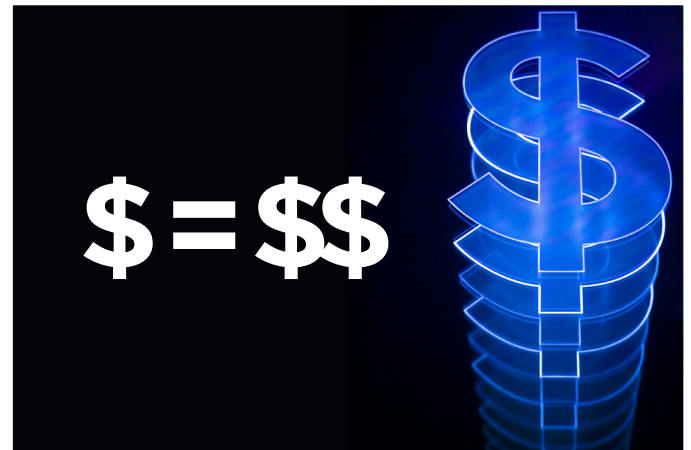
Coming to market soon. Choctaw Estates - Choctaw, Oklahoma.

The quality of communities has never been more important to investors. In many markets, there is still a housing shortage in stick built homes as well as manufactured housing. As long as interest rates remain in the 7% range, this will continue to be a problem. This makes it easier for rent bumps because people are priced out of other housing opportunities. We also see numerous investment groups are selling their problem child (or children), consolidating capital, and investing in quality parks to ensure consistent cashflow and get rid of the headaches. Quality communities are still in high demand selling at top dollar.

Another significant change that we have seen in market demand is the demand for infill parks. Most buyers are not looking for projects, they are looking for cashflow. Most of the national buyers seek an internal rate of return of 15%. This is more easily achieved if there is some infill included, but due to the cost of borrowing and the cash outlay needed to bring in new homes, this can be burdensome. Also, if home demand is not as high as expected, floating the debt for new vacant homes can damage cashflow. Stable tenancy is preferred in the current market. There is less upside, but more consistent returns for investors.

In today's market, we see high demand for parks, whether they are traditional bank financing or seller financed. Any community that is properly priced will see multiple offers. The benefit of seller financed transactions is that sellers should see higher offers so long as reasonable financing terms are offered by the buyer. Typical bank financing will have an interest rate at or above 7%, while seller financed transactions are typically around 5%. This allows the buyer to be more aggressive in their purchase price. We usually advise our clients that a down-payment should be at least 20% with a term of no longer than five years. Amortization is usually between fifteen and twenty-five years. For sellers that need money now, this is not always the best option, but for those who can hold off for five years, there are tax benefits in selling this way.

Back to my original question: what is selling? The simple answer is everything. What it is selling for is where there is a difference from the market two years ago. There is a rush to quality which means that well-located, well-occupied communities are still selling for high prices, while lower quality or communities that have significant vacancy problems have seen a drop in demand. A drop in demand equates to lower prices. There is still a strong market for these communities, sellers might just need to temper their expectations on pricing. To get a good idea on what your property is worth, reach out to us for a free property evaluation.



*The cost of money has gotten more expensive.
This has made some transactions harder to finance.*

SAVE THE DATE:

MHI Returns to the National Mall

6/7 - 6/9/2024

National Communities Council

November 13-15

WHAT IS YOUR PARK WORTH?

You ought to know the market value of your real estate investments today!

We are always happy to do a **FREE, NO OBLIGATION**, Real Estate Review for your park(s).

If this is something you would like to set up, reach out to one of us today!

YOUR TEAM

Joanne is a specialist in listing and selling mobile home parks and manufactured housing communities throughout the U.S. With her 20-plus years of experience in developing, zoning, owning, retailing, managing, turning around, and brokering parks, she can maximize your sale price.

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