ROI Strategies

The second manufactured home park we were considering purchasing in Columbia, South Carolina, ended up being a "no go." As we were going through the due diligence process, we just couldn't make the numbers work. It is in much worse shape than Polo Estates was when we first bought it, and it is producing very little income. The income has always been the security factor with Polo: even though it needed a tremendous amount of work, it produced a healthy monthly cash flow of about $40,000 gross. Our long-term plan for the new park was to make it into more of a development than a rehab project. We were going to completely redo the entire park at 4-star-or-higher quality with corporate-owned homes, allowing people to rent or buy them through a lease-to-own structure. We had hoped the numbers would justify the additional effort and risk, but that was not the case.

Regarding the Polo Estates loan, we decided to keep it with ROI Strategies and not move forward with the FHA refinance as of yet. As we mentioned last month, after reexamining the numbers, our analysis shows we are better off waiting another year before refinancing with an institutional lender. At that time, the park will be completely rehabbed and should be at full occupancy, showing the top end for cash flow. We hope the FHA financing is still available when we are ready to refinance because it was an excellent loan.

We sold a couple lease-to-own homes last month where tenants walked away. We're still working on improvements to the home in Gardnerville; it should be ready to go to market at the beginning of October. That has been a big project, but it should be worth it when it's time to sell.

Buy and Hold Fund

Here are some up-to-date stats for the buy and hold fund and 1031 Exchanges.

- We currently have $20.5 million in assets in the buy and hold fund with only $2.4 million of that being debt to lenders.
- We also manage another $8.2 million in 1031 Exchange properties under a master lease with Guardian Fund, LLC.
- **This brings us to a current total of 430 "doors" representing $28.7 million in assets under management in the form of affordable homes in the Midwest.** We expect to continue acquiring 20 to 40 new homes every month.

As of today, we are testing the purchase of homes in the $70,000 to $150,000 range in St. Louis and Cleveland—a higher price point than most of the homes in our portfolio—as our institutional lender has been able to offer us some excellent terms. We have built the model on a 5.25% conservative interest rate, but according to the lender, our rates will likely be between 4.25% and 4.75%, depending on the amount of the loan and terms chosen.

Buying homes at this higher price point still allows us to maintain an 8% to 9% return on investment through the use of leverage. The assets would have to remain in the buy and hold fund's portfolio (and not be used for 1031 Exchanges) because once a home is leveraged, it can no longer be part of the

1031 Exchange inventory.

Another option would be to leave some of the higher-priced homes unleveraged and offer them to interested 1031 Exchange investors at a slightly lower return. (The higher you creep up in price, the lower your profit margin.) Our calculations show that, unleveraged, the homes will produce returns in the 6.5% to 7.5% range—still an attractive option for investors who prefer this type of asset.

Either way, we will continue using the same criteria of purchasing homes strictly within the core rental market where short-term home values have little bearing on our cash flow model and where there's a stable base of renters producing a healthy cash flow. **Buying in the core rental market is what provides safety in the event of an economic downturn.**

Until next time,

Steve Sixberry Greg Hughes