Representative Michael Howard

100 Rev. Dr. Martin Luther King Jr. Blvd.

473 State Office Building

St. Paul, MN 55155

**RE: HF 1976: Manufactured housing; rent increases, billing for water, and modifying notice provisions limits provided**.

Chairman Howard –

Last summer we had the opportunity to give you a tour of one of our Minnesota manufactured home communities called Blaine International Village located in Blaine, MN. As you may recall this property is home to 500 households and is a mix of working families, singles, and retirees. We purchased this property about 2 years ago from a long-time Minnesota family who had developed and run the property very well for decades. It is a thriving community, and it is our intention to further improve upon the excellence of this property for decades to come. In addition to building community through adding / upgrading amenities and providing excellent resident service, our company, Havenpark Communities, has also launched a scholarship fund, awarding nineteen scholarships for $10,000 each open to residents living in our communities. I am pleased to say that one of those $10,000 scholarships was awarded to a resident living in Blaine International Village last year – [click here for details](https://www.prnewswire.com/news-releases/minnesota-student-among-winners-of-havenpark-communities-academic-scholarship-301564057.html).

I am writing today to (1) clarify some inaccuracies that have been circulating, perhaps fueling potential legislation, related to rent increases at Blaine International Village and (2) express some concerns about HF 1976, the Manufactured Housing bill which was recently introduced.

**Blaine International Village Rent Increases:**

* **April 2021** – We purchased the property in April 2021. At the time of purchase, the rent for most residents (slightly different based on lot size, location, etc.) was $440. The rent included water, sewer, and trash, which the community continues to pay for today. During our first 10 months of ownership, we implemented no rent increase. However, we did invest close to $1,200,000 in community upgrades that included road, concrete, sidewalks, curbing and tree work.
* **February 2022** – Nearly one year after taking ownership, we implemented a $35 rent increase, our first at this community. It amounted to a 7.0% increase - roughly the same as CPI. Most large communities in the area, of comparable quality, have rents ranging from $700-900. We remained committed to being a responsible operator and limited our rent increase to an amount that was both fair and digestible for our valued residents.
* **February 2023** – After putting another $1,300,000 into the community for extensive rebuilding of roads and concrete, remodeling of resident clubhouse (where they now frequently have gatherings), landscaping, and additional tree work, we implemented a rent increase of $47. The 9.8% rent increase was approximately 1% above CPI at the time the increase notice was issued, bringing our rent to $522. To clarify, our competitor properties were still charging rents more than $300 over us, ranging from $800 to $950 in most cases. We maintained our discipline, both in keeping rent increases moderate and continuing to upgrade the infrastructure, amenities, and appeal of the community.
* **2023 and beyond** – We have contractors secured to complete the last phases of extensive road work and community upgrades as needed at Blaine International Village. They will begin as soon as the ground thaws this spring. We are committed to completing this year the remaining $4,500,000 this project will cost. We are also committed to absorbing the cost upfront, understanding that we will gradually recover this in the many years ahead by keeping annual rent increases reasonable and fair for both our valued residents and us.
* **In Summary** – We have limited our rent increases at Blaine International Village, amounting to roughly CPI + 1% during the time frame we have owned the property. We understand we are vastly under market on our rates compared to neighboring communities. At the same time we have currently spent over $2,500,000 in community upgrades, that have greatly enhanced the value of the homes our residents own. In addition, we are committed to spending another $4,500,000 this year to complete the outstanding projects at the Blaine International Village community.

To view a 2 minute video highlighting some of our residents at Blaine International Village – [click here](https://www.youtube.com/watch?v=nKT9ZTpTSx0).

**Concerns with HF 1976 Manufactured Housing Bill:**

* **Investment and Maintenance Pullback** - The rent control component of this bill will deter responsible capital from participating in Minnesota investment which is needed in manufactured housing. It costs millions of dollars to upgrade the aging infrastructure of these properties as most were built in the sixty’s through the eighty’s. Should this bill pass with the rent control component in place, it will be difficult – if not impossible – for us to continue making the community upgrades we, and our residents, need at these properties. The biggest reason for this pullback is simply the signal price controlling sends to the market. The investors (to whom I answer) will start looking elsewhere to place their capital – places wo won’t enact an artificial limit on their returns. In the minds of investors any form of rent control is the proverbial “slippery-slope” with further tightening being very possible, and much easier, in future legislative sessions.
* **Further Loss of Manufactured Home Communities – Especially in the Twin Cities Metro** – It has been reported that since 2005 the Twin Cities metro area have lost over 10% of its manufactured home communities to redevelopment – [article here](https://www.twincities.com/2019/03/31/with-affordable-housing-hard-to-come-by-could-trailer-parks-make-a-twin-cities-comeback/). The market value of any piece of commercial real estate is a multiple of current and / or future operating income. If manufactured home communities are capped in their ability to raise rents but other commercial types such as industrial, retail, multifamily, or other real estate are not, many more manufactured home communities will be lost to redevelopment in the years to come. This will accelerate an already distressing trend and displace hundreds of Minnesota families, individuals, and retirees.
* **Cost of Compliance, Legal Fees, and Practicality of the Bill** – This bill will draw numerous court challenges annually from residents hoping to see a reduction in their rent. Well-meaning, legal aid counsel will represent many of them free of charge. However, these challenges must be defended by operators and will be paid for through operating income, resulting in added costs to the residents. Ultimately the cost of this regulation will trickle down to hit the residents in the form of higher rent increases.
* **Liquidity Constraints** – A majority of Minnesota manufactured home communities continue to be owned and operated by small, local operators. These operators do not have large cash reserves and they depend on the existing cashflow their properties generate to support their families and living situation. When community upgrades are needed these operators rely on rent increases to provide the cash to make those upgrades. Conversely, they may obtain a loan from the bank, holding their manufactured home community as collateral. But, to cover the new debt service of the loan, the operator may need to issue a rent increase. Under the current bill, these operators would no longer be able to fund these projects, causing hundreds of manufactured home communities in Minnesota to further fall behind on maintenance and into disrepair . Thus, dragging down the value of the residents’ homes (and by extension their net worth) in the process.
* **In Conclusion** – HF 1976 will have the opposite effect than it is intended to have. Instead of quality, affordable living with a mechanism for residents to retain and improve the value of their homes, it will inadvertently incentivize and creates deferred maintenance, disinvestment, and an overall reduced standard of living for the residents. It will reduce the resale value of the homes owned by residents, causing a sharp decline in their net worth. It will cause many operators to reconsider their options in operating as a manufactured home community, likely shifting the land to other commercial real estate types. This will further result in the acceleration of an existing trend of manufactured home community redevelopment. It will also hurt hundreds of smaller, local Minnesota owners and operators who rely on the income from their parks to support themselves and who rely on rent increases to pay for maintenance and capital improvements.

Thank you for your attention and I would respectfully submit that you table HF 1976 for the reasons above.

Best Regards,

Robbie Pratt

CEO, Havenpark Communities

cc:

House Finance and Policy Committee Members