

EPISODE 832

[INTRODUCTION]

[0:00:00.0] ANNOUNCER Welcome to the Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Ferd Niemann. Thanks for being on the show Ferd.

[0:00:32.5] FN: Thanks Whitney, glad to be here.

[0:00:33.9] WS: Ferd is a mobile home park lawyer. Owner, operator, investor, podcaster, MBA, CCIM and broker also. He focuses on solving complex real estate problems. He is passionate about real estate and helping others. Ferd, welcome to the show, it's just interesting, I know you and I were talking about this before the show but just, you know, branding yourself as that mobile home park lawyer is just amazing.

It's a great idea that, you know, you can focus in that niche, be an expert and then people know who that expert is. I'm looking forward to learning more about yourself and diving into the mobile home parks and how you're helping these other operators and how you've got to where you're at right now.

Give us a little more about yourself and your practice and your mobile home park business?

[0:01:15.4] FN: Yes, I'm based here in Kansas City so I practice mobile home park operations in the Midwest and then on the legal services, I'm pretty much going nationwide. I don't do litigation or convictions in court in other states but here, pretty much types of a lot of operational

consulting on retail license, water, sewer issues, LLC setups, contracts, leases, title work, tied injections.

I'm a zoning and real estate lawyer by trade so I do a lot of zoning and permitting issues, which is really important in the MHP space, grand filing is very important in this asset class. Do some syndication work on the legal side to, do some syndication work on the operational side as well.

Then, you know, all the other kind of blocking and tackling contracts and real estate law and just kind of consulting on MHP. That's kind of current practice, and by way of background, I set-up an attorney by trade. I practiced law at a boutique real estate firm here in Kansas City part of the invest firm in the metro, did zoning, law tax incentives.

Before that, I was a county appraiser here in Kansas City. Youngest in county history to do that and I had a 75-person team and eight million dollar operating budget and worked in government for five years. I pretty much had two jobs my whole life, you know? I went to school for a decade but I was doing that all while working, I went to law school while working full-time.

It's just been the hustle but – and today, I got two jobs now. I'm an owner operator and lawyer. It's been a fun ride but look forward to doing more.

[0:02:36.2] WS: Wow, you know, went to law school while working full-time. I mean, I can relate to that, just two businesses or two jobs and working full-time while, you know, getting a business going and growing and all these things, that's not easy but it shows your determination and willingness to make it happen, which I'm sure is so crucial to where you're at now as well. Let's dive into you know, your niche or specialty which is mobile home parks.

Especially from the legal side. I know you mentioned a few things like zoning and permits and grandfathering and even syndicating. Let's talk about some of those things as it relates specifically to mobile home parks and issues that, you know, people you're working with are having in those places?

[0:03:15.3] FN: Sure, I mean, with MHP, it's very common for municipalities and cities in particular to not like mobile home parks. There's a stigma, they're thinking of trailer parks or

worse and they think they're hotbeds for crime and poor people. As a result, they want to get rid of them.

They'd much rather have a mobile home park be torn up and become a Home Depot or new apartment or new hotel or big mansion neighborhood. They're very hostile, they put a lot of laws on the books. Many of which are unconstitutional, the property rights are constitutional rights, so there's really three types of mobile home park. There's legal conforming, which is rare because it means it's up to the current code and it was legally permissible at some point in the past.

Those are mostly new development, very little new development. You've got the illegal part, which is you know, the guy, somebody built it without permission and just the government is looking the other way because the guy is you know, friends with the mayor but the next guy, you or I buy it, they're going to sting us and so you gotta get rid of that.

You gotta get rid of that, you can't have it, even though it's been there for 50 years. You never want to buy illegal. Most of mobile home parks fall in the middle, which is the grandfather status, which is legal, meaning, it was permissible at the time it was built but it's now non-conforming with the current code.

A lot of what I would do is try to get some of the restriction limited as it pertains to setbacks, internals and permit and parameter setbacks to basically allow for better in-fill and without being classified as a new development or redevelopment because the name of the game in MHP, depending on the type of asset you buy, but if you are buying at the in-fill or you know, kind of a rehab method, you got to bring in new homes and you bring new homes are old, lots that are typically smaller and configured differently and cities put a lot of restrictions in place, many of which are invalid so it's my job to read the code, get smart on that city, that state and negotiate, hopefully in a cordial manner.

But sometimes it just becomes abrasive and adversarial to the city and you have to fight for your property rights. That's a really big issue, it's always important in all real estate but in MHP it's probably the hardest to get zoned and there's more hostility towards it than that of any of our other asset markets.

[0:05:21.3] WS: Would that be if you're building a new project or you have one that's illegal like you talked about that you know, be worried about the zoning?

[0:05:30.3] FN: Most of the zoning work I do is on existing projects where somebody wants to – a new owner wants to, one, prove the permit is invalid, two, to prove they can bring in new homes and kind of get a certificate of the zoning, right? I don't just ask the city to send me the zoning because they're going to send you where it is.

No, no, I mustn't accept that, I read the code, I negotiate them, I draft the zoning letter and say, you know, "He or she, I need you to put this on your letterhead and sign it." Then I can go to the title company and I get a zoning endorsement, which is like another set of insurance like belts and suspenders so that if a different administrator of the city comes in down the road and changes the city position, I've already got a backup plan.

As far as new development, those are very rare, it's going to be very location, city specific. Nationwide, I think there's 44,000 mobile home parks, there are less than two dozen constructed in a given year. I mean it's a dying, it's going extinct. I mean relative, there's more being redeveloped and thrown away than are being recreated or created from new.

That becomes more of a – to some degree, a blue state, red state issue but also, I'm in the process of expanding two parks I have now. Expanding is still hard but I made them do it in one of them because it's in the county so it's outside city limits but when it gets outside the county, you often run into things like no city water and no city sewer.

Which increases the development cost, the risk, et cetera. In the practical world, there are very few people out there developing new mobile home parks. I'd like to, I've got a development background on retail so I understand the entitlement process and permitting process from that standpoint.

But it's really just finding a location in the city to play ball and a market that has the right economics to make it make sense.

[0:07:05.3] WS: Speak to the due diligence process a little bit as far as you know, if we're going to buy a park now, one, to make sure it's not illegal like you talked about but two, you know, I'm

sure we should be thinking about okay, is there room to expand, is it permeative for that? What's our options there or you know, if we do have to move a park out, can we move a new one in?

How do we ensure some of those things during the due diligence process so we know we're ready as soon as we close?

[0:07:31.5] FN: Like all real estate, there's kind of the big items that you pretty much hire a third-party professional, it's more like you've got to get a phase one environmental. If the environmental engineer says it's dirty, you know, you could kill the deal. Maybe there's a phase two or something that could fix it but for the most part, you get to phase one, you get a survey, ideally [inaudible 0:07:46].

Obviously, you are going to make sure the deal is financially feasible so you run your marketing, you run your economics, go get the market rents, you look at your assumption, do property taxes, all that stuff and you see the bank [inaudible 0:07:57] to get an appraisal. But those are kind of like third-party reports.

From the due diligence on the buyer-operator side, I want to look at the first – I want to save money at the beginning, I'm not going to spend money on those – entering for 10 grand [inaudible 0:08:09] to do that. Before I spend all the money, I get bids on that stuff right out of the gate but then, [inaudible 0:08:16].

Putting an ad on Craigslist, Facebook, local newspaper. Here a, \$800 a month, three bed, two bath, 1,200, 16 square feet and then see how many people bite on it and I get a feel for the market. Obviously, I need to look at the zoning of the city, that's generally, I hire a lawyer for it, unless you're confident in that area yourself, make sure the zoning is good, the permit's good.

You want to make sure that you check out the utilities. Most of the real estate, if you're buying a hotel, it's probably not on septic, right? You're buying a mobile home park, it might be on a septic, it might be on a lagoon, it might be on a wastewater treatment plant. You might have well water.

Well, all of those things include more risk, you need to get budgets for reserve and you get professionals to inspect it, you need to camera the sewer lines. I got about a 75-point checklist that I go through. I'm [inaudible 0:09:01] some of the big, fatal issues but you also want to just make sure you can bring homes in, see if the city prohibits vicious dogs of some sort. See if you can put for sale signs and banner signs out on the street.

[0:09:13.3] WS: Where do we find that information? Where would we go to search, you know, those things with the city?

[0:09:19.1] FN: It depends on the municipality. You know, a bigger city like I'm in Kansas City, they're going to have a full code, you can typically go on their website and just type in Muny code or city code, sometimes they call it uniform development code. You can go to the planning website. Sometimes you know, if you don't know how to drill down this stuff, I would say, just go to a city website or county website and look for planning or development and find who is planning this and call that number and say, "What are the restrictions, what can I do and not do?"

Most cities are quasi helpful where they'll at least point you to the right document. The ones that are really helpful will send you the exact excerpts from the code which you want to verify or at least you put it in their zoning letter that binds them in writing.

There's about 10 things that I put in the zoning letter that some of them I've mentioned here but there's a lot of the research standpoint you can go, you want to know the market area so if I'm going to some town, Joplin, Missouri, you know, I know where Joplin is, South Kansas City about two, two and a half hours.

I don't really know what the vacancy rate is in that town, what the market rents are of apartments, the market rents for lot rents or mobile homes so I can make – I can look it up on Google, call those places [inaudible 0:10:21], I can go to bestplaces.net or run a report from a scout or some other real estate source to give me some of that information.

Look at the employment, you know, other due diligence you should do, typically, because you want to look at the – you want to have good employers, meaning, typically, government, university and healthcare. It's not only about business.

You don't want to work with a town where is the – there is the one meat plant and everybody works the meat plant and then Smithfield Foods moves the meat plant and now you're stuck pulling the bag on a trailer park.

Diverse economies are good, county seats, lots of government jobs, good. Then the personal preference is, what's your bandwidth as far as how far you want to go from your home base, how much money you have and if you want a park that's stable, which is going to typically cost more, or do you [inaudible 0:11:04].

Or, do you want a heavy lifting project that you can go buy it at a discount but it's harder to do that if you got a full-time job. Some of this is subjective as to what your investment goals are. That's just the consumer process, I go through one every deal.

[0:11:20.2] WS: That's great, I appreciate you elaborating on those things. You talked about purchasing an illegal park. Okay, you know, we need to make sure we understand how not to do that or how we make sure we don't do that, right? That's so important that we have that information upfront.

What about just that process of working with someone like yourself. How involved should an attorney like yourself be involved, when I'm going to purchase that mobile home park, through those discussions or talking about permitting or zoning and whatnot?

[0:11:49.3] FN: Yeah, that's going to depend on your level of sophistication and your level of interest in doing the work. Some people will say, "Hey, I want to hire you and your team to do all these due diligence steps also." Well, that becomes more expensive.

Some people say, "Just do the zoning work. Just do the PPM," that kind of thing. Some people call me and say, "I'm thinking about getting involved in real estate." Well, they need to create an LLC, I give them my letter of intent, I've got a really strong letter of intent for buying that has got all the meat, the key points in there but it's not all legalese, you know, it's two or three pages as supposed to 18 pages. But I have in the bottom, which has been really good for me, it's a binding letter of intent, which is pretty rare. Most people say, "Oh letter of intent is non-binding."

I could draw a contract on a napkin. It just needs key terms, seller, buyer, price, address, due diligence, recording date and then there's the contract, right?

What I encourage people to do is get that LOI from me for free, run their own economics. I can help on that if they want and then start working the seller and propose this non-threatening letter of intent and I've actually closed on a couple of deals with just the letter of intent because I sent it to the seller, he signs it and then he decided to re-trade the deal and I said, "You can't do that." I sent his attorney the long form contract and the attorney said, the attorney never read the LOI, because there is nothing wrong with the contract. It's a fair contract. He said, "My guy just don't want to sign it. He doesn't want to sell anymore. He doesn't want to sell at that price." I said, "But I have a letter of intent," and he said, "Letter of intents are non-binding." I said, "Read the last paragraph," which is in all bold by the way. It wasn't fine print, it was all bold. This is binding and this is a contract and let's both consummate a long form contract in the next 30 days and he goes, "Well, I'll be," and five minutes later, he sent over a signed contract and I closed the deal like that.

Another deal, the guy never even signed it. I go to the bank and the title company, they go, "We need a contract. We need a contract." I said, "That's a contract. Read the whole document." The guy finalized a report, it took like seven months to get this guy to closing and I'd even given him the due diligence materials. I closed on day zero of my inspection period with an LOI. Typically I tell people, "Do the LOI on your own unless you have questions but then when you get a red line, call me, or need a contract, I'll draft a contract." Then we get the title work. We do title objections, so typically we do title objections, sign the release, build a sale, a zoning letter on pretty much every file.

Some people do the contract themselves, some people do the financial underwriting and modeling themselves. A lot of them do the due diligence themselves and then if issues come up where there's like, you're buying out the LLC or you are doing a syndication, those typically fall along the lawyer world and then you get the call.

[0:14:16.7] WS: Are there anything or is there anything that sticks out to you from your say, first mobile home park deal or syndication that you would change with what you know now? Maybe one or two of the biggest things.

[0:14:27.0] FN: Well, I mean park owned homes are the homes that you rent and you're basically, you know, detached apartments there that there's pros and cons to park owned homes. You know, if you rent a lot for 300 you can rent the homes for 700. The pro is obviously more gross revenue but the downside on the park owned homes is you've got a lot more repairs, a lot more maintenance and you got a lot more cash, you know because they are hard to finance.

On my first deal, I couldn't go as fast. I only had like 90,000 to put into park owned homes but I had to fill like 15 of them. I had to spend 15, sell it, do it again and eventually, I recycled the same money. It would be better if I had 200,000 laying around instead of 90 and I could have done it faster but another deal I had to put like 250,000 in the park owned homes. So that was there like, "I got a quarter million dollars in park owned homes, what am I doing?" But that was a market in the trade area that required used homes, not new homes.

So, I guess what I would do better is really evaluate if this is a new home or used home market and then how that impacts my implementation in the lease up plan relative to how much liquid cash I have and am willing to contribute to a single project.

[0:15:33.1] WS: As far as purchasing mobile home parks and using an operator even working with other operators, how do you prepare for a potential downturn?

[0:15:41.8] FN: Well I mean, I don't want to say that we're recession-resistant but to some degree we are because the \$2,000 a month high-rise apartments downtown, you know if you are a young CPA, you're making 60 grand, you'd probably like to live there but you know, if you get laid off you are moving to the B-apartments or if you don't get a raise, you move into B-apartments. People in B-apartments move to C or move to mobile home parks.

In a recession, we get more demand. I mean we sold more houses in March and April when COVID hit than we could ever imagine. And so did everybody in the industry, which is why right now, some of the manufacturers have not taken orders in six months because the demand was through the roof. A bunch of private equity [inaudible 0:16:18] have come into the asset class in the last year because they have see mobile home parks as recession-resistant.

We're kind of in the right space for that but of course, we still have our reserves. We still, you know, try to be conservative on our underwriting and stuff, just conserve on our budgets, maintain our banking relationships, you know, all kind of the normal risk-averse strategies but frankly, we're kind of sitting in the captain's seat relative to other real estate classes. The market has recognized that as indicated by our cap rates being compressed, you know, record numbers.

[0:16:48.4] WS: What do you predict to happen in the real estate market over the next six to 12 months?

[0:16:52.5] FN: Well, I think it depends on what the tax bill does with president-elect Biden and I know that at the time of this recording, we're still in a little gray area where nothing is going to go through. I think it is looking more and more likely by the minute. If he changes the 1031 code or takes away carried interest or increases tax rates above and beyond what they were in Obama, what they are now when they were in the Obama administration, I think it is bad for the whole economy.

I think it is bad for real estate. Overall, I think real estate is a great long term play because you know, just consistent returns and cash flow and it's a hard asset, right? I mean I don't know if Tesla's working, they say it's working. But you got a 38-unit apartment, it's probably the bricks and the doors and the windows and the dirt is going to be there five years from now. I don't do the Bitcoin thing and I know, you know kind of like Warren Buffett, I guess I don't understand it so I don't want to play with it.

I think the real estate market is going to be fine. I think in the long run, it's going to do really well. The short run is going to be very dependent on the government policy including if AOC and some of the progressives get their way with rent control or rent abatement more than the eviction moratorium that will actually topple the economy. I don't think it's going to go through but those kinds of macro-economic forces can ruin.

If you have seen the experiments in Argentina and these other South American and Eastern European countries and there are people, you know a lot of young people in this country think that's a great view of the world and if enough of them vote that way, I'll probably retire and go

somewhere warm. You know, they're not going [inaudible 0:18:19] to work that hard to get – 32% [inaudible 0:18:22].

[0:18:22.4] WS: Do you have a couple of daily habits that you're disciplined about that have helped you achieve success?

[0:18:27.1] FN: Yeah, absolutely. I am a Tony Robins junkie and a Robins Sharma, some of those personal development coach guys and gone to some of their seminars, read their books and we do a week with our team, we all do a weekly planning. A very detailed weekly planning organization. Then we do a daily plan, which is based kind of similar to the book by Gary Keller, *The One Thing*, that daily plan and then Robin Sharma's book, *The 5am Club*, just getting up at five instead of –

You can sleep seven more hours, I used to get up at seven and stay up until two. Now, I get up at five and stay up until midnight and it's the same five hours but you know, there is something about being up in the morning before your kids, before – actually before my wife and now my wife does it and she gets up too, it's great. You know, makes dinner and exercise and [inaudible 0:19:07], she does her morning reading before the kids wake up and I'm like, "That's awesome."

Then she has the whole day, right? [inaudible 0:19:12.5] I'd say getting up before the sun is – it ain't no secret but it's been good for our team and then just daily and weekly planning.

[0:19:19.5] WS: That's incredible that you bring that up. It was life changing to me once I had determined – I was determined to get up at like 4:30 or 5:00 every morning. My wife and I both, we have done it now for a few years and I heard a guy on the show not too long ago, he talked about how – I haven't forgotten this, he said, "You know, getting up at five instead of like seven or 8:00 in the morning gives you almost another month in your year," you know?

I was like, "Wow," you know, think about that time that you're gaining and you just highlighted it there and definitely a great example of making that happen. What about your best source for meeting new investors right now?

[0:19:51.0] FN: Really it's I've got my podcast, The Mobile Home Park Lawyer Podcast, so that's brought a ton of people. I mean I wish I had enough deal flow for the investor flow. I've

[inaudible 0:20:01] in Kansas City. I am on the CCIM board and have been on the board of Urban Land Institute. I know other real estate professionals in the local market but through LinkedIn and through the podcast, my network has become national so people call me.

Some people, you know, they're not on my investor list. I don't have a hundred million dollars of deals coming out of the pipe, so I don't – there's family offices and some of the guys they call, I don't know if they're, they seem like they are when they call, "I've got 30 million I need to place by the end of the year, can you help me out?" Like, "Not to that scale. I wish I could." So this is such a unique asset class that there's not a lot of syndicators out there that are doing it.

I think my educational background has helped me on that, where a lot of the guys in the field, not to disparage them, but they were flipping houses six months ago and now they're syndicating and when I say, you know, I was working – I worked on the biggest project in Kansas City, \$600 million project three years ago, you know? I was doing complex real estate. Now I am doing syndication in the mobile park. It gives these guys a level of comfort and they're appreciative of that.

It was deliberate, you know we've done, I've probably been involved in and 30 projects and between retail and MHP and never lost money on any of them, so far so good. That helps too.

[0:21:11.7] WS: Sure. What's the number one thing that's contributed to your success?

[0:21:15.1] FN: I think just the focus on exceptionalism. My mentor at the law firm said, "We have three rules here: Practice exceptional law, have fun, make money." If you practice exceptional law, people are going to love you, your clients are going to love you, you're going to do great projects, it is going to be fun. If you're practicing law and you're having fun, people are going to be coming at you, wanting to hire you, you're going to make money.

Don't focus on the money, focus on exceptional legal work. We do that from a planning, from operations, from our financial underwriting and then on the legal business, I got a couple new lawyers working for me and I'm just like pounding into them like you can't – a comma off it's wrong, it's not close. If you do the math, a penny off is not close, it's wrong. We make mistakes like everybody else but to not make the same mistake twice is the key.

[0:21:55.3] WS: How do you like to give back?

[0:21:56.7] FN: Well, I mean it depends on the time in my life. I mean right now, you know I am involved in men's groups, church group, I'm Catholic, we tithe 10% of our income. I give lots of legal advice and business advice to friends and family, consulting sometimes for free. In the past, I've done things like lead men's ministry, Big Brother, Big Sister program. Right now, I'm [inaudible 0:21:14] with the kids. I'm really just focusing on our family and our ministry with other families and in this group right in Kansas City called Domestic Church.

My wife and I are leading that this year and it's really been good. I'm on boards and some boards and stuff too but I feel like that's quasi giving back, quasi business development so I guess I don't count it the same way.

[0:22:35.5] WS: Sure, grateful for your time and just sharing your expertise about mobile home parks. I love how you just mentioned earlier too like to not make the same mistake twice is key and we're all going to make mistakes numerous times but hopefully we're not making the same one over and over, right? Thank you for bringing that out as well. How can people get in touch with you and learn more about you?

[0:22:52.7] FN: My website is themhplawyer.com. That is probably the easiest way to find me. I am on LinkedIn and other stuff. My email is ferd@dmhplawyer.com, any of those ways will work.

[0:23:06.3] WS: Awesome, that's a wrap Ferd. Thank you very much.

[0:23:08.7] FN: All right, thank you. I appreciate it.

[END OF INTERVIEW]

[0:23:09.9] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

[0:23:50.8] ANNOUNCER: Thank you for listening to the Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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