

Resident Purchase of the Champion Mobile Home Park

A case study of the first Resident Owned Community (ROC) created outside of New Hampshire under the guidance of the **ROC USA** system, and featuring **PathStone**, a member of the NeighborWorks® network and a certified technical assistance provider (CTAP) for ROC USA.

NeighborWorks America actively supports the missions of ROC USA and PathStone and, through its *Innovations in Factory Built Housing* program, has provided a capital grant in support of the Champion Mobile Home Park conversion.

Written by Anne B. Gass

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About NeighborWorks America

Neighborhood Reinvestment Corporation dba NeighborWorks America was established by an Act of Congress in 1978 (Public Law 95-557). A primary objective of the Corporation is to increase the capacity of local, community-based organizations to revitalize their communities, particularly by expanding and improving housing opportunities. These local organizations, known as NeighborWorks organizations, are independent, resident-led, nonprofit partnerships that include business leaders and government officials. All together they make up the NeighborWorks network.



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In 2007, Wayne Husted and his wife took a leap of faith and purchased a fairly expensive doublewide factory built home. While the monthly payments stretched their modest incomes, they were gambling that the Champion Mobile Home Park, which had been family-owned for decades, would continue to offer the modest lot rents and excellent management that had earned it local acclaim. They could live in a nicer unit in the comfortable, well-managed park than they could afford if they bought a single family home. So they settled into the 171-lot community in rural Elbridge, New York, a small town of just over 1,000 people located 15 miles west of Syracuse.

In 2008 they heard the park was for sale.

This was worrisome, because horror stories abound in the manufactured housing world of private investors purchasing parks and bleeding them dry, jacking up lot rents and pocketing the cash while letting streets, water lines, and septic systems deteriorate. Park residents, meanwhile, are held hostage because



there is effectively no place for them to go. Few can afford the cost of buying — and moving their home to — a private lot. And even if they could find a vacant lot in another park, many parks prohibit tenants from bringing their older homes with them. Selling brand new units to incoming tenants is a profitable side business to park ownership. There is a certain irony that: while they are called “mobile homes,” once they are in a park there are many practical and financial challenges to moving them.

Staff at PathStone, a nonprofit community development and human service organization, noticed that the Champion Park was on the market and thought it would be a good candidate for a conversion to resident ownership. PathStone assists low-income families and economically depressed communities throughout New York, Pennsylvania, New Jersey, Ohio, Indiana, Virginia, Vermont, and Puerto Rico. It is a NeighborWorks organization, and a Community Development Financial Institution. It is also a Certified Technical Assistance Provider (CTAP) with ROC USA, a nonprofit social enterprise that supports resident ownership of manufactured home communities. Currently operating in 29 states, ROC USA has plans to be active all across the country.

Andrea Schuck, manufactured housing cooperative program manager at PathStone, approached the listing agent about a resident purchase. The agent was not interested in their proposal. With some persistence, Schuck got through to Marc Seigle, the sole remaining owner, and described what PathStone had in mind. Seigle was skeptical that it could be done, but he also knew it would be hard to find an investor who would care for the park as his family had done. In June 2008 he called the New York Housing Finance Agency to inquire about the financing available for park conversions. He also met with PathStone, and with Peter Rhodes from ROC USA, to learn more about the process and the assistance they could offer. Finally he agreed to sell to the tenants, with one condition: the deal had to close by the end of the year.

This was a significant challenge, recalls John Wiltse, PathStone's senior operations director. The park was large and residents scarcely knew one another. They had never formed a homeowners association because the park was so well run that they had not needed to organize. PathStone had less than six months in which to introduce residents to the idea of buying the park, form the necessary homeowners association, and put together \$3.6 million in financing.

In 2005, PathStone, formerly called Rural Opportunities, Inc., merged with a Rochester-based housing nonprofit called Housing Opportunities, Inc. (HOP). Prior to the merger HOP had completed three conversions of mobile home parks to resident ownership, the most recent one in 2005. Wiltse saw some "amazing synergy" between resident owned parks and PathStone's core mission and values, which include advocacy; a focus on asset building; assisting with the technical aspects of real estate development; homebuyer education; and resident empowerment.

Like many of his community development peers, Wiltse had long viewed mobile homes with some misgivings. He thought housing advocates could best serve low income families by helping them move out of their mobile homes into site-built housing on lots they owned. "I finally realized," says Wiltse "that we needed to stop ignoring manufactured housing and start recognizing it as a valid housing choice that fills an important niche." In rural areas mobile homes play an important role in the private market, where multifamily rental housing is often nonexistent and single family homes unaffordable. And unlike multifamily housing, with a footprint that is essentially static, mobile homes can be replaced, upgraded, or expanded over time to meet families' changing needs. This makes them more useful than a rental unit.

In 2006, Wiltse and his staff began putting together the tools needed to expand their work in forming and supporting resident-owned communities. They applied successfully for funding under CFED's Innovations in Manufactured Homes (I'M HOME) program, and received a matching grant from Fannie Mae that allowed them to hire Andrea Schuck to begin building a pipeline.

Schuck first met with the Champion Park residents in July 2008. About 110 showed up at the first meeting, partly because PathStone was able to state in the organizing materials that "your owner wants you to hear about this opportunity." Residents learned that Marc Seigle had definite plans to sell the park, and that he was willing to sell it to them at a fair price. Schuck then described the support PathStone could provide in helping them organize and put together the financing. "We have to walk a fine line in these meetings," notes Schuck. "We want to convey a sense of urgency, but we don't want to incite panic because we don't want people to leave the community. Keeping the vacancy rate low is good for both the owner and the future resident-owners." The residents weighed the information provided and voted at their second meeting to form the Champion Park Homeowner's Association. The race was on to meet the December closing deadline.

Schuck walked the residents through the process of forming the association. This process was also supported by George Parker, the attorney who had done the legal work for all 14 of the previous parks in New York. Schuck and Parker then helped the association negotiate the purchase and sale agreement with Seigle, and helped them borrow \$38,000 from the Leviticus Fund to pay for the purchase deposit, attorney's fees, the engineering and

environmental analyses, and the appraisal. Schuck taught them basic organizational tasks such as how to run an effective meeting, as well as how to find and work with vendors. The board voted to keep in place the current onsite manager, who had served the park capably for many years and knew the infrastructure inside and out. The manager handles routine, day-to-day maintenance issues and helps enforce community rules. Under ordinary circumstances the first year of a park conversion can be pretty intense, says Wiltse, but the shortened time frame added enormous pressure. Ordinarily PathStone would be onsite and working with the board at least weekly; Schuck was involved with the board on a *daily* basis for several months leading up to and following the closing.

Even with PathStone's assistance the process was very stressful for residents. Wayne Husted ran for vice-president of the homeowner's association in order to protect his investment, but unexpectedly found himself serving as president when the woman elected to that position resigned. He recalls that the months leading up to the purchase were like being "inside of a dark room, with no light, and you're fumbling around the walls looking for a light switch." Husted has a high school education, and prior to this had never served on a nonprofit board. Almost no one else had either. Many residents were intimidated by the prospect of standing up and speaking in front of a crowd. "The association board is a collection of ordinary people," says Husted flatly. "We're not captains of industry." He recalls that the prospect of signing on a \$3.6 million note, for a business with an annual operating budget in excess of half a million dollars, "bordered on the surreal."

Still, Husted had 20 years experience as an entrepreneur in the used car business, and that has served him well in his new role. While the numbers were larger than he was used to, he could relate to the business aspects of running the park. He also had plenty of experience interacting with people and negotiating deals. Finally, he admits, "I love knowledge and information," so he was willing to stand up and ask the questions other people might have thought of but did not dare raise in front of a group.



At the loan closing: front (l to r): Marc Seigle, former owner of Champion; Wayne Husted, Champion Co-op president; rear: Lorraine Morris, Champion Co-op treasurer; George Parker, attorney for the co-op; Andrea Schuck, PathStone.

The association successfully closed on the park two weeks before Christmas, using financing from ROC USA Capital and the New York State Housing Finance Agency. The HFA financing came from a \$10 million fund established by the state legislature for this purpose. The deal was structured as follows:

ROC USA Capital (first mortgage)	\$ 1,262,000
<i>30 year amortization 10 year term at 7.68% interest</i>	
NY Housing Finance Agency (second mortgage)	<u>2,650,000</u>
<i>30 year amortization /10 year term at 2.5%</i>	
Total Development Cost	\$ 3,912,000

An additional \$50,000 to be raised from residents purchasing membership shares in the association will be used as an operating reserve. Shares will be sold at \$500 each. The association decided that existing park residents will have the option of deciding to join the co-op, but new residents will be required to do so. Existing residents will be incented to join by lot rent pricing structure; nonmembers will be charged a higher rent.

The Champion Co-op was the first loan made by the newly-created ROC USA Capital, and loan documents were literally being written and edited as the deal was being put together, which was challenging for everyone involved. While this was the 15th NYS HFA-financed manufactured housing co-op in New York, it was the first to go from initial resident contact to closing in just five months; most have taken a year or more to get to closing.

Members of the new Champion Park Homeowner's Association will require ongoing technical assistance as they learn all the ins and outs of operating their park. Using the model established by ROC USA, residents will have the benefit of PathStone's assistance for at least the next 10 years. But they will pay no additional fees out of pocket. Instead, the technical assistance fee will be recovered through the first mortgage interest rate.

While long term technical assistance is vital to any resident-owned park, it is particularly important for Champion's new owners because they had to move so quickly to purchase the park. There simply was not time to adequately prepare for all the duties of ownership. Husted is very conscious that the association board is effectively setting precedents for future action. "Whatever comes up you're doing it for the first time," he says. "You have to figure out how to eliminate emotion, use good logic, and do things legally." He finds it helpful in his work with the board to try to separate issues into two categories. "Any conversation with the board is either a business conversation or a quality of life conversation. Right now we have to focus most on the business issues to make sure the park is successful financially." While he remains confident that residents can successfully own and operate the park, he is concerned about issues such as higher than projected delinquencies in lot payments, and problems the new property management company they hired to collect rents and handle the financial operations of the park, is having retrieving security deposits from the old management company.

While buying the park was hard work and the learning curve is still steep, Husted is convinced he and the other park residents made the right decision. Buying the park gives

them control over their futures. And when the loans they used to buy the park are paid off, it is going to be a very desirable place to live. He recalls hearing that in its heyday there were long waiting lists to get into the Champion Park. Husted thinks they could get there again. "That's something to aspire to," he says.

Lessons Learned

1. Everyone involved with the Champion Park conversion agrees that the tight timeframe made an already challenging process more difficult. Adding to the challenge was the fact that while HOP had previously done three conversions, it was PathStone's first time through the process, so its staff had a learning curve as well. Finally, the ROC USA Capital loan documents were being created as well. Future conversions should be less stressful now that PathStone and ROC USA Capital have completed Champion Park.
2. What made it possible to meet the December 31 deadline, given the challenges described above, was that there were many key components in place. These included:
 - Attorney George Parker was committed to this model and had extensive experience working with 14 other resident conversions in New York. His knowledge of state law relative to park conversions helped guide residents through the process.
 - PathStone had already received funding from CFED's I'M HOME program/ and had formed a relationship with ROC USA. CFED's financial support meant that they could commit Andrea Schuck to the extensive organizing assistance residents needed to prepare them for purchasing the park.
 - Years ago the New York State legislature had created a fund to provide first mortgage financing for resident purchases of mobile home parks, and the state HFA is eager to support these. This meant that PathStone and the Champion Homeowners Association did not have to waste precious time educating lenders about the model and persuading them that the park residents were a good risk for \$3.6 million in financing.

As of January 1, 2009, New York State mobile home park residents have another protection. The legislature passed a law requiring the sellers of manufactured housing communities to obtain a signed statement from buyers saying that they will not cease to operate as a manufactured home community for a period of at least five

years from the date of sale. If the buyer refuses to sign this statement, then the seller must offer to the resident's association (if one exists), or to each and every resident individually, the opportunity to put together a resident purchase offer that will meet the terms and conditions of the offer from the private buyer. The residents have 120 days in which to present the seller with this purchase and sale agreement. If they do, the seller must sell to the residents. If they do not, the seller can proceed with the sale to the private buyer. Other states have passed similar "Opportunity to Purchase" legislation that requires owners of mobile home communities to give residents a chance to purchase the park; in some cases, residents even get a right of first refusal.

3. This resident purchase proved that resident ownership can be achieved on the same time schedule as any investor purchase, which has generated great interest in this model among real estate brokers and park owners looking to sell their properties.
4. While they share common experiences as tenants, it is a mistake to view mobile home park residents as having identical interests. As Husted points out, at Champion one area of the park is occupied by more affluent families and retirees, while other parts have smaller lots and tend to be occupied by families who are just passing through. "Your relationship to the park changes depending on how old you are and where you are in your life," says Husted. This is important because homeowners with a short term commitment to the park may not want to become involved in the association. Similarly, many of the retirees living in the Champion Park might have had the skills to support the process of buying it, but knowing how much work would be involved in doing so made them leery of volunteering. Learning about who lives in the park, and their long term interests, is an important part of the organizing process.

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