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Conversion to resident ownership:

Does it make sense for you?

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Would you like to unlock the hidden value of your property? Would you like to realize the value of the land rather than the manufactured home community's cash flow value? Is your community governed by local rent control? Are you tired of rent control litigation? Are homes in the nearby neighborhoods selling for more than \$500,000? Are you looking for an exit strategy?

If you answered yes to any of these questions, then your solution may be a subdivision of the community. There is a state statutory method by which manufactured home communities are subdivided into individual lots. The lots are then sold to the residents. This process is known as *conversion to resident ownership*.

Subdivision is one of the few methods by which you can recapture the market value of your land as well as bring rents for non-buying, non low-income residents up to market value.

What is the market value of the lots? How does it compare to the lot value in a rental community? The answers depend on the location of your community and the value of "stick built" or site-built homes in the area. We have seen situations in which \$80,000 per space rental communities are worth \$200,000 per space when subdivided. A 200-space rental community worth \$16 million could be worth \$40 million when subdivided.

Converting to resident ownership

The city process is by means of a one-lot subdivision with a condominium overlay through a tentative parcel or tract map (the Entitlement Process). In order to encourage community conversions to resident ownership, state law

restricts the authority of cities. They must approve the subdivision if the state rules are followed, and they cannot impose expensive conditions.

After approval by the city and by the California Department of Real Estate (DRE), each resident has an opportunity to purchase his or her lot at its fair market value. The buyers also obtain an undivided interest in the community's common areas, including clubhouse, recreation facilities, and roads.

No resident is required to buy his or her lot. They may stay and continue to rent their space from the community owner.

Upon the sale of the first lot, local rent control is replaced by state rent control. For non low-income residents, state law provides that the pre-conversion rents will be raised to market level in equal increments over a four-year period. After that, there are no restrictions on the rent.

For low-income residents who decide not to purchase their lot, their rents will increase annually by the Consumer Price Index (CPI). If a low-income resident wants to purchase their lot at its market value, the state has a financing program that will provide a loan up to 95 percent of the price at an interest rate of 3 percent amortized over 30 years. In many cases the loan payments are deferred until the resident sells the home and lot.

Under this State MPROP program, low-income residents often buy their lot and pay less each month than their existing rent.

When a non-purchasing resident later sells his or her home, the buyer must buy the lot from the community owner at its market value. In this manner, the entire community will eventually become resident owned. In the meantime, you as the owner of the unsold lots, continue to realize the increased land values of those lots.

Cities and counties benefit from the increase in property tax revenues, which is generated as lots are sold. Also, the subdivision of the community eliminates rent control litigation between owners, residents, and municipalities because local rent control no longer applies to the property.

When communities transition from rental to resident ownership, cities and counties are still preserving affordable housing while providing the opportunity for residents to have a choice between affordable rental or purchase housing.

The conversion provides residents with the opportunity to acquire an ownership interest in the community, which certainly would not otherwise occur. So why do certain individuals oppose conversions?

Non low-income residents, who do not want to buy their lots, do not like the fact that under state rent control their rents will increase to market. Although low-income residents are provided the security of rent protection and the opportunity to purchase their lots with state-funded loans, some non low-income residents try to scare elderly low-income residents into believing they are going to lose their homes if conversion occurs.

However, many seniors and young families residing in manufactured home communities want the opportunity to purchase their lot. Seniors see the purchase as enhancing the value of their home and having an asset to pass on to their heirs. Young families see it as the only way they can have an investment in California real estate that they otherwise could not afford. Unfortunately, their voices are being drowned out by the few, but very loud, higher income residents who will do anything to preserve their rent protection and the artificially inflated value of their homes that the rent control creates.

At the time of this writing, the State Legislature is considering proposed legislation that would make the subdivision process more difficult. WMA is lobbying on your behalf, if not to reject the proposed legislation, at least to amend it. We encourage all community owners to write, call, or email their State Assembly members and Senators. Voice your opposition to both SB 900 and AB 1542.

Resident groups throughout the state also are opposed to the proposed legislation; they want to buy their spaces. They want the process made easier to encourage community owners to do a conversion.

The existing law provides a statutory scheme for community owners to subdivide their manufactured home communities, allowing you to recapture the value of your land. Many community owners are subdividing their communities now and selling lots to residents who want to buy now.

Other owners are subdividing now but not offering the lots for sale at this time. At a future date, when they want to sell the community, they will sell all the lots to a new community owner or sell them individually to community residents.

Subdividing your community is an option to maximize its value. The process benefits the community owner, residents, and the city in which the community is located. It is a win-win-win.

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