Facts about investing in Manufactured Home Communities (MH Communities or “Parks”) that set them apart from investment in commercial office, retail, industrial, garden apartment, and other types of “core” real estate assets:

- **Definable rent upside**: Key question when looking at a potential MH acquisition is - Do the homes in the park sell for more than they would if they were NOT in the park and were in a dealer's lot? If the answer is "YES," then you know the rents are too low. In effect, the premium placed on the home as a result of it being in a good park is equity that has shifted to the homeowner away from the landowner. One of the keys to Our Company’s strategy is to find parks where this situation exists and to gradually (or not so gradually) shift the excess equity that sits in the house back to the land (park) owner by increasing the lot rental rates.

By way of example: When Our Company purchased (park name) in (city), homes sold for about a 50% premium to where they would sell if not in the park but in a dealer's lot - about $45,000 - $65,000. Since acquisition, rents have been increased 50% within 3 years. The homes now sell for about where they would if they were in a dealer's lot (about $25,000 - $30,000) and the value of the park is up from the $4.80MM purchase price to approximately $7.0MM. Equity invested was $950K, which has been increased to about $2.85MM within 3 years of ownership simply by increasing rents and “taking back” the equity that was “held captive” in the residents’ homes by virtue of the low rents being charged by the prior owner.

- **Leverage over tenants in terms of rent collection** - If a MH resident does not pay rent the land owner's recourse is to lien their home and ultimately take it to a sheriff's sale to recoup past due rent. This leverage is far superior to garden apartment investments because if an apartment tenant can't pay rent they may lose a security deposit but they can simply move out (often in the middle of the night) and find a new home (apartment). With mobile home delinquency, if a resident does not pay rent he/she not only loses a security deposit but they literally lose their home and likely their equity investment with it.

- **Diversification of tenant risk** - Unlike retail, office, or industrial property where a tenant that "goes dark" can substantially impair your cash flow and perhaps your ability to meet debt service payments, you do not have this risk in MH Community investment. MH Communities have many residents each representing a small part of the revenue stream so even if 10% leave due to rent level the rent increase covers the increase in vacancy loss.

- **Lack of new development/more stable supply** - There has rarely been a situation where an overbuilding of mobile home parks has saturated a particular sub-market. It is generally very difficult to get approvals for new parks (the "Not In My Back Yard" NIMBY factor comes into play politically), especially in good locations where land is valuable.

- **Increasing demand in the face of decreasing supply/"Baby boomer" demographics effect** - Many MH communities, especially in growth markets, have been closed for higher and better uses. This dynamic is occurring at the same time that building new parks is very difficult and the baby boomers are selling their homes and downsizing or buying inexpensive factory built homes as second "snow bird" homes in winter destination MH Communities. Therefore, over time the supply of well-located parks relative to demand will fall, creating additional upward pressure on rents.

- **Land play potential: Many possible exit strategies** - Office tower or other real estate types require significant funds to develop the improvements. Therefore, the practicality of razing the structure(s) to develop a "higher and better use" is questionable and a very expensive proposition. MH Communities, on the other hand, can be vacated in relative short order and the common area improvements are generally not that substantial. As well, you can close a MH community at will for the most part for a higher and better use, you cannot do so with office or retail as you must deal with the existing long term lease rights of the tenants as they have non-disturbance agreements. Finally, as Our Company has proven several times, the ability to sell the community to the residents at a premium via condo or cooperative conversion is an alternative exit strategy. Of course a sale to another owner/operator is also an option.

- **Continued lending in an illiquid marke**t - Importantly, as other real estates types struggle in this market to find financing, even if they can cover debt service generously and the assets are good "performing" assets, MH communities still enjoy the ability to attract both public (Fannie Mae/Freddie Mac) funding as well as bank and insurance company loans.

- **Low common area maintenance costs-** The operating costs for a MH park are fairly easily defined and underwritten. As you are primarily renting land and the only improvements are below ground utility infrastructure, roads and a clubhouse, being hit by unexpected and costly repairs to improvements is rare.

- **<u>Fragmentation of ownership market: Unsophisticated sellers/"Good buy" Opportunities</u>** - Unlike the commercial office, retail, industrial, and garden apartment space which is substantially controlled by sophisticated “institutional” aggregators that are market knowledgeable, the MH parks in this country are primarily owned in "one-off" investments held by the original builder or their children. They are generally not very market savvy and not familiar with the way in which sophisticated buyers underwrite. Some of the strategies necessary to maximize their bottom line are left untested. As well, they often befriend the residents in their park and, as a result, do not push rents and leave a good deal of upside on the table.

- **<u>Elasticity of Rents</u>** - The ability to increase rents in a down market, even when other asset classes are seeing their effective rents erode due to tenant renegotiation of leases and other “concessions”, is unique to MH communities. Individual residents and/or the homeowner’s associations of MH communities do not have the leverage to renegotiate their rent level as their only threat is to (a) sell their home, which will be bought by a new resident willing to pay the rent <u>or</u> (b) move their home out of the park to a park with lower rent, which rarely occurs as it requires the resident to spend many thousands of dollars, an expenditure that is usually many times more than the incremental rent obligation they are looking to avoid.

- **<u>Security of equity principal</u>** - According to the American Banker’s Association (ABA), loans secured by MH Community property are consistently the category of debt that has the LOWEST NON-PERFORMING percentage to total loans outstanding of any other real estate investment asset class. Bank foreclosure of quality MH parks is very rare...therefore, equity invested in quality MH parks is exposed to less risk while still providing very attractive returns one would expect form higher risk profile investments. A few of the many factors that contribute to the low MH community default rate are the rent elasticity and lack of new supply.

When markets get overbuilt and/or the economy stumbles and puts pressure on a commercial office and retail tenants’ ability to pay rent, they use the market’s woes to their advantage and leverage their landlords into modifying (reducing) rents. When this occurs on a broad scale, property cash flow suffers and/or vacancy rises, valuations fall, and the end result is usually a bank foreclosure or a deed given to the bank by the property owner in lieu thereof. This does not occur in MH communities.

In fact, during the two year period 2008 though 2009, during one of the worst residential and commercial real estate markets we have seen in decades, the rents in the Our Company's portfolio of parks have been ***increased*** between **8% and 60%** with no material deterioration in occupancy rates. Of course, this has benefited the bottom line significantly during a period of time when large institutional owner/operators of "core" real estate have seen their effective rents decrease and bankruptcies mount.

Finally, the ability to increase rents at least once a year and in a number of jurisdictions several times a year enables MH community owners to constantly adjust revenue and, therefore, the bottom line in the face of changing lending parameters. This ensures that the resultant cash flow from the property is sufficient to cleanly refinance debt as it matures. The ability to frequently adjust rents to drive net operating income up to assure a clean refinancing is not available to office, retail, industrial, warehouse, or other commercial property owners. In hard economic times and in the face of oversupply, rents and occupancies in commercial properties generally decrease, and the rents are pre-determined in the lease and usually fixed for many years. For multi-family property, rents can be adjusted but the resident is not "tied" to the property in the way that the resident is tied to a MH community tenancy. Residents in garden apartments move out if they feel the rent is too high and they can get a better deal down the street. MH community residents do not behave in this manner. They may try to negotiate a smaller increase in times of economic hardship but they rarely walk from their homes or move them at great personal expense in order to save $20 or $30/month in rent.

^^^