

Double-Wide Returns

FORMER WALL STREET BANKERS AND
PRIVATE-EQUITY FIRMS ARE
JOSTLING FOR POSITION IN AN UNLIKELY
ASSET CLASS: **TRAILER PARKS.**

BY ANTHONY EFFINGER AND KATHERINE BURTON

PHOTOGRAPHS BY NOLAN CONWAY

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A colorful sampling of **mobile homes** from Little Texas, Dan Weissman and David Shlachter's park in Austin



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WHEN DAN WEISSMAN WORKED AT Goldman Sachs Group Inc. and, later, at a hedge fund, he didn't have to worry about methamphetamine addicts chasing his employees with metal pipes. Or SWAT teams barging into his workplace looking for arsonists.

Both things have happened since he left Wall Street and bought five mobile home parks: four in Texas and one in Indiana. Yet he says he's never been so relaxed in his life.

Weissman, a University of Michigan economics graduate, attributes his newfound calm to the supply-demand equation in the trailer park industry. With more of the U.S. middle class sliding into poverty and many towns banning new

trailer parks, enterprising owners are getting rich renting the concrete pads and surrounding dirt on which residents park their homes. "The greatest part of the business is that we go to sleep at night not ever worrying about demand for our product," Weissman, 34, says. "It's the best decision I've ever made."

Better yet, Weissman says, the field isn't packed with the hyperdriven geeks and MBAs who crowd technology and finance in the San Francisco Bay area, where he and David Shlachter, his business partner and brother-in-law, both live. "You've got a lot of really smart people trying to come up with a better way to put a calendar on an iPhone," says Shlachter, 32, who has a master's degree in development economics from Harvard's Kennedy School of Government. "We'd rather sit at a different poker table, where none of those people dare to go because it doesn't sound good at a cocktail party."

Weissman and Shlachter are part of a white-collar exodus to rougher

industries, as investors seek yield amid chronically low rates or steady income after being cast out from finance or law. Steven Uster, a former investment banker at Zurich-based UBS AG, moved back to his native Toronto to start Zillidy Inc., an online lender that charges as much as 2.99 percent a month, or 35.9 percent a year, loaning against jewelry, watches and gold. In 2009, Ed Vasser left his job at a hedge fund and started investing his own capital in a wide range of down-and-dirty investments, including subsidized housing, storage units and tax liens. He's in the midst of buying part of a truck wash. "I like to say I turned in my Rolex for a pinky ring," Vasser says.

The economics of mobile homes are particularly alluring to folks who've made their living in the markets. Many counties in the U.S. have banned or discouraged construction of new trailer parks because the inhabitants are poor,

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Weissman, left, and **Shlachter** show off a home at their Austin trailer park.





A tree-lined street through **Little Texas**, which was renovated by its new owners

pay little in taxes and drain resources. Yet demand is higher than ever, new investors in the parks say, because so many people never got back on their feet after the recession.

David Protiva, a former mortgage-backed-bond salesman at Kidder, Peabody & Co. and Donaldson, Lufkin & Jenrette Inc., now owns four trailer parks in Georgia. He's noticed that until 2008, most people coming into his parks were moving up; they owned nothing before buying a trailer. Since 2009, half of his residents have come to him from conventional homes, moving down, he says.

Roughly 6 percent of Americans lived in mobile homes in 2012, according to the U.S. Census Bureau. Until recently, billionaire Sam Zell and a few other investors who run real estate investment trusts had the market to themselves. "We like the oligopoly nature of our business," Zell said on a 2012 analyst conference call for his Chicago-based Equity Lifestyle Properties Inc., which owns 71,500 trailer sites. Warren Buffett targeted the industry more than a decade ago when he purchased Clayton Homes Inc., the largest manufacturer of mobile homes. Now, private-equity firms are starting to prowl the parks. Carlyle Group LP bought two in Florida in October for a combined \$31 million. Both are high-end senior parks, where tenants must be 55 or over, and one is just steps from the Atlantic.

The new tycoons in the business are professionals like Weissman and Shlachter, who are willing to buy smaller, sometimes squalid parks, where tenants have damaged credit and maybe criminal records. The sellers are often mom-and-pop owners who set up the parks in the 1960s and 1970s and have little incentive to improve them because tenants can't afford to leave. One Colorado owner bragged to Shlachter about never plowing the snow, which saved him money. "It's hairy, and it's colorful, and it's sometimes scary," Shlachter says.

Weissman and Shlachter take pride

THE JAFFA PARKS OWNERS SAY THEIR NEW LIFE IN CHEAP HOUSING IS RICHER. 'IT'S HAIRY AND COLORFUL AND SOMETIMES SCARY,' SHLACHTER SAYS.

in improving the lives of residents in some of the more rundown parks they've bought. And they say owning trailer parks has taught them what it's like to be poor in America. Many tenants can't get bank accounts because they have wretched credit. Instead, they use prepaid debit cards that charge a fee of as much as \$4 to load just \$20 onto them. "It's expensive to be poor," Shlachter says.

The biggest eye-opener, they say, has been finding so many capable people banished to poverty by a stupid mistake, like getting busted for drugs. Weissman and Shlachter hire those people as managers, with, they say, excellent results. They give them incentives for collecting 100 percent of the rents on time and for finding tenants for vacant sites. "Nothing makes us happier than cutting bonus checks," Weissman says.

Frank Rolfe and his partner, Dave Reynolds—Frank and Dave, as they're known in the industry—say the 20 percent return many parks throw off annually is enough to get the genteel set over the idea of owning a community of ramshackle double-wides—extra-wide trailers that have to be transported in halves. Rolfe and Reynolds own 100 parks in 16 states and also run the Mobile Home University, an academy that holds three-day boot camps for aspiring trailer lords for \$1,999 a person. An increasing number of his students, Rolfe says, are bankers and engineers.

The beauty of a trailer park—for its owner, anyway—is that once a tenant trucks a home to a site, then lowers it onto a pad, as it's known in the business, and hooks up to the electricity and septic systems, he's unlikely to leave. It costs at least \$5,000 to move a home, a sum that trailer dwellers rarely accumulate more than once, Rolfe says. "We're like a Waffle House where ev-

eryone is chained to the booths."

One of Rolfe's former pupils is Jefferson Lilly, who has an MBA from the University of Pennsylvania's Wharton School and is a former Bain & Co. consultant. Lilly, 46, spent 10 years selling software for various tech firms, including MBlox Inc., a company that makes mobile-phone texting systems. Then he got sick of it. In March 2007,

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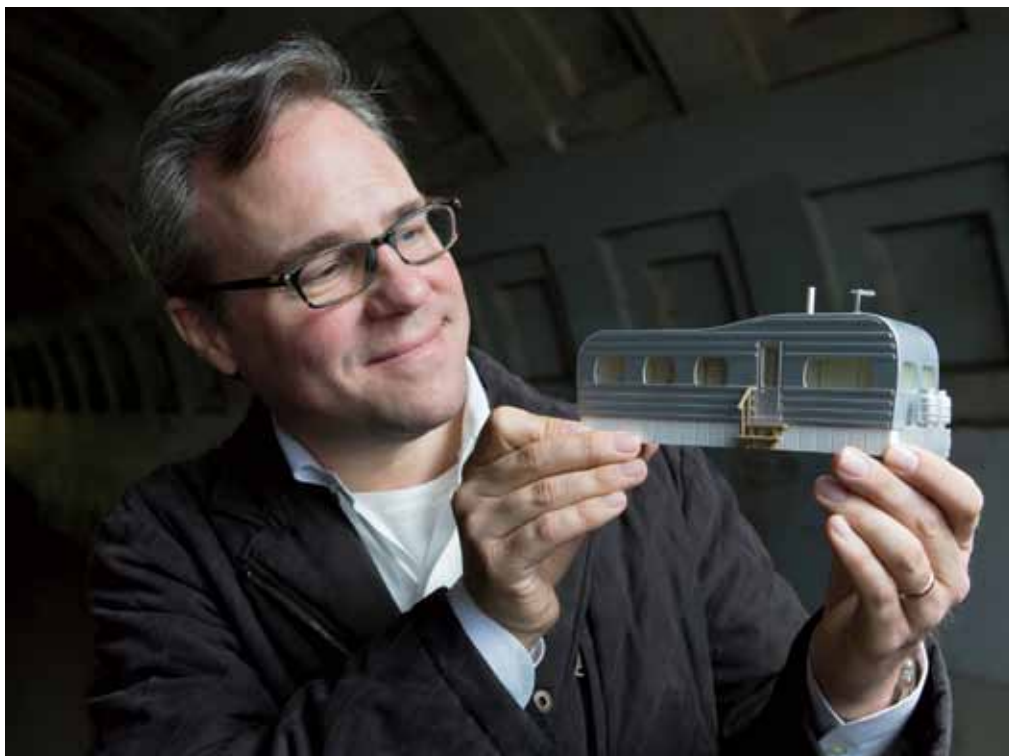
after countless hours of prospecting, he found, on EBay, a 66-pad park in Slaughterville, Oklahoma, 1,600 miles (2,600 kilometers) from his apartment in San Francisco. “I went from mobile phones to mobile homes,” Lilly says. “I never thought I’d be Slaughterville’s largest landlord. If you’d told me that while I was at Wharton getting my fancy MBA, I would have said you were nuts.”

Lilly bought a second, 20-pad park in Tuttle, Oklahoma—this time off Craigslist. It’s on a hillside with a dirt road and a smattering of trees. Visiting it one frigid night in February, Lilly discovers water leaking from one of the homes. His manager and two residents struggle to get it stopped. As they work, an oil well in the next field vents sulfurous gas that drifts over. Yet residents stay, in part because they can send their kids to Tuttle’s schools, which are among the best in the region, he says.

Lilly will take tenants who’ve been through bankruptcy as well as felons. Just no violent ones or child molesters. “I’m the Wal-Mart of housing,” Lilly says. “Nobody can undercut me.”

The key measure in mobile homes, as in all rental real estate, is the capitalization, or cap, rate. It’s the amount of income a property throws off from pad rents, minus mortgage payments and other costs, divided by the price of the property. Nationwide, rents average about \$390 per pad per month, according to real estate researcher JLT & Associates. So if a mobile home park is worth \$1 million and nets \$70,000 from rent annually, it has a cap rate of 7 percent. Rolfe and Reynolds aim for a cap rate of 9 to 10 percent when they buy.

The way to instant profits is to find a distressed park—a place where rent checks are late, water meters don’t exist and trailers date from the 1980s or 1990s—buy it cheaply and turn it around. At the Tuttle property, which cost Lilly \$280,000 to buy in 2013, the previous owners had paid the water bill.



Jefferson Lilly says he ‘went from mobile phones to mobile homes.’

Lilly installed meters on each trailer so the renters could pay for their own water usage—saving him about \$13,000 a year.

Sometimes parks need what Shlachter calls a “cultural reset” to get people to pay their rent on time and take care of their homes. He and Weissman have instituted a late fee of \$40 if they don’t get a check by the sixth of the month and another \$40 if the money still isn’t there by the 16th. They mow the grass around tenants’ pads if it gets too high and then charge them.

The pair also tries to make life better in their parks. Nita Holcomb, 80, who has lived in Little Texas, their 73-pad park in Austin, since 1995, praises the two men for putting in speed bumps and fixing 3-foot-deep (1-meter-deep) potholes. They’ve landscaped the yard in front of the clubhouse. They hold block parties and hand out school supplies to kids. Their goal is to instill pride of ownership, which helps them, too. “We want our kids to own these things,” Shlachter says.

Weissman and Shlachter call their company Jaffa Parks LLC, named for a neighborhood in Tel Aviv that they

both love. Weissman, who’s originally from Seattle, worked at Goldman from 2002 to 2004 before joining Chicago-based TradeLink Holdings LLC, where he traded stocks for a hedge fund. He hated the hours and the stress, so in 2009 he moved to the Bay area and set up his own investment firm, managing money for friends and family while he scouted new industries.

Shlachter, who’s from Portland, Oregon, was working in Israel at Better Place Inc. when he and Weissman started talking about going into business together. Better Place was in the midst of spending \$850 million in equity capital trying to build charging stations for electric cars. The company went bankrupt last year.

When they got together in 2010, Weissman and Shlachter looked for a business that was unsexy and fragmented, with operations that could be run by deputies. Shlachter is a big-wave surfer, which requires being available when the swell



DIGGING FOR GOLD IN A TRAILER PARK

Jefferson Lilly paid \$280,000 for Tuttle Estates, shown here, a 20-pad park in Oklahoma. He's made a number of changes to boost revenue:

1. Increased lot rents by \$25 a month.
2. Repaired mobile homes and negotiated rent-to-buy deals with the tenants.
3. Began charging residents for the water they use, saving \$13,000 and reducing water use by 25 percent.
4. Renegotiated the contract for garbage pickup, saving \$2,000.
5. Expects to increase annual profit from \$29,000 to \$68,000, raising the cap rate for the project to 24 percent from 10 percent.

Source: Jefferson Lilly

hits. "The litmus test was if we told someone at a cocktail party what we do and their response was a grimace, we were on the right track," Shlachter says.

A family friend had made a fortune in roller rinks, so real property enticed them. They settled on trailer parks and started a long, hard search. Many of the nicest parks are owned by Zell or another big player. The smaller parks are often neglected slums.

In Fort Worth, Texas, a woman with the e-mail name spaceylacey0420 was selling a park that looked promising, save for the sewage it drained into a nature preserve. In Banning, California, a barista at the local Starbucks—which was, strangely, out of milk—told Shlachter to get out of town because there was "nothing good" there.

Finally, in November 2012, they closed on a 191-pad park in Odessa, Texas, called the Vista West Mobile Home Ranch. They were finally park

owners. Then, Highland Estates, a park in Indianapolis with 159 pads, popped up. They flew out and looked it over. It was a 78-acre (32-hectare) dystopia. More than 70 homes were abandoned, and some of them contained evidence that the former residents had cooked meth. They went for it anyway. "These things are hard to find," Weissman says.

Two hours after the deal closed, while Shlachter was heading out to surf on the California coast, the park

manager called to tell him his new asset had made the national news. A SWAT team had descended on one of the trailers, whose owner was suspected of blowing up a house nearby for the insurance money and flattening part of a subdivision in the process, killing two. The trailer owner and two others were charged with arson and murder.

Later, a squatter on meth chased the park manager with a metal pipe. The county health department delivered a stack of violations 8 inches high. "When you stop maintaining anything, it goes bad," Shlachter says. "When you stop maintaining a mobile home park, it goes real bad, real fast."

Jaffa paid a local scrapper to stuff 60 of the abandoned, vandalized homes into a compactor at \$1,800 apiece. They bought a backhoe to fix sewer lines and landscape the place and brought in 23 brand-new homes and rented them. They renovated 14 others, fixed up the clubhouse, refurbished the pool and raised rents. Jaffa paid \$485,000 for the park, including back taxes, and made \$250,000 in improvements. The owners expect to earn \$150,000 in 2014—and the place is only 40 percent full.

These days, Weissman and Shlachter are looking to get bigger. They're eying a \$17 million park in a location they decline to disclose. "We're ready to step up to the big leagues now," Weissman says. "But we couldn't have done it without getting our hands dirty. Very dirty."

Soon, Jaffa Parks will have a new office in Mill Valley north of San Francisco. It's many tax brackets away from the pair's trailer park in Austin. Weissman and Shlachter say they appreciate their lives more now that they've seen how the other half lives. And when they meet new people at cocktail parties, many of them creating apps for mobile phones at companies in San Francisco, they say that they're in mobile, too.

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