MARINA MOBILEHOME REPORT

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A Report Commissioned by the City of Marina

[The information and opinions presented are the views of the author, not the City of Marina, informants, or any of the stakeholders.]

EXECUTIVE SUMMARY

This report describes economist Michael St. John's findings about mobilehomes, mobilehome park residents, space rents, and mobilehome values in Marina, California. The findings are based on survey responses by residents and park owners, interviews with stakeholders and others involved in the mobilehome market, and mobilehome sales data.

The report is responsive to the Marina City Council's search for information and perspective on mobilehome space rents. It addresses the insecurity some mobilehome residents feel about space rent increases – insecurity triggered by fairly major space rent increases at one Marina mobilehome park in 2007.

The report finds that space rents in Marina are moderate. Space rents in Marina are lower than space rents elsewhere in Monterey County. Space rents in four out of five parks have increased by less than the consumer price index for apartment rents (CPI-Rent) over the past twenty years. Even the relatively high space rents at the highest rent park are not higher than space rents in some parks in Salinas and elsewhere in Monterey County.

The report finds that mobilehome values, on the other hand, have increased in the past twenty years by more than the both the CPI and the CPI-Rent index, such that sales prices in some cases exceed the intrinsic value of the mobilehomes.

Mobilehome values and space rents are inversely related. Leaving market fluctuations aside, high space rents tend to decrease mobilehome values and low space rents tend to increase mobilehome values. To assure market stability, mobilehome values and space rents should be in balance. The report finds that the mobilehome / space rent market in Marina may be out of balance in the sense that increases in mobilehome values have, over the past 20 years, exceeded increases in space rents.

The report concludes with the following recommendations:

1. That the City sponsor a transparent, inclusive process involving all stakeholders in order to work out a cooperative solution to residents' insecurity regarding mobilehome space rents and mobilehome values.

2. That the City, mobilehome park residents, and mobilehome park owners explore the possibility that a renegotiated memorandum of understanding (MOU) and model lease would bring stability and balance to the mobilehome market.

3. That the City abandon the proposal to re-zone mobilehome parks and continue to seek locations for additional mobilehome park space outside the downtown revitalization project area.

4. That the City cover the administrative costs and consider making a matching contribution to a rent subsidy program funded by park owner contributions of 3% of gross space rentals, in order to address the income needs of the lowest-income mobilehome park residents.

EXECUTIVE SUMMARY

TABLE OF CONTENTS

SECTION 1 – INTRODUCTION

1.1 Background

In response to residents' concerns about major rent increases in one mobilehome park, the Marina City Council decided in the Fall of 2007 that it would look into the status of mobilehome residency in the City. Some residents felt at the time that the "Memoranda of Understanding" (MOUs) that had been in place for several years were no longer working, and that Marina should adopt rent control. It was determined that the City would conduct surveys of residents and park owners. Kenneth Baar and Michael St. John were hired as consultants to review the survey results, collect other relevant information, and write independent reports. Baar and St. John would then comment on each other's report and all of this material would be transmitted to the City Council. This is the initial St. John report.

1.2 Key Questions

It may be useful, at the outset, to articulate the questions that the City Council might want to consider in this context. I will address the following questions in the body of the report and summarize the answers in the final section.

1. Are the mobilehome space rents in Marina too high, too low, or about average?
2. Is there a problem about space rents that the City of Marina should address?
3. Are the prices at which mobilehomes are selling reasonable, considering the overall market?
4. Is there an actual or perceived problem that rent control might address?
5. Has something changed from the situation that has prevailed, without rent control, for many years?
6. Are park owners in any way exploiting the "captive" nature of the mobilehome / mobilehome park relationship?
7. Are mobilehome residents more financially challenged than homeowners or apartment dwellers in Marina?
8. Is it possible or likely that space rents in Marina would increase significantly in the foreseeable future as they have in some surrounding communities?
9. How do mobilehome parks fit into Marina's plans for future development, including plans for creating and preserving affordable housing?
10. What might be the effects of rent control on residents, park owners, taxpayers, and the City of Marina?
11. How do the costs of mobilehome residency compare to the costs of living in a single-family home or an apartment in Marina?
12. Are there alternative programs that might balance the market and address financial insecurity more effectively than rent control?
13. Are there mobilehome residents for whom paying space rent is a financial burden?

1.3 Stakeholder Concerns

The space rent topic causes stakeholders to be fearful – for reasons that are understandable.

- **Residents are fearful that space rents will increase so much that they will be forced to leave their homes. Residents are also fearful that, with higher rents, their homes will lose value or that they will be forced to abandon them or sell for salvage value. These fears are understandable, given that this has happened recently in mobilehome parks in other communities in Northern California.**

- **Park Owners are fearful that rent control may come to Marina. Park owners know that rent control routinely "goes too far" by regulating rents so strictly that rents cannot keep up with inflation and by not allowing the pass-through of property tax increases and major improvements. Park owners believe that, under rent control, the values of mobilehomes will increase and the values of parks will fall. Park owners also observe that rent control is administratively burdensome, tends to divide communities into warring factions, and is prone to costly litigation.**

- **City officials are concerned that the administration of rent control would be costly and would take City resources from other needed projects. The City is engaged in several development projects that have the potential – in the words of the City's vision statement – to allow Marina to "grow and mature from a small town bedroom community to a small city which is diversified, vibrant, and …self-sufficient." A City divided by rent control arguments and burdened by rent control litigation doesn't fit this vision well.**

1.4 Marina, California

A study of housing in Marina should take into account Marina's history and, looking forward, its development plans. Marina was at one time a bedroom and service community linked to Fort Ord. The closure of Fort Ord in 1994 caused major economic dislocations. Marina's population declined at that time by 27%.

Now the City is redefining itself, and has major development plans underway. The City's vision and mission statements say that

> ***"Marina will grow and mature from a small bedroom community to a small city which is diversified, vibrant, and through positive relationships with regional agencies, self-sufficient. The City will develop in a way that insulates it from the negative impacts of urban sprawl to become a desirable residential and business***

community in a natural setting." [1]

"The City Council will provide leadership in protecting Marina's natural setting while developing the City in a way that provides a balance of housing, jobs and business opportunities that will result in a community characterized by a desirable quality of life, including recreation and cultural opportunities, a safe environment and an economic viability that supports a high level of municipal services and infrastructure." [2]

Among the ambitious projects now under consideration or in development are:

- a downtown revitalization project
- several major development projects including housing, retail space, office space, civic facilities, parks, and open space
- further expansion of CSU Monterey Bay

It is anticipated that the population of Marina (25,101 in 2000) may double in the coming 25 years.

The Housing Element of the Marina General Plan puts significant emphasis on the development and preservation of affordable housing. The City has enacted or is in the process of enacting "inclusionary zoning" – a requirement that 20% of new housing be affordable to low and moderate income residents. The City is also ensuring affordability by planning for smaller homes on smaller lots, townhouse residences, and apartments, all of which would be "affordable by design" and therefore more affordable than large single family homes on standard size lots.

Marina's Housing Element addresses mobilehomes in two sections:

- Policy 2, Program E proposes that additional land will be zoned for a new mobilehome park.

- Policy 6, Program A proposes that the land under existing mobilehome parks be re-zoned so that mobilehome park is the only allowed use.

The City hasn't taken steps to reserve vacant land for mobilehome park development, but the City seems to be moving forward on the plan to freeze existing mobilehome space in perpetuity. It would appear, however, that this intention conflicts with some of the goals of the downtown revitalization project. Two parks, El Rancho and Marina Del Mar, are within the Downtown Specific Plan area. Both are within a few hundred feet of Reservation Road and therefore might someday be better used for more intensive development. Leaving the zoning as it is wouldn't by itself cause more intensive development of this prime downtown land, but it would leave open that possibility. Nothing is forever in this world.[3]

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[1] Vision Statement, Marina City Council Resolution 2006-112, May 2, 2006.

[2] Mission Statement, Marina City Council Resolution 2006-112, May 2, 2006.

[3] Marina's General Plan, in an earlier version, mentioned the land under the downtown mobilehome parks as appropriate for commercial development, but that section was deleted in a later version of the General Plan.

1.5 The Mobilehome Parks in Marina

There are five mobilehome parks in Marina. Three are senior parks. Two have no age restrictions. Four parks are clustered in the downtown area off Reservation Road. One is at the northwest end of town on Del Monte. All of Marina's parks were built about fifty years ago, long before Marina saw itself as a future city or engaged in meaningful city and regional planning. Three have a clubhouse but no pool. Two have a pool but no club house. One has street parking; four have off-street parking. Marina's parks are moderate in size, ranging from 61 to 96 spaces. Marina's mobilehome parks have a total of 396 spaces that house approximately 721 people. Information regarding Marina's mobilehome parks is summarized in the following table.[4]

MARINA'S MOBILEHOME PARKS												
			all		single	double	triple	year	purchase	club	street	
PARK	**OWNER**	senior	age	spaces	wide	wide	wide	built	date	house	park	pool
Cypress Square	Albert Vieira	X		87	8	76	3	1961	1993	yes	no	no
347 Carmel Ave.												
El Camino	Albert Vieira		X	61	14	47	0	1962	2002	yes	no	no
3320 Del Monte												
El Rancho	Michael Tate	X		96	78	18	0	1958	1958	yes	no	no
356 Reservation												
Lazy Wheel	Ken Waterhouse		X	69	40	29	0	1965	2007	no	yes	yes
304 Carmel Ave.												
Marina Del Mar	Bill & Sue Denhoy	X		83	58	24	1	1958	2005	no	no	yes
3128 Crescent												
	total:			396								

Source: Marina Park Owners' Survey

[4] The information comes from responses to the Park Owners' Survey, Appendix 2.

1.6 Organization of this Report

The report is organized into six sections:

1. Introduction
2. The Mobilehome / Mobilehome Park Arrangement
3. Mobilehome Rent Control
4. Alternative Solutions
5. Space Rents, Home Values, and Mobilehome Affordability in Marina
6. Conclusions and Recommendations

Section 2 explains the legal and economic arrangements governing mobilehome residency, and sets out the dynamics underlying the insecurity residents feel about space rent increases.

Section 3 discusses mobilehome rent control as a possible solution to residents' insecurity about space rents and home values.

Section 4 lists alternatives to rent control that can address space rent insecurity.

Section 5 describes findings regarding mobilehomes, mobilehome residents, space rents, and mobilehome values in Marina.

Section 6 sets out conclusions and recommendations following from the analysis.

SECTION 2 – THE MOBILEHOME / MOBILEHOME PARK ARRANGEMENT

2.1 Mobilehome Parks – Historical Overview

Some mobilehome parks in California were built intentionally as mobilehome parks, but many are parks by accident, so to speak. These parks were originally developed for mobilehomes as a transitional use, much as vacant land in cities is often used for car and truck parking while development plans are in process. It was assumed in these cases that the land would be used for mobilehome housing for a time and then further developed at some point in the future. Many parks were built under this assumption with conditional use permits. Utilities in these cases were installed by the parks themselves, not by PG&E, and not to PG&E standards. Similarly, roads within parks were often built to lower standards than other city streets. Cities for many years disfavored mobilehome parks because some parks tended to be run-down and because mobilehome parks didn't add much to the tax base.

But cities then came to understand that mobilehome parks serve usefully as affordable housing for low-income residents. For the last 20 years or so, cities have paid attention to affordability of housing, and in this context mobilehome parks have come to have a more valued place among cities' housing resources. Cities today are therefore reluctant to see mobilehome park land developed more intensively. Some cities even take the additional step of re-zoning mobilehome park land from general residential use to mobilehome park use, making intensive development more difficult or impossible.[5]

The problem is that mobilehome parks, if they are to provide permanent housing, need large investments in critical infrastructure: utilities, roads, sewer systems, and so forth. But the cost of these investments will have to be met somehow, and this requirement doesn't match the need for affordable housing. "Affordable" rents, valued for that reason, don't support the investments that will be needed to upgrade the crumbling infrastructures within many mobilehome parks. This is a problem that cities and counties need to consider thoughtfully as they craft workable affordable housing policies.

2.2 Space Rents – What's At Issue?

The economics of mobilehome residency rests critically on the interaction of rents and mobilehome values. The mobilehome park arrangement is unique among housing alternatives in that the resident owns the home but rents the land. Owners of single family homes own the land <u>and</u> the home. Apartment renters own neither. Condominium owners own their condominium and own the underlying land jointly with other condominium owners. In a mobilehome park, in contrast, the resident home owner owns the home but the park owner owns the land. The split ownership in the case of mobilehomes in mobilehome parks raises some sticky issues.

Economic theory explains that mobilehomes and the pads they sit on are "complementary goods"

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[5] The City of Santa Cruz, for example, enacted restrictive mobilehome park zoning along with restrictive mobilehome rent control. The rent control program proved unworkable and was repealed. The zoning restriction has not prevented the largest park from gentrification and loss of affordability.

that have to be used together to be useful. Homes without a pad or a pad without a home are basically useless. It is the combination that is useful. The combination (a mobilehome on a pad) provides housing just as single-family homes, apartments, and condominiums provide housing. The combination is provided jointly by home owners, who pay for the homes themselves, and by the park owner, who pays for the land, streets, utility systems, and other infrastructure elements. The total combined home owner investment in the homes in a park is typically on the same order of magnitude as the investment of the park owner in the park itself.

The total housing payment that residents will be willing to make for an apartment is its rent. The amount that residents will be willing to pay for a single family residence is the sum of the mortgage, the property taxes, and other costs of homeownership. The amount that residents will be willing to pay for a condominium is the sum of the mortgage, the homeowner association dues, property taxes, and other costs of ownership.

The amount that residents will be willing to pay to live in a mobilehome park is the sum of the mortgage, the rent, and other costs of ownership. In the most basic terms, living in a mobilehome park involves payment of rent and purchase of the mobilehome. It is logical that when the rent is low, more can be paid for the mobilehome. Alternatively, as the rent increases, less can be paid for the mobilehome. A mortgage payment of $300 per month plus a rent of $400 per month, for example, sums to total monthly housing payments (ignoring insurance, property taxes, utilities, and the cost of maintenance) of $700 per month. If the home is worth more, and therefore has a higher mortgage, but the rent is lower, the combination could also be $700. Likewise, if the home is worth less, and has a lower mortgage, but the rent is higher, the combination could still be $700. A new resident wouldn't care, presumably, about the mix, only the total. This dynamic can become problematic in two ways.

1) If the park owner raises the rent, the values of mobilehomes in the park will fall.

2) If rent control lowers the rent, the values of mobilehomes in the park will rise.

The rent–value tradeoff also impacts the park owner. The values of income-producing assets (like apartment buildings and mobilehome parks) are dependent on the rents. If rents increase, the value of the park increases. If rents decrease, the value of the park decreases. Therefore,

1) If the park owner can raise the rents, the value of the park will rise.

2) If rent control lowers the rents, the value of the park will fall.

So we see that rent levels affect mobilehome owners and park owners in opposite ways. If rents rise, the value of the park rises and the values of mobilehomes fall. If rents fall (because of rent control, for example), the value of the park falls and the values of mobilehomes rise.[6]

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[6] Space rents don’t often actually fall. In an inflating economy, rent increases less than inflation are equivalent to rent decreases. Rent control doesn't usually lower rents. Rent control prevents rents from increasing overmuch. When rent controls are too restrictive, they force the real, inflation-adjusted value of rents to decline. It is in this sense that rents can be said to "fall" under rent control.

The relationship between rent and value is explained in economic theory by the concept of "capitalization". Rents (adjusted by expenses) are the "return" that can be achieved by a productive asset. As rents increase (or decrease), the value of the asset increases (or falls). Changes in rent are said to be "capitalized" into the value of the asset. Asset value, in other words, reflects changes in the rents (the return). The ratio between return and value is known as the "capitalization rate", often called "cap rate" for short. Cap rates vary over time. If the cap rate is 8% and the expense ratio 30%, for example, a rent increase of $100 per month would lead to an increase in value of $10,500.[7]

But rent adjustments have opposite effects on mobilehomes and mobilehome parks. Leaving other influences aside, rent increases will tend to decrease the value of mobilehomes but increase the value of parks. Conversely, rent decreases will tend to increase the value of mobilehomes but decrease the value of parks.

In recent years the capitalization rate has been unusually low, suggesting that, today, a rent increase of $100 per month would cause the value of mobilehomes to fall and the value of the park to rise by something like $20,000 per space. Conversely, rents that are below market by $100 per month would cause the value of mobilehomes to rise and the value of mobilehome parks to fall by something like $20,000 per space.[8]

This being so, it is clear why mobilehome owners and park owners feel so strongly about what space rents should be. It is also clear why mobilehome owners urge cities and counties to adopt rent control and why park owners oppose the imposition of rent control. Since rent levels affect the values of the mobilehomes and of mobilehome parks, rent levels are especially meaningful in the mobilehome context.

The rent-value dynamic doesn't exist in the case of apartments. The costs of moving from one apartment to another are relatively low. If the property owner raises the rent above the rent charged for similar apartments, tenants will move out. This imposes market discipline on property owners. An owner who increases rents too much will end up with a vacant building.

It is true that apartment rent control, by lowering the rents of apartments, can lower the value of apartment buildings, just as mobilehome rent control can lower the value of a mobilehome park, but California state law now says that, even when there is local rent control, apartment rents may rise to market on vacancy.[9] The impact of rent control on the value of apartment buildings is muted by vacancy decontrol. Rents always return to market levels eventually.

In the case of mobilehome parks, in contrast, the cost of moving is high. It has been said that the cost of moving and setting up a typical mobilehome is $10,000 or more. In addition, and more important, is the fact that there is nowhere to move a used mobilehome to in most cases. Most

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[7] Rent of $100 per month implies net income of $70 per month, which implies net income of $840 per year. $840 / .08 = $10,500.

[8] The capitalization hypothesis has been addressed in several studies. See St. John (1989), Mason and Quigley (2007), Hirsch and Hirsch (1988), and Zheng and Dale-Jorgenson (2007).

[9] The Rental Housing Act of 1995, otherwise known as "The Costa-Hawkins Act", mandates vacancy decontrol for all jurisdictions that control apartment rents. Costa-Hawkins doesn't apply, however, to mobilehome rent control.

parks are full, and when there is a vacant space, most park owners will only accept a new mobilehome. The option of moving the mobilehome when rents are raised too much is therefore not realistically available to mobilehome owners. And the option of moving out, leaving the mobilehome behind, is constrained by the fact that higher rent lowers the value of the mobilehome, so that mobilehome owners face the prospect of losing a portion of the value of their home if they move out and sell the home when the rent increases. It can be said that mobilehome owners are "captive" in this sense, or that the park owner, for these reasons, has a kind of "monopoly power".

Rent control also works differently for mobilehomes. The state law that says that the rent on rent controlled apartments may go to market on vacancy doesn't apply to mobilehomes. Therefore cities and counties that impose mobilehome rent control can, and usually do, include vacancy control. Under mobilehome rent control, residents can lobby government for lower rents and for vacancy controls. To the extent that they are successful, residents add to the value of their homes and, at the same time, limit the value of the park. This means that, in rent controlled jurisdictions, the park owners are in this sense "captive" and that the residents, with the help of the jurisdiction, have a kind of "monopoly power".

So here is the relevant question: Can we devise ways to retain the freedom and protect the investments of both parties, mobilehome owners and park owners? Can we arrange a system that prevents excessive rent increases that remove the value of mobilehomes and at the same time prevents the excesses of rent control that deprive park owners of a fair return on their investment or lower the value of parks?

2.3 Examples Of Sudden, Excessive Rent Increases.

Residents' concerns about rent increases that might make space rents unaffordable and decrease the value of their homes are not altogether irrational. There are striking examples not so far distant from Marina.

The Monte del Lago mobilehome community is about five miles north of Marina, in Castroville. The 310-space park was purchased in 1997 by Equity Life Style Properties (ELS), a company that owns many parks and retirement communities nationwide. ELS raised rents significantly soon after purchase, and has indicated that additional increases will be announced. The residents asked the county to enact rent control, but the county declined, citing likely costs of litigation. The Monterey County Housing Authority explored the idea of buying the park, but it was determined that this was not feasible. It is said that rent increases at Monte del Lago have caused many residents to leave the park. The increases are also said to have caused the values of mobilehomes at Monte del Lago to fall significantly.[10]

Mobilehomes in De Anza Mobilehome Park in Santa Cruz, another park owned by ELS, have also been subjected to large rent increases. Santa Cruz had rent control since 1992. Space rents varied from $400 to $750 – a bargain considering the location and quality of the park. ELS

[10] These effects are anecdotal. A detailed study of the effects of rent changes at Monte del Lago would add to our understandings about the relationships between rents and value.

brought a lawsuit asserting that the prices at which homes changed hands - $150,000 to $400,000 for older mobilehomes – included a huge "premium" based on rent control. Homeowners, in effect, were selling the park owner's property, according to ELS. The rent control ordinance included price controls on the sale price of mobilehomes, but residents routinely bypassed the sale price restrictions, and the City didn't enforce those restrictions effectively. When the legal costs approached $1 million, the City negotiated an arrangement with ELS whereby current residents would receive moderate (controlled) rent increases for 34 years, but there would be no control on the rents when current residents left. Rents on vacancy are said to be set now at $3,000 to $5,000 depending on location in the park. Needless to say, with rents like that, mobilehome values are probably near zero.[11]

These examples – and there are others around the state – worry mobilehome residents in Marina and elsewhere. Residents' concern is understandable. But we need to bear in mind that De Anza and Monte del Lago are superlative, luxury parks in extraordinary locations. De Anza is located on a bluff above the ocean within walking distance of downtown Santa Cruz. Some homes there have ocean views. Spaces are large. The setting is peaceful. Monte del Lago feels more like a gated community of single family homes than a mobilehome park. These two parks have more amenities and a far more exclusive ambiance than any of the mobilehome parks in Marina. Many homeowners at De Anza and Monte Del Lago live elsewhere, using their California mobilehome as a second home. It seems unlikely, for these reasons, that huge rent increases would ever be imposed at Marina's mobilehome parks. The market wouldn't support excessive space rents in Marina. The fear that what happened at De Anza and Monte del Lago will happen at Marina's parks, although understandable, is without foundation.

2.4 Examples Of Rent Control Programs That Go Too Far

One also doesn't have to look far to find rent control programs that "go too far".[12] Almost all do. A few miles north of Marina, Santa Cruz County has a particularly restrictive form of rent control. Rent increases in Santa Cruz County mobilehome parks are restricted to 50% of the CPI (Consumer Price Index). That means that the income that park owners receive can't keep up with inflation. But the costs of streets, taxes, repairs and so forth continue to grow at the full CPI. Santa Cruz County has 100% vacancy controls. No rent increase is allowed on vacancy. So park owners in Santa Cruz County watch helplessly while their net incomes decline, year by year. Space rents are in the $200 - $300 range, far below market for Santa Cruz County, and the values of mobilehome parks in the county are frozen or declining.

Meanwhile, as one would expect, mobilehome values in Santa Cruz County are high and rising. Protected by rent control, mobilehome owners enjoy major increases in the value of their homes. Many homeowners in Santa Cruz County rent their mobilehomes to others, making a profit because although there is rent control on the space they rent from the park owner, there is no rent

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[11] The scope of this study didn't allow detailed investigations of communities outside of Marina. The outfall from the end of rent control at De Anza would be a fitting topic of further research.

[12] The phrase "go to far" has special meaning in discussions about economic regulation. First used in a case known as Pennsylvania Coal Co. v. Mahon in 1922, the phrase means that controls which are permissible if they are reasonably limited may, if they "go too far", violate the Takings Clause of the US constitution. See Manheim, p.5.

control on the rent they receive from their tenants.

This situation in Santa Cruz County is clearly out of balance. It is also unstable. Some park owners sue. There has been lots of litigation involving mobilehome parks in Santa Cruz County. Some park owners are said to be planning to close their park permanently. Other park owners are simply buying up the mobilehomes in their own parks, one by one, and then renting them out. Since there are no controls on the rental of mobilehomes, park owners can buy their way out of rent control in this way. Once they do that, the mobilehomes rent for market rents and mobilehome residency loses its affordability. Santa Cruz County has been buying parks itself, but it is not clear that this is a workable solution long-term, or that Monterey County or the City of Marina can afford to do that. The mobilehome situation in Santa Cruz County is fundamentally unbalanced and therefore, in the long run, unsustainable.

2.5 Balanced Space Rent Increases. If space rent increases can sometimes be too high and sometimes too low, what space rent increases would be balanced? What space rent increases would be fair to residents and park owners simultaneously?

- **Space rents must increase at the CPI (the consumer price index) or a bit more than the CPI to cover extraordinary cost increases. Space rent increases below the CPI are really space rent <u>de</u>creases. Space rent decreases lower the value of parks, which is (or should be) impermissible.**

- **Space rents must also (in addition) cover increases in governmental fees and taxes, including property tax increases following the sale of a park. Traditionally, under free market conditions, space rents have been increased to cover these sorts of cost increases.**

- **Space rents must also (in addition) cover major capital improvements. There is no basis for believing that major infrastructure improvements can be handled within the existing rent structure. Traditionally, under free market conditions, space rents have been increased to cover major capital costs.**

2.6 Balanced Mobilehome Values.

The true values of mobilehomes are hard to identify and often disputed. Park owners in rent-controlled jurisdictions often claim that home values are inflated – that homeowners capture and sell part of the value of the park when mobilehome values are high. This is possible, park owners say, because buyers are willing to pay more for a home with low, controlled rents. The prices at which mobilehomes sell in some communities far exceed the intrinsic value of the physical mobilehome. The extra value – value above the intrinsic value of the home alone plus the value of placement on the lot - is called “the rent control premium” or simply "the premium” in these discussions.

Mobilehome owners whose rents are not restricted by rent control, on the other hand, often claim that a part of the value of their home is confiscated when rents are increased. It is true that mobilehome values will tend to fall when rents are increased significantly. There are examples (Santa Cruz, Castroville) where this has happened dramatically.

The controversy about values is made more complex because mobilehome values respond to the market as well as to intrinsic value, condition of the home, and rent levels. In-place mobilehome values increased between 1998 and 2006 partly because the housing market generally was experiencing high inflation at that time. Similarly, in-place mobilehome values are decreasing today along with the entire housing market. The values of single-family homes in Marina have fallen by 30 or 40% in the past two years. It is possible that mobilehome values are not as volatile as the values of single family homes, but the current downturn seems to have affected the values of mobilehomes as well.

Over long periods, the value of mobilehomes should increase by no more than the inflation rate. If space rents increase and home values both increase at the inflation rate, the balance between the investments of residents and park owners is maintained. If space rents increase by less than inflation, it is likely that home values will increase by more than inflation and that the value of the park will increase by less than inflation. Conversely, if space rents increase by significantly more than inflation, it is likely that home values will decrease or will increase by less than inflation, while the park value will increase by more than inflation. Either outcome is unbalanced and in the long run unstable.[13]

Since the sum of homeowners' investments in their homes is in many parks roughly equal to the investment of the park owner in the park itself, it makes sense that homeowners and the park owner should share in any appreciation that the housing market allows. Over time, on average, with fluctuations, the housing market has appreciated over recent decades at slightly more than the inflation rate. Balance will be preserved if space rents increase at slightly above the inflation rate. Space rents increasing in this way will probably allow both mobilehomes and mobilehome parks, assuming that they are well-maintained, to appreciate slightly above the inflation rate.[14]

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[13] Some believe that mobilehomes invariably depreciate and that all increases in value should accrue to the land. But it is apparent in rent controlled and non-rent controlled situations that mobilehomes that are well-maintained commonly do appreciate. Historically categorized as vehicles, mobilehomes today are more like real estate. It seems appropriate, therefore, that mobilehome owners have access to inflation adjustments in the value of their homes.

[14] The prescription "slightly above the inflation rate" reflects the fact that urban and coastal land is a scarce resource that becomes more valuable over time. It also reflects the fact that space rents in many parks reflect the temporary nature of the original infrastructure installations in many mobilehome parks. Space rents may have to increase at somewhat more than the inflation rate in order to make possible important infrastructure improvements if these temporary installations are to be considered permanent.

SECTION 3 – MOBILEHOME RENT CONTROL

3.1 Mobilehome Rent Control In California

There are about 105 cities and counties that control mobilehome space rents in California. There are more than 400 cities and counties with mobilehome parks that don't control space rents. Most jurisdictions in California have no rent control. Of the 5,733 mobilehome parks in California 1,561, or 27%, are rent-controlled. The rest are free market. Of the 379,815 mobilehome park spaces in California, 149,791, or 39.4% are rent-controlled. Most mobilehome spaces in California are free market.[15]

Rent control, in most locations, is not necessary. Mobilehome residency works perfectly well in the hundreds of jurisdictions, thousands of parks, and tens of thousands of mobilehome spaces that have no rent control. There was a rush to institute rent control programs in the late 1970s through the early 1990s. Rent control – a new program that promised something for nothing - was popular at that time. Thereafter, there have been a few jurisdictions that added rent control and several that abandoned it. It is now better understood that rent control is not a balanced solution because it addresses the concerns of residents without addressing the concerns of park owners. More and more frequently, cities and counties that consider these questions are looking for solutions that meet the needs of all stakeholders. More and more often, rent control is understood to be a heavy-handed, one-sided, divisive approach that causes civic conflict, is expensive, and doesn't always keep space rents down. The space rents in rent-controlled Salinas, for example, are higher than most space rents in Marina.

A key problem with rent control is that it is subject to political pressure. In theory, it would be possible to structure rent control programs that would meet the needs of park owners and mobilehome owners simultaneously. But with remarkable consistency, rent control programs tend to “go too far”. Most rent control programs are written from a pro-tenant viewpoint. Programs that are balanced on inception tend to be revised over time in an unbalanced direction. When economic rights become a political matter, it is just too easy for things to slip out of balance. There are, after all, many more mobilehome owners than there are park owners. So local political pressure tends to lean toward residents. Park owners are few in number, sometimes don't live in the same community, and therefore often have no effective voice. It is not surprising that rent control programs too often address the needs of mobilehome owners but neglect the legitimate needs of park owners, and thus, in the end, imbalance the market.

An example (among many) of the pro-tenant drift of rent control is the Santa Cruz County rent control ordinance. Passed in 1982, the ordinance was moderate, providing for 100% of CPI and allowing reasonable increases to cover unusual cost increases. The ordinance was amended 19 times over the next twenty-five years – almost always to make it more restrictive. The ordinance now allows space rent increases covering only 50% of CPI, allows almost no pass-throughs (extra increases to cover unusual cost increases), and controls rents strictly on vacancy. As a result, space rents in Santa Cruz County are in the $200-$300 range, far below market rents for

[15] These figures are based on 1990 Census data and a Housing and Community Development Department (HCD) report dated 10/26/93 and are therefore a bit out of date. The number of mobilehome parks has not changed much since the 1990s, however, so the numbers today are likely not far different from these numbers. Some communities have added rent control since 1990. Other communities have abandoned rent control since 1990. The percentages haven’t changed much.

Northern California.

Another problem with mobilehome rent control that will eventually become critical is that the mobilehome park infrastructure deteriorates over time. Park owners are required to maintain services, but park owners under rent control don’t have the ability or incentive to replace ageing infrastructure. Septic systems, roads, and utilities get old and are subject to failure. Park residents typically argue against the pass-through of the costs of capital improvements. Park owners therefore patch and repair instead of replacing or upgrading. Many parks, for example, were built with 30-amp electrical systems. We all use far more energy than that today. But park owners under rent control can’t afford to upgrade to 100 amp service. Similarly, many parks are served by failing septic systems, but park owners can’t afford to upgrade or to connect to public sewer systems.

Santa Cruz County bumped into the infrastructure problem recently. Having acquired Pleasant Acres Mobilehome Park for $7 million in 2003, the county then found that it cost an additional $4 million to make needed infrastructure repairs. What seemed like a good opportunity to secure 65 units of affordable housing at a reasonable price turned out to cost far more than the County anticipated: $108,000 per space initially and then $62,000 per space in infrastructure upgrades, bringing the cost of each space to $175,000. If this were to be realistically covered by space rent, the rent would have to be something like $1,500 per month – completely incompatible with the affordability goal. It is clear that the taxpayers will be subsidizing the rents of Pleasant Acres residents for a long, long time.

Another problem with rent control is that the rent control subsidy is not targeted. There is no "means testing". Rent control benefits all residents, whether or not they need assistance. It usually benefits even those mobilehome owners who live elsewhere and rent their mobilehome or use it as a vacation home.[16] Many residents can well afford market rents. Some other residents have limited incomes. Rent control, a blunt instrument, doesn’t distinguish between these groups or target assistance to those who need it. Other assistance programs, like the Federal rent subsidy program known as Section 8, the food stamp program, and Medicaid, are much better at targeting assistance to those in need.

Rent control programs tend to dominate local politics. Cities with rent control often become polarized into divided camps. This is particularly true in cities with apartment rent control, like San Francisco, Santa Monica, West Hollywood, and Berkeley, but it is also true in some mobilehome rent control communities, like Escondido and Carson. Rent control is a pocketbook issue that arouses passionate advocacy. Many communities prefer to steer clear of rent control in order to avoid these kinds of partisan battles.

Rent control programs are also expensive. Leaving aside the costs of litigation, a rent control program in Marina would cost something like $250,000 in administrative costs each year. It could cost much more than that. This would put pressure on a City budget that is already tight, if

[16] Some mobilehome owners in Marina use their mobilehome as a second home. Unfortunately, the survey didn't ask this question, so we don't know how many. It is probably not a high proportion, but some think it might be as high as 10%. Most parks prohibit rental of mobilehomes by mobilehome owners, but rentals occur sometimes nevertheless.

the City covered the cost. The costs might be charged to park owners through registration and petition fees. If so, it would be normal to allow the fee or a part of the fee to be passed through to residents in the form of rent increases or a rent surcharge. Fair return principles command that, under rent control, rent control fees that park owners pay are costs that deserve compensation. One way or another, the residents are likely to end up paying at least part of the fee. This would add to the cost of mobilehome residency, undermining the affordability goal.

And then there are the costs of litigation. Rent control has caused an enormous amount of litigation in the past three decades. The legal principles underlying rent control are complex and unsettled, so the same issues are litigated again and again in different forums.[17] The cost of litigation has caused several cities to give up on rent control. The most recent example of this is the City of Santa Cruz, which abandoned its rent control program in 2003 because the costs of litigation became unsupportable. Another example is Hollister, where protracted litigation caused the City, its residents, and the park owners to agree on a model lease program that replaced rent control in 1994.

The most basic issue with rent control is that it burdens a few individuals (park owners) with subsidies that should be paid for by the entire community. Other housing assistance programs, like Section 8, Shelter Plus Care, and first time homeowner programs, are paid for by the taxpayers. The burden is widely spread and shared by all, as public burdens should be. With rent control, the financial burden of public assistance is shifted to park owners alone. Rent control programs are therefore on weak ethical grounds. Forcing park owners to underwrite rent subsidies so that the community can address a perceived problem with affordability is fundamentally unfair and therefore inherently unstable.

This is not to say, however, that communities should not address the economic insecurity that attends mobilehome residency. It is understandable that residents would request rent control when they feel threatened by actual or potential rent increases. There is inherent tension between park owners’ ability to increase rents and residents’ investments in their homes. Any of us would prefer economic security to economic insecurity, especially at a time when the economy is unusually unsettled. But rent control is not the only and may not be the best solution to the bilateral insecurity that accompanies the mobilehome arrangement. It is appropriate for cities such as Marina to listen carefully to residents' and park owners' concerns and to explore ways to bring balance to the marketplace.

3.2 Mobilehome Rent Control As Affordable Housing

Mobilehome rent control is often supported by the claim that it supports the affordability of mobilehome residency. But this is not always so. Whether mobilehome rent control will provide affordable housing long term depends on whether or not rents are controlled or decontrolled on vacancy.

Mobilehome rent control with vacancy decontrol can be expected to assist current residents

[17] A comprehensive summary of the issues involved in rent control litigation is to be found in Karl Manheim's article (see Bibliography).

because rents are stabilized during their occupancy. Mobilehome owners in a vacancy decontrol program would enjoy the stability of rent control for the duration of their tenancy. But homeowners under a decontrol program would not be able to sell their home for more than its intrinsic value when they leave. When residents leave, the home would sell for its actual, un-inflated value or, if it is old and in poor condition, for its salvage value. The second-generation mobilehome owners would therefore be able to buy the old mobilehome at an affordable price (or purchase and install a new mobilehome at its fair value) and enjoy the advantages of stabilized rent from the purchase date forward.

Mobilehome rent control with vacancy control, on the other hand, cannot be expected to serve as affordable housing. The first generation homeowner will enjoy the advantage of stabilized rent during his or her occupancy and, in addition, will be able to sell the mobilehome with the rent control premium attached when he leaves. This means that the second-generation mobilehome owner (the buyer) will pay a premium for the home, such that the home is not “affordable” in any meaningful sense to the second-generation buyers. The affordability advantage of controlled rents is offset completely by the increased cost of purchase.[18] Indeed, affordability is decreased by rent control because buyers need to come up with larger down payments for the more expensive homes. Larger down payments may make ownership difficult or impossible for low income households.

Municipalities that adopt rent control, thinking that they are preserving affordable housing, should consider that they may be protecting one generation of homeowners but burdening the next generation of homeowners. If the intent is permanently affordable housing, rent controls should not survive vacancy. Rent control with vacancy control will assist the homeowners in residence at the time the regulations are imposed, but will not assist future generations of homeowners. Indeed, rent control with vacancy control will reduce the affordability of mobilehome housing.

3.3 The Abandonment Of Rent Control

For both political and practical reasons, abandoning rent control, once it is initiated, is extremely difficult. Year by year, as space rents are constrained below market by rent control, the values of mobilehomes in the park increase. Over time, residents become used to this and consider the value to be theirs by right. Some new residents, relying on rent control to keep rents low, buy older homes at prices far above their intrinsic value. Those mobilehome owners have invested hard cash in reliance on rent control. If rent control were to be abandoned, they would lose their investments because the value of their homes would fall as the "premium" was returned to the park owner. No wonder mobilehome owners resist the abandonment of rent control. No wonder rent control becomes a part of the political culture in jurisdictions that adopt it.

Nevertheless, pressures rise, and there are communities that have found a way to abandon rent

[18] That the rent discount is completely capitalized into increased mobilehome value has been established by several economic studies. See Hirsch & Hirsch (1988), St. John (1989), Mason & Quigley (2007), and Zheng and Dale-Jorgenson (2007) in the bibliography. For example, "The effect of lower mandated rents to consumers is offset by the higher purchase prices of mobilehomes". Mason & Quigley, page 205.

control. Most often, abandonment is gradual, allowing space rents to go to market upon turnover, but allowing current residents to remain in their homes paying controlled space rents for their lifetime. This is what happened in Santa Cruz when the costs of litigation became too much for the City. A deal was struck with the owner of De Anza Mobilehome Park whereby rent control was phased out. Current residents could stay for up to 34 years with controlled rents. But upon their departure, the rents could go to market. This is called “sunset” or “phase-out”.

Alternatively, communities sometimes replace rent control with a model lease backed by a memorandum of understanding. Such arrangements ensure that rents won’t increase dramatically, but that park owners will be able to increase rents to cover cost increases over time. This happened in Hollister and Ontario, for example.

California communities that have repealed rent control include the following:

- Napa (1985)
- Westminster (1985)
- Los Angeles County (1994)
- Delano (1994)
- Cotati (as to apartments, 1996)
- Hayward (as to apartments, 1990)
- Hollister (1994)
- Arroyo Grande (1998)
- Ontario (1999)
- Santa Cruz City (2003)

It is likely that the list will grow as communities come to understand that rent control is not as simple as it seems, that it is an inherently imbalanced arrangement, and that it causes problems that grow over time, threatening the stability of the mobilehome / mobilehome park arrangement.

SECTION 4. ALTERNATIVE PROGRAMS

That rent control is expensive, untargeted, unbalanced, and polarizing does not mean that there is nothing that communities can do to alleviate space rent insecurity. Here are some of the alternatives that communities in California are exploring.

4.1 Model Leases: More and more communities are looking into a cooperative alternative – model leases negotiated among residents, park owners, and local government. These leases provide protections similar to protections provided by rent control without succumbing to rent control's tendency to be one-sided, to "go too far", or to become gradually more restrictive. Model leases, unlike rent control, are not subject to political influence. Model leases have all the stakeholders at the table when the key decisions are made and therefore have the potential to be fair, stable, and long lasting.

An example of a model lease program is the "Memoranda of Understanding" (MOUs) that were the outcome of a task force effort in Marina in 2003.[19] Concern at that time about rent increases in one of the parks led to calls, then as now, for rent control. A task force composed of residents, park owners, and City officials was convened. It was agreed at that time that rent control could be avoided if owners and residents could agree to moderate limits on rent increases. Agreement was reached. MOUs were established. The MOUs provided for CPI increases, pass-through of tax increases, utilities, and capital improvements, and increases to the County median rent on turnover. A mediation process was set up to handle disputes. Peace reigned for several years.

Then, in 2007, Lazy Wheel changed hands and the new owner raised rents significantly, causing the current concern. But the other park owners all abided by their MOUs. There have been no extraordinary rent increases under the MOU system in Marina, except for Lazy Wheel. The MOU system worked in Marina, but broke down upon sale of a park. The new owner was not bound by a MOU and no doubt had costs (like increased property taxes and a larger mortgage) that were higher than the costs faced by the prior owner. It is possible that the new owner would agree, in a negotiated context, to sign a new MOU. It is possible that a new MOU could be a recorded document that would survive sale of the property and be binding on new park owners.

The City of Ontario enacted rent control in 1990. In 1999, stakeholders negotiated an Accord that seemed fair to park owners and residents alike. Rent control was repealed. In 2003, when the initial Accord would have expired, the Accord was extended for another four years without modification. In 2007 the Accord was amended and extended yet again. The amendments included the recognition that 100% CPI rent increases were in some cases not adequate to cover cost increases faced by park owners. The new standard is 120% of CPI with a cap of 10% and a floor of 4%. Property tax, utility, and capital improvements costs can be passed through to residents, but are subject to review by the City.

Another recent example comes from Modesto. One park in Modesto was raising rents significantly. There were calls for rent control. The city council, city staff, park owners, and residents considered the options. In the end, after a year of study and discussion, it was decided

[19] There was a previous MOU that covered Cypress Grove in the years following 1993. That MOU was too restrictive, however, and eventually failed or was replaced by a more balanced MOU.

that a rent control ordinance would be enacted but that any park abiding by a city-negotiated MOU would be exempt from the ordinance. Cooperating parks would use a model lease worked out in negotiations among residents, park owners, and the city. Park owners would contribute to a fund to be used to for rent subsidies for low income residents. The City agreed to match park owner contributions. Lease terms include: 100% CPI with a cap of 7% and floor of 3%, pass-through of property taxes, capital improvements, and insurance, and 15% rent increase on vacancy.

4.2 Draft Memorandum of Understanding (MOU). A balanced MOU might look something like this:

1. All residents will be offered a long-term lease containing the provisions outlined below.

2. Space rent increases during an ongoing tenancy shall be limited by the following principles:

- ***No space rent increase during tenancy will exceed 10% in any one year.***
- ***Rent increases will cover:***
    - ***CPI increases since 2000***
    - ***Amortized capital improvements***
        - ***New facilities when approved by 51% of residents***
        - ***When ordered by government agencies***
        - ***For major replacements exceeding $100 per space***
    - ***Property tax and other governmental fee increases***
- ***Space rent increases on sale will not exceed 3% for each year of the ending tenancy.***

4. Park owners will contribute X% of gross revenue to a Park Resident Assistance Fund to subsidize the space rent of very low-income residents. The Fund will be administered by the City of Marina. The City will match park owner contributions.

5. Disputes arising under leases pursuant to this MOU will be submitted to mediation and, if necessary, to binding arbitration. The costs of mediation and arbitration will be shared equally by the participants (50 % by residents, 50% by park owner).

6. This MOU shall be reviewed in three years by a committee composed of representatives of the park owners, residents, and the City of Marina to evaluate its effectiveness and to make adjustments if appropriate.

4.3 Provisions That Might Be Included in a Model Lease:

The model lease concept involves a lease negotiated by park owners, park residents, and City officials. The operating principle should be fairness to all participants – to the tax payers, to residents, and to park owners. The lease should be simple to understand and straightforward to administer. Adjudication of disputes under leases should be by mediation, then arbitration. The City might want to participate in arbitrations in order to maintain the original fairness principle and because the City has the responsibility to represent the welfare of all citizens – residents, park owners, and tax payers. The City would promise not to impose rent control on any park owner using the model lease. The City would be at liberty to impose rent control on any park owner not using the model lease.

Typical provisions, and their rationale, follow:

1) Annual Rent Increase: automatic 100% CPI plus pass-throughs

[Comment: Some jurisdictions use partial indexing, e.g. 65% CPI. This is not wise, however, since partial indexing inevitably reduces the real value of the park and is therefore confiscatory. Some jurisdictions use 120% CPI and are more restrictive about pass-throughs.]

2) Floor and Ceiling: 2% and 8%

[Comment: A ceiling comforts residents. A floor comforts park owners. The average annual CPI increase in Northern California has been 3.2% over the past two decades. The average annual CPI-Rent increase in Northern California has been 3.8% over the past two decades. The ceiling should be higher if rents are low or in the case of pass-throughs. A global ceiling of 10% might therefore make sense in some jurisdictions.]

3) Phase-In: automatic CPI increases are further restricted to 100% CPI from some earlier base date.

[Comment: This provision would provide a level playing field among park owners, since owners who raised rents overmuch in recent years would not be rewarded with further increases and owners who exercised restraint in recent years would not be punished for their restraint. The effect would be that park owners who had imposed above-CPI rent increases in the years since the base date would have below-CPI rent increases for several years and park owners who imposed below-CPI increases since the base date would have the opportunity to catch up with inflation.]

4) Pass-throughs:

[Comment: It is wise to provide for certain pass-throughs so that park owners are not forced to bear the burden of additional costs not in the budget at the time the lease is signed. Pass-throughs would be in addition to the allowed CPI increases.]

- **Capital Improvements (amortized over appropriate time period):**
    - New Facilities – only when approved by 51% of residents
    - Improvements required by government
    - Major Replacements (those costing more than $100 per space)

- **Tax Increases** (e.g., property taxes on sale, or if government imposes a new tax or fee)

5) Vacancy Increases:

- When resident sells to new owner - up to 3% per year since last vacancy increase
- When unit is vacant with no new owner, or following eviction or abandonment - increase to market
- When resident replaces mobilehome - no increase

[Comment: this "partial vacancy decontrol" provision would mean that all mobilehomes would eventually receive the same vacancy increases. A mobile home selling every five years would be allowed a 15% increase each time. In ten years, there would be a total of 30% rent increases, just as there would be for a mobilehome that sold once in 10 years. Partial vacancy decontrol would allow adjustments to market on vacancy but would protect against the possibility that space rent might be increased so much that the value of the mobilehome would be significantly reduced.]

4.4 Resident Assistance (Subsidy) Programs: Other jurisdictions, believing that low incomes, not high rents, are the problem, have instituted programs similar to the Section 8 program that assist low income residents with their space rent. A significant advantage to subsidy programs is that assistance is targeted to those who need assistance. Under rent control, in contrast, there is no targeting, so that much of the rent control subsidy is wasted on people who don't need it.

Section 8 funds, in theory, are available to supplement space rent for low-income residents, but in practice Section 8 is not a reliable source for mobilehome owners because HUD funding has been significantly reduced by the Bush administration in Washington and because some administering agencies apparently won't use Section 8 funds for space rents. Section 8 is therefore not able to assist all mobilehome residents whose space rent is unaffordable.

The City of Turlock in 2007, acknowledging that income, not rents, were the problem for low income mobilehome residents in Turlock and that Section 8 couldn't be relied on at this time, rejected rent control in favor of a City-funded subsidy program. The program involved an agreement by participating park owners to accept as space rent for any qualifying resident an amount equal to the median space rent in Turlock. The City would then fund the difference between the median rent and the rent the resident could afford (30% of verified income). In Turlock it turned out that this program cost roughly $20,000 per year.

Some park owners fund subsidy programs on their own. There are park owners who have made an explicit commitment to reserve a percentage of space rent income for assistance to low income residents.

Another model would be a program jointly funded by the park owner and the city. Such a program might be administered by the city in question. The advantage of a jointly funded program is that it would require wider participation by citizens and stakeholders to address a community problem cooperatively.

Taking Marina as an example, if the park owners agreed to donate 3% of gross rents to a subsidy fund, and if the City agreed to match these contributions, there would be a fund of roughly $12,000 per month that could provide rent subsidies averaging $120 per month for 100 households, roughly a quarter of all mobilehome households in Marina. The program might be phased in, with fee payments tied to space rent increases so that park owners' net income would not decline. Such a program would alleviate the affordability problems of the lowest income households in Marina's mobilehome parks without disrupting the market otherwise.

4.5 Resident Purchase: There are cases in which residents have purchased their own park, increasing their economic security significantly. An example is El Rio Mobile Home Park in Santa Cruz. With government assistance, the residents were able in 1988 to buy their park from the park owner for $2,000,000. The park became a cooperative. Residents pay $250 per month in homeowner fees. Most homes in the park were manufactured in the 1950s and 1960s, and many are fading, but homes in El Rio still sell for $50,000 to $200,000. El Rio still provides affordable housing within a high priced community, and there is no space rent insecurity.

Acknowledging the inherent problem caused by split ownership of home and land, the State of California enacted in 1984 the Mobilehome Park Resident Ownership Program. Administered by the Department of Housing and Community Development (HCD), the program offers low-interest loans to homeowner organizations and low-income park residents to help finance conversion of mobilehome parks to resident ownership. By the end of 2006 the program had helped fund the conversion to resident ownership in 74 parks in California.

4.6 Purchase By A Non-Profit Housing Developer: There are cases in which parks are purchased by non-profit housing development corporations. An example is Leisure Mobile Estates in Santa Rosa. The owner of Leisure was considering condominium conversion. He also had a rent increase application in process before the local rent control commission. The residents opposed the rent increase and opposed the conversion. But the residents supported purchase of the park by Millennium Housing, a non-profit housing development corporation. Residents agreed to a substantial space rent increase in order to make the non-profit purchase pencil-out. Residents were confident that their long run interests were best served by the Millennium purchase.

4.7 Condominium Conversion (Subdivision): A recent, controversial development is the conversion of mobilehome parks into condominium subdivisions. The Subdivision Map Act allows property owners to subdivide a park into condominium spaces and then market the spaces to residents and others. This has become controversial because, under current law, subdivision in rent controlled jurisdictions would cause rent protections to lapse. The California legislature has considered the issue and will probably consider it further. There has been and no doubt will be extensive litigation as the rights and responsibilities of residents and park owners are sorted out in the conversion context. Condominium conversion would presumably be less controversial in jurisdictions without rent control. Condominium conversion, in theory, would bring a measure of security to mobilehome residency. Conversion would not cure the affordability problem, however, because conversion would require a substantial additional investment in order for residents to own the land as well as their homes.

4.8 Case Study: Stanislaus County

Stanislaus County and several cities in that county have recently considered solutions to the space rent dilemma. The processes followed and the outcomes chosen are instructive.[20]

The owner of several parks in the county, Equity LifeStyle Properties (ELS), was raising rents significantly in parks it owned in Ceres, Modesto, and Riverbank, causing considerable public concern. A county-wide Ad Hoc Committee was formed to investigate the situation and come up with a county-wide solution. Attorney/Planner Kenneth Baar did a series of studies. The Ad Hoc Committee met with ELS to attempt a negotiated solution. Ultimately the Committee approved a form of mobilehome park rent control ordinance for consideration by the County and the various cities, but no county-wide solution was agreed upon.[21]

Stanislaus County has taken no steps toward the establishment of rent control or any other solution to the space rent dilemma.

Modesto adopted a rent control ordinance with the unusual provision that parks that executed a Memorandum of Understanding (MOU) would be exempt from the ordinance. The MOU specifies that all residents will be offered long term leases including moderate rent increase limits. Space rents may rise at the CPI plus the pass-through of property taxes and capital improvements, and by 15% on vacancy. All parks in Modesto except the ELS park have accepted the MOU and are exempt from the ordinance. The ELS park is subject to the ordinance. Litigation is expected.[22]

Turlock has taken a completely different approach. Using redevelopment funds, the City of Turlock adopted a subsidy program whereby space rents exceeding the residents' affordability limit are paid by the City. The subsidy program applies to 60 households and costs roughly

[20] The information in this section is drawn largely from the July 28, 2008 memorandum "Recommendation Regarding Mobile Home Park Space Rents" by the Ceres Mobile Home Park Ad-Hoc Committee.
[21] The draft ordinance was based on a draft by Kenneth Baar for the City of Citrus Heights in Sacramento County.
[22] The law provides that a challenge to an ordinance must be brought within a year of its initiation.

$20,000 per year.

Riverside is considering the adoption of an ordinance modeled on the Modesto ordinance. Unfortunately, the draft ordinance under consideration is unbalanced. It allows 100% CPI adjustments, but allows no pass-throughs and includes rigid vacancy controls.

Ceres hired Kenneth Baar to conduct a survey and write a report on the mobilehome space rent situation in Ceres. The Ceres Mobile Home Park Ad-Hoc Committee came to these findings in its final report:

1. That a rent subsidy program like the program instituted in Turlock would be far more expensive in Ceres.
2. That although redevelopment funds could be used for rent subsidies, this use of redevelopment funds would limit or eliminate funds that could be used for the creation of permanently affordable housing.
3. That competing priorities mean that general fund monies cannot reasonably be used for rent subsidies.
4. That initiating rent control would likely commit the city to costs of litigation that it cannot well afford.[23]
5. That initiating rent control would stabilize rents in the future but would not roll back rents so that they would become affordable to residents.

The Ad Hoc Committee's final recommendation:

> ***"Since there is no feasible ordinance or policy solution to the existing circumstances affecting certain mobile home park residents in Ceres that the City is legally or financially in the position of implementing, the City of Ceres Mobile Home Park Ad Hoc Committee recommends that its activities be concluded and that the City Council take no further action regarding mobile home park space rents for the foreseeable future."***[24]

The Ceres City Council followed this recommendation, taking no steps to assist residents with space rent issues. Understandably, some residents were disappointed. No doubt the park owners were relieved. Ceres' Mayor Canella was quoted as saying of the Baar report "It really showed that [only] one park was out of line as far as the rents go. As much as I would like to help these residents, I'm not in favor of rent control that would punish the other mobile home parks for keeping their rents down."[25]

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[23] The report commented that larger cities or counties can better afford rent control litigation than small cities. It is for this reason, among others, that some stakeholders were hoping for a county-wide solution including litigation cost-sharing.
[24] Ad Hoc Committee Report, page 5.
[25] The Modesto Bee, August 27, 2008.

SECTION 5. SPACE RENTS, HOME VALUES, AND MOBILEHOME AFFORDABILITY IN MARINA

As a first step in the investigation of mobilehome space rents in Marina, the City of Marina sent out survey forms to mobilehome park residents and different survey forms to mobilehome park owners, collected and collated the responses, and provided this information to consultants Kenneth Baar and Michael St. John.[26] 279 out of 396 mobilehome households responded to the residents' survey – a fairly good response rate for surveys of this type.[27] All of the park owners provided responses to the park owners' survey. Consultants Baar and St. John also purchased sales data for Monterey and Santa Cruz Counties collected by the Department of Housing and Community Development (HCD).[28] The survey responses and the sales data provided important information, otherwise unavailable, about mobilehome rents, residents, and home values.

As to the residents' survey, the following chart shows survey responses by park.

SURVEY RESPONSES - MARINA MOBILEHOME STUDY

	senior	all age	spaces	SURVEYS RECEIVED	RESPONSE RATE
Cypress Square	X		87	68	78%
El Camino		X	61	39	64%
El Rancho	X		96	61	64%
Lazy Wheel		X	69	47	68%
Marina Del Mar	X		83	64	77%
TOTAL			396	279	70%

Source: Marina Mobilehome Residents' Survey

A note about the survey response rate: The overall response rate was 70%. In the calculations that follow, we use percentages that are computed from the survey responses on the assumption that those who responded are representative of all mobilehome residents, but this may not be true in all cases. There may be bias in the results due to a higher or lower response rate among different categories of households. Readers should bear this in mind before drawing conclusions from the survey results.

[26] The survey forms are attached to this report as Appendix 1 (Residents) and Appendix 2 (Park Owners).
[27] The first mailing resulted in 173 responses. Hoping for a better response rate, the City sent out a second mailing explaining the survey purposes more thoroughly. The second mailing brought in 106 additional responses for a total of 279. Of these, 271 were sufficiently complete to use in the study.
[28] The HCD data was purchased from Santiago Financial.

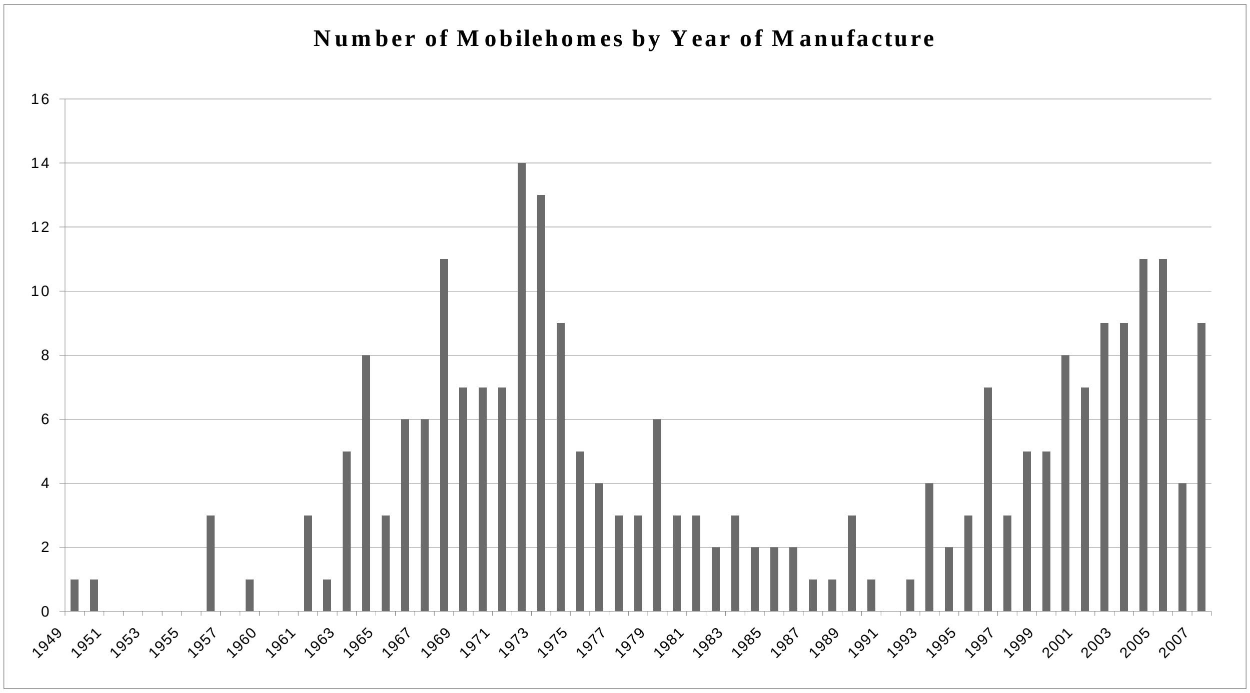
5.1 Mobilehome Characteristics in Marina. The following chart sets out physical characteristics of the homes in the five parks.

MOBILEHOME INFORMATION - MARINA MOBILEHOME PARKS								
	senior	all age	spaces	AVERAGE SQ. FT.	SINGLE WIDE	DOUBLE WIDE	TRIPLE WIDE	AVERAGE MH AGE
Cypress Square	X		87	1138	8	76	3	20.3
					9.2%	87.4%	3.4%	
El Camino		X	61	1091	14	47	0	17.5
					23.0%	77.0%	0.0%	
El Rancho	X		96	762	78	18	0	32.9
					81.3%	18.8%	0.0%	
Lazy Wheel		X	69	926	40	29	0	25.6
					58.0%	42.0%	0.0%	
Marina Del Mar	X		83	833	58	24	1	25.8
					69.9%	28.9%	1.2%	
TOTAL			396		198	194	4	
					50.0%	49.0%	1.0%	
AVERAGE				950				24.4

Source: Marina Park Owners' Survey

Cypress Square and El Camino have the highest proportion of doublewide mobilehomes. Accordingly, homes in these two parks have the highest average square foot area. The average age of mobilehomes is just under 25 years, with the highest average age at El Rancho and the lowest at El Camino.

The following chart shows the year of manufacture of mobilehomes in place in Marina's mobilehome parks. The chart has two peaks – older mobilehomes that have been there since the park was opened, and newer, replacement mobilehomes installed in the past decade.



Source: Marina Mobilehome Residents' Survey

5.2 Mobilehome Space Rents In Marina. The survey data indicate that the average space rent in Marina is $434 per month. Broken down by park, average space rents are shown in the following chart:

CURRENT SPACE RENTS - MARINA MOBILEHOME PARKS										
			single	double	triple	rent	rent	survey	rent	avg.
		spaces	wide	wide	wide	low	high	rents	rolls	incr.
Senior Parks:										
	Cypress Square	87	8	76	3	440	500	463	471	3.4%
	El Rancho	96	78	18	0	310	406	350	355	2.7%
	Marina Del Mar	83	58	24	1	299	468	351	344	2.0%
	average:					349.7	458	388	390	2.7%
All-Age Parks:										
	El Camino	61	14	47	0	407	500	445	439	3.6%
	Lazy Wheel	69	40	29	0	450	675	608	609	5.8%
	average:					428.5	588	527	524	4.7%
	total	396	198	194	4					3.4%
	weighted average							435	435	

Sources: Residents' and Park Owners' Surveys

The range of rents ("rent low" to "rent high") was reported by park owners in responses to the park owner survey. The actual rents were reported by residents in responses to the resident survey ("survey rents"). Actual rents (100% sample) were also taken from rent rolls provided by park owners ("rent rolls"). Average annual rent increases ("avg. incr.") were computed from survey data. That the rent roll information closely matches survey information confirms that owners and residents reported space rents correctly and that survey information is, as to space rents, representative of the entire population.

There are two ways that we can evaluate the current space rents:

- We can ask how space rents have changed over time

- We can ask how space rents in Marina compare to space rents in other communities in Monterey County

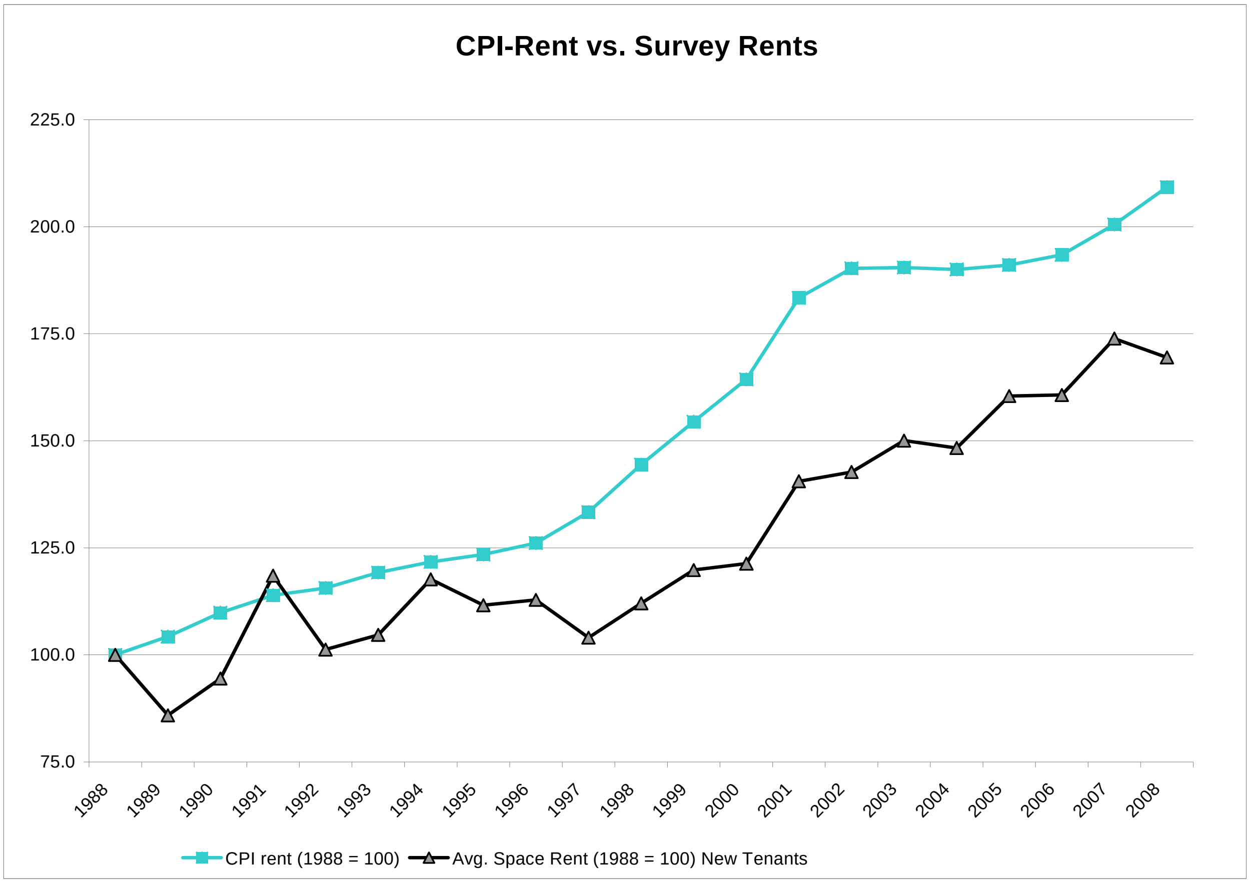
The resident survey responses provided information about space rent changes over time. Residents indicated what rent they paid on move-in and what rent they were paying today. It turns out that the average annual rate of rent increase at Marina mobilehome parks over the past 20 years was 3.4% for sitting tenants. Space rents charged new tenants increased by 3.1% over the same period.[29] Meanwhile, the average annual rate of increase of rents in the San Francisco Bay Area as measured by the Bureau of Labor Statistics (CPI-Rent) was 3.8%.[30] By this measure, space rent increases in Marina have for the last 20 years been lower than rent increases for apartments in Northern California. If space rents in Marina's mobilehome parks had increased for the past 20 years at the rate that rents increased in Northern California generally, average space rents today would be about 9% per month higher than they are at this time. Park owners' forbearance and/or the local space rent market has worked to mobilehome residents' significant advantage for this time period.

Viewing parks individually, average annual space rent increases for individual homeowners have been as set out in the final column ("rent incr.") of the chart above – 3.4% for Cypress Square, 3.6% for El Camino, 2.7% for El Rancho, 5.8% for Lazy Wheel, and 2.0% for Marina Del Mar. All except for Lazy Wheel are under the CPI-Rent rate. The higher value for Lazy Wheel no doubt results from the large space rent increases recently imposed. Up to 2007, space rent increases at Lazy Wheel were no higher than at the other parks.

The following graph shows the relationship just described between average space rents charged new tenants and the CPI-Rent index.

[29] That the rate of increase for new tenants is lower than the rate of increase for sitting tenants probably indicates that park owners sometimes lower rents on vacancy.

[30] The index is known as "CPI-Rent, Residential" or "Rent of Primary Residence". It is not clear from BLS descriptive materials if mobilehome space rents are included in the index. Mainly, the index covers the rents of apartments.



Sources: Residents' Survey and Bureau of Labor Statistics

As indicated, average space rents for new tenancies have increased by less over the past 20 years than the increase in the CPI-Rent index for the San Francisco Bay Area. Space rents and the CPI were both indexed to 100 in 1988 for purposes of this chart.

Reliable data on space rents is hard to come by, but Joan and Marshall Reeves, the managers of El Rancho Mobilehome Park, conducted a space rent phone survey in 2004. They updated their survey in 2008. The results are shown in the table titled "2008 Space Rent Survey – Monterey County" included here as Appendix 3.

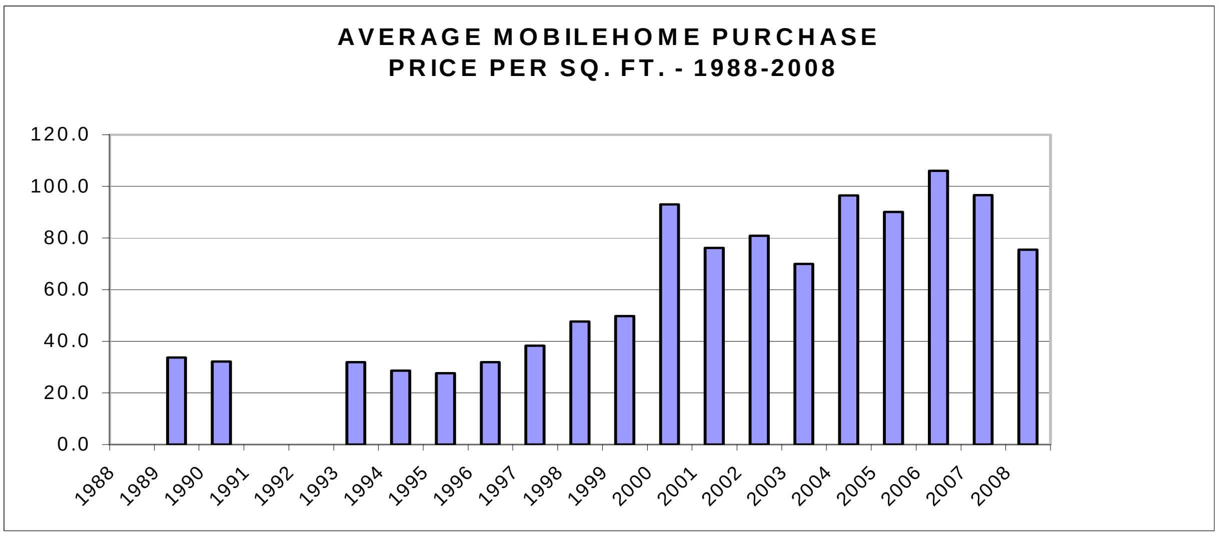
The Monterey County space rent survey indicates that average space rents in Marina range from about $400 to about $500 a month, while average space rents in the county range from almost $500 to over $600 per month. Space rents in Marina's lowest rent parks are in the $300 - $400 range. There may be park, mobilehome, or location differences that account for some part of the gap between Marina space rents and space rents in other jurisdictions, but this information indicates that most Marina space rents are on the low side, not the high side, of county averages. The rents at Lazy Wheel are now near the high end of the range in the county, but there are higher rents at some parks in Salinas, rent control in Salinas notwithstanding.

How can we understand these findings about space rents in Marina's mobilehome parks? It appears to be the case that space rent increases in Marina, except for increases at Lazy Wheel in

2007 and 2008, have been moderate over the past 20 years. It is also possible that the Memorandum of Understanding (MOU) agreed upon in 2003 was overly restrictive, causing space rents in the other parks to lag behind rent increases in Northern California generally.

5.3 Mobilehome Values in Marina. It is important that we also pay attention to changes over time in mobilehome values. If mobilehome values decline, space rent increases may be too high or rising too fast. If mobilehome values increase significantly, space rent increases may be too low. (This principle is explained in Section 2.2 above.) Caution should attend the interpretation of changes in mobilehome values because mobilehome values also fluctuate along with the entire housing market, an effect that has been particularly evident recently. But over long periods and averaged over many home sales, the rent-value relationship has been demonstrated in several studies. (This too is explained in Section 2.2 above.)

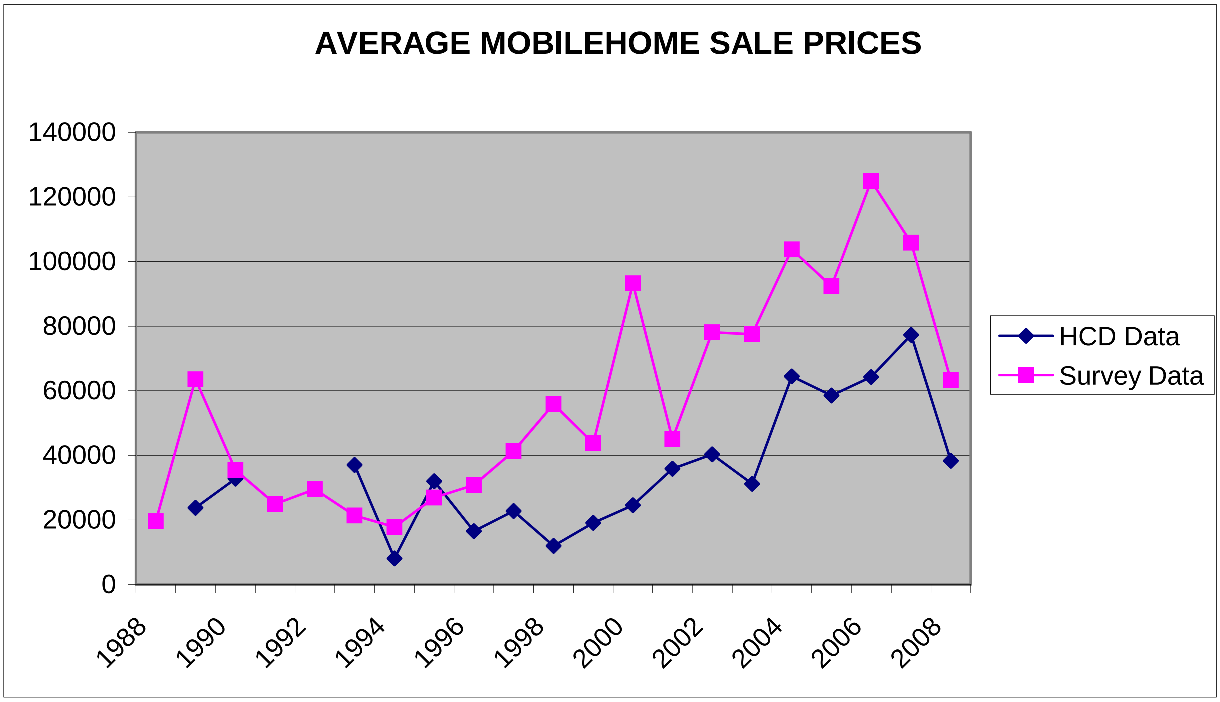
Average mobilehome values as reflected in sales prices over the past 20 years are shown in the following chart:



Source: HCD sales data, provided by Santiago Financial

Expressing prices on a square foot basis controls for mobilehome size. No Marina mobilehome sales were recorded in the HDC data set for 1988, 1991, or 1992. Mobilehome values in Marina were about $30 per square foot in 1990. The per square foot value, reflected in sales prices, rose to average more than $80 per square foot in the years 2000-2008, a two to three-fold increase over this time period. The average sales price fell in 2007 and 2008 to about $75 per square foot.

The Survey and HCD data also allow us to record average sales prices for mobilehomes.

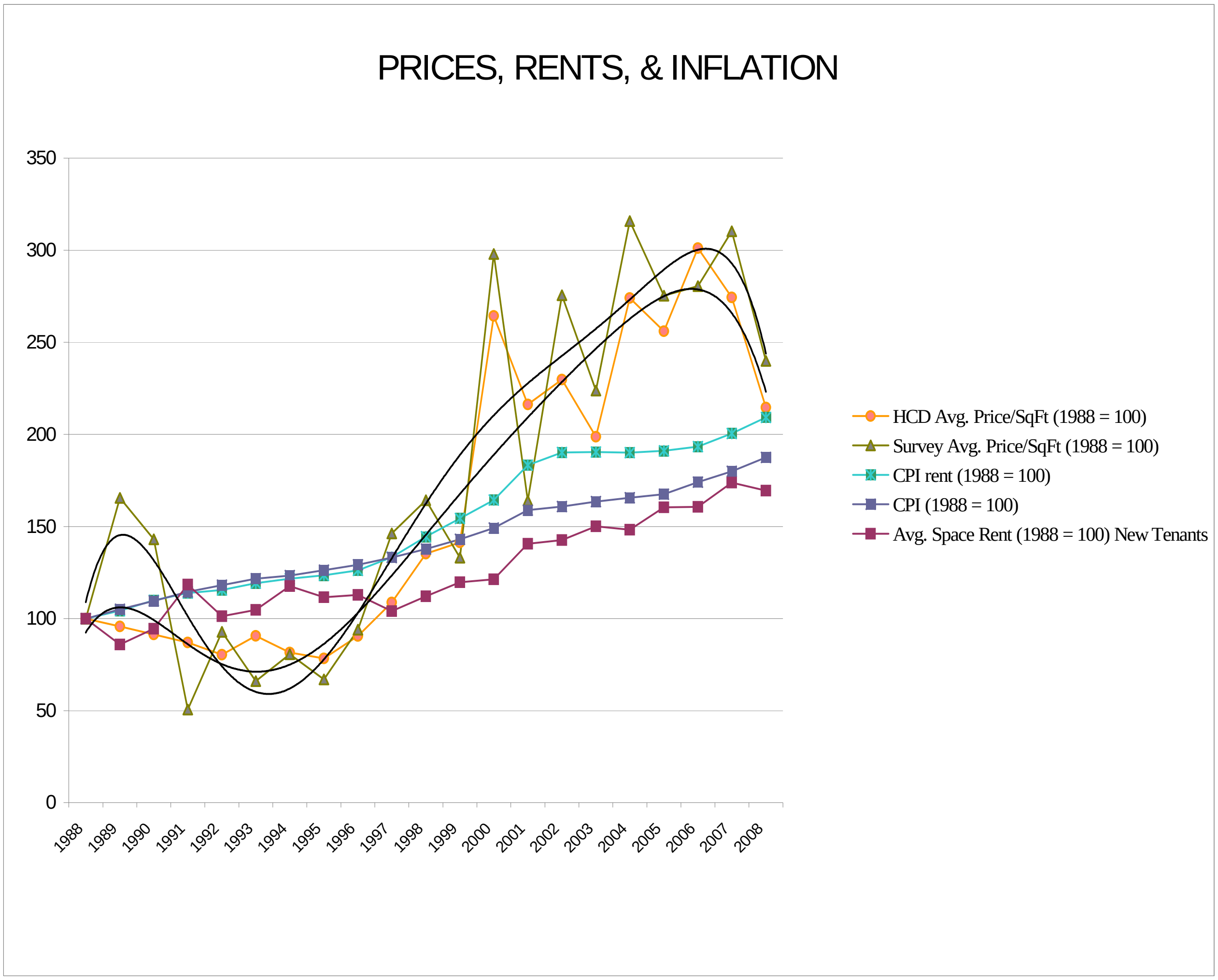


The survey data and HCD data show the same general pattern although they don't match very well. It is important to bear in mind several things about this chart: The datasets are imperfect. There are only a few data points in some years. The variance is large because some sales are of newer mobilehomes, some older mobilehomes, some double-wide, others single-wide, some in good condition, others in poor or even salvage (pull-out) condition. When the variance is wide, averages are not so meaningful. Nevertheless, the data show that mobilehomes were selling in the $20,000 - 30,000 range in the 1990s, in the $60,000 - $90,000 range in the 2000s, and that sales prices fell in 2007 and 2008. No one knows when the real estate market will recover, or for that matter whether it will recover fully. Real estate values tend to fluctuate in cycles. We are clearly in a down cycle. Economic history suggests that values will cycle up again, but we don't know when that will happen.

The HCD data were also evaluated for increase in sales price over time. For each sale, the original sales price is also recorded. The variance is large. Some mobilehomes increased a lot in value. Others maintained their value. A few lost value. On average, the HCD data indicate that the values of mobilehomes in parks in Marina have increased by 6.1% per year.

During the same time period, rents in Northern California increased by 3.8% per year and the CPI increased by 3.2% per year. Meanwhile, space rents in Marina for new tenants increased by 3.1% per year and rents facing sitting tenants increased by 3.4% per year. That mobilehome prices increased by more than the CPI, more than the CPI-Rent index, and more than mobilehome rents indicates that the mobilehome market has been out of balance during this time period. Rent increases have not matched home value increases. This indicates that mobilehomes in Marina were overvalued in the mid-2000s and may still be overvalued today.

These relationships can be seen in the following graph.

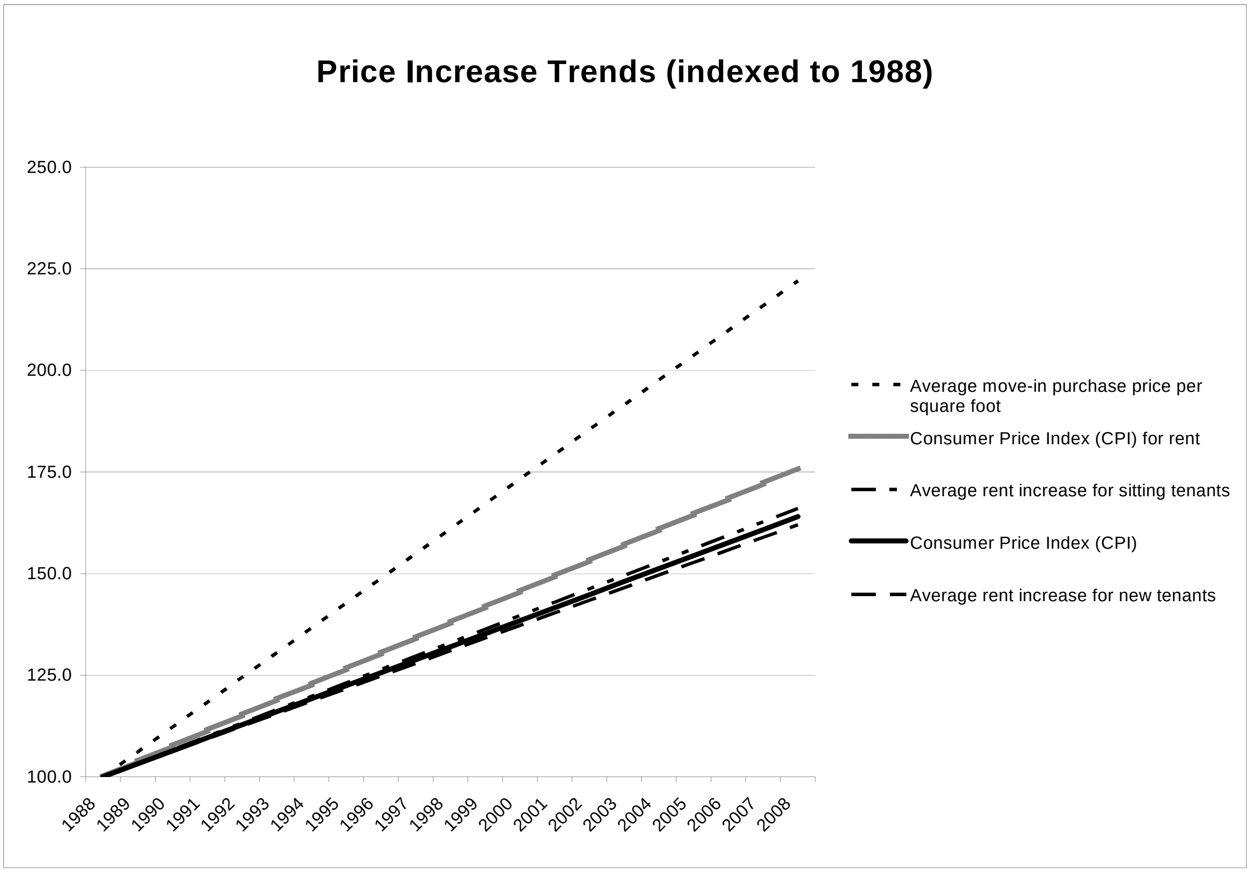


Sources: Residents' Survey, Bureau of Labor Statistics, HCD Price Data

This graph shows average space rents for new tenants in Marina over the past 20 years, 1988 to 2008, as reported by residents in the residents' survey (the curve with square markers). The next higher curve (with x-markers) is the CPI, a measure of inflation, and the one above that (star-markers) is the CPI-Rent index, a measure of inflation in apartment rents. Mobilehome values are shown in the two jagged curves (one from the survey – triangle markers, the other from HCD sales data – circle markers) and two curved, unmarked trend lines. All values are indexed to 100 in 1988. That the two price curves and the two smooth-curved trend lines match closely indicates that the survey prices were accurately reported. Home values have fallen in the current downturn and we don't know when the current downturn will end, but these data indicate that mobilehome values in Marina have increased during the past twenty years by significantly more than the CPI, the CPI-rent index, or space rents.[31]

[31] There is no curve for sitting tenants' rents because we don't have that information. We have the move-in rent, the move-in date, and the current rents for each respondent, but we don't have the pattern of space rents during the tenancies. See Price Increase Trend chart.

The key relationships can be seen more clearly if mobilehome prices, space rents, and inflation are all turned into straight 20-year trend lines, as in the following chart.



Sources: Residents' Survey, Bureau of Labor Statistics, HCD Price Data

This is a simplified picture. One might say over-simplified. The year by year variability in rates of increase has been removed. The lines are straight, as if the average annual increases applied every year, which of course they didn't. But this chart is useful because it shows that the average rent increases paid by new tenants in Marina mobilehome parks (3.1% per year) is marginally less than the inflation rate (3.2%), significantly less than the CPI-Rent index (3.8%), and far less than (almost exactly half of) the rate of increase in mobilehome values over the past 20 years (6.1%). Rent increases experienced by sitting tenants (3.4%) are marginally higher than increases in the CPI (3.2%), but less than increases in the CPI-Rent index (3.8%) and far less than the increase in mobilehome values (6.1%).[32] These rates of increase are summarized in the following chart:

[32] We can include a line for sitting tenants' rents in this chart because while we don't have year by year rents, we do know the beginning and current rents for each tenancy, and can therefore compute average annual increase from that information. The sitting tenant line represents the average annual rate of space rent increase for sitting tenants.

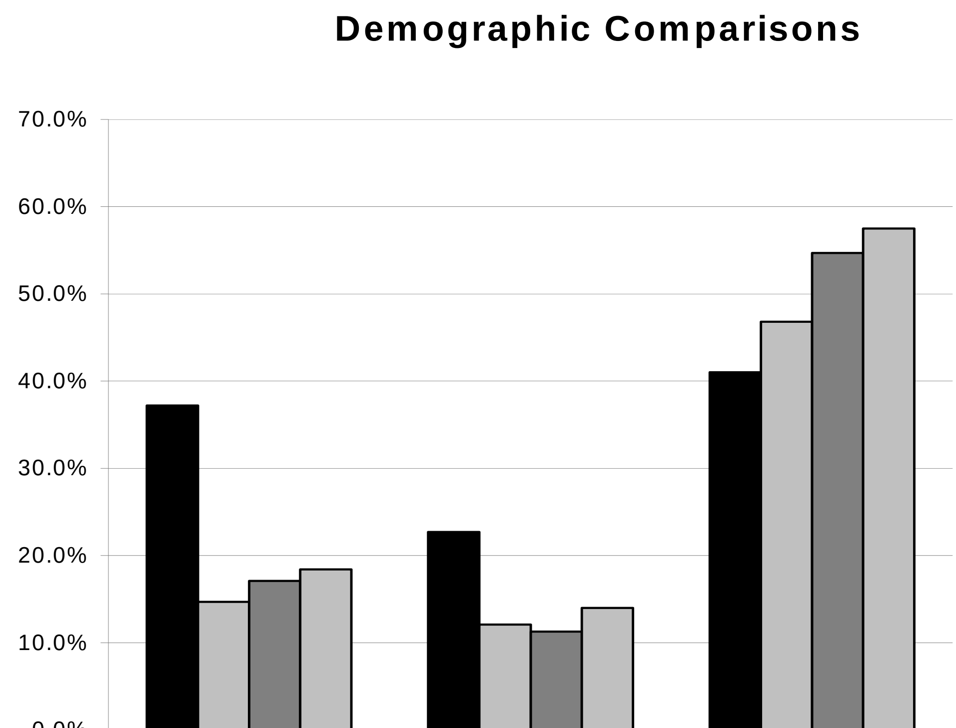
KEY RATES OF INCREASE AFFECTING MOBILEHOME RESIDENCY IN MARINA		
RATE OF INCREASE IN THE VALUE OF MOBILEHOMES		6.1%
RATE OF INCREASE IN SPACE RENTS FOR CURRENT OCCUPANTS		3.4%
	CYPRESS SQUARE	3.4%
	EL RANCHO	2.7%
	EL CAMINO	3.6%
	LAZY WHEEL	5.8%
	MARINA DEL MAR	2.0%
RATE OF INCREASE IN SPACE RENTS FOR NEW RESIDENTS		3.1%
RATE OF INCREASES IN PRICES GENERALLY (THE CPI)		3.2%
RATE OF INCREASE IN APARTMENT RENTS (CPI-RENT)		3.8%
NOTES: All rates are over the past 20 years, 1988 to 2008		
	Rates are average annual rates of increase	
Sources: Bureau of Labor Statistics, Resident Survey, HCD sales data		

As explained in Section 2.2 above, there is a close (inverse) connection between rents and mobilehome values. When rents are less than market-clearing, mobilehome values will tend to rise. When rents are more than market-clearing, mobilehome values will tend to fall. As explained in Section 2.6 above, it can be argued that park owners' and mobilehome owners' investments should be treated equally. Equal treatment would mean equal increases over time. The analysis shows, in contrast, that homeowners have been receiving a greater return on their investments in their homes than park owners have received on their investments in the parks. This is so because the values of mobilehomes have been increasing at 6.1% per year while the value of space rents, which in large measure determines the values of parks, have increased, from the park owners' viewpoint, at 3.1%.

Taking the past 20 years, it would appear that space rent increases overall have been too small, allowing mobilehome values to grow more than they would in a balanced market. If space rents were to increase at a slightly faster rate, the rate of increase in mobilehome values would presumably fall, and the balance between home owners and park owners would be restored.

5.4 Mobilehome Residents in Marina

The residents' survey asked a number of questions about mobilehome residents. Some of this information, together with information from the U.S. Census, is portrayed in the following chart:



	55 and older	Households Earning < $15,000 per year	Employed (%)
Marina Mobilehome Park Survey (2008)	37.2%	22.7%	41.0%
City of Marina (2000)	14.7%	12.1%	46.8%
County of Monterey (2000)	17.1%	11.3%	54.7%
State of California (2000)	18.4%	14.0%	57.5%

Sources: Residents' Survey, 2000 Census Data

Survey and Census data indicate that a higher percentage of Marina mobilehome park residents are elderly than residents of Marina, Monterey County, or California.[33] This is to be expected, since three of the parks are senior parks reserved for older residents.

Survey and Census data indicate that a higher percentage of Marina mobilehome park residents have very low incomes (under $15,000 per year) than households in Marina, Monterey County, or California.

[33] The Census data here and elsewhere in this section comes from Tables DP2 (Selected Social Characteristics), DP3 (Selected Economic Characteristics), and DP4 (Selected Housing Characteristics), available on-line from Census.Gov.

Assuming that those reporting are representative of all residents, 41% of Marina's mobilehome residents appear to be employed – a percentage not far below the percentage for Marina, Monterey County, and California.

Employment data is presented in greater detail in the following chart:

	EMPLOYMENT STATUS OF MARINA MOBILEHOME RESIDENTS								
		senior	all age	spaces	RESPOND-ENTS	FULL TIME	PART TIME	RETIRED	NOT WORKING
Senior Parks:									
	Cypress Square	X		87	91	10	6	67	8
	PERCENT					**11.0%**	**6.6%**	**73.6%**	**8.8%**
	El Rancho	X		96	67	7	6	51	3
	PERCENT					**10.4%**	**9.0%**	**76.1%**	**4.5%**
	Marina Del Mar	X		83	78	16	14	45	3
	PERCENT					**20.5%**	**17.9%**	**57.7%**	**3.8%**
All-Age Parks:									
	El Camino		X	61	76	36	15	8	17
	PERCENT					**47.4%**	**19.7%**	**10.5%**	**22.4%**
	Lazy Wheel		X	69	94	38	14	17	25
	PERCENT					**40.4%**	**14.9%**	**18.1%**	**26.6%**
All Parks:				396	406	107	55	188	56
	PERCENT					**26.4%**	**13.5%**	**46.3%**	**13.8%**

Source: Residents' Survey

As indicated in the employment status chart, employment status varies significantly by park, with high rates of retirement in the senior parks and high rates of full time employment in the all-age parks.[34]

Incomes of mobilehome residents are shown in the following chart:

[34] The numbers of respondents exceeds the number of spaces in some parks because some households have more than one working adult.

Income Categories of Resident Households (number of households)

Park	Under $15,000	$15,000 - $19,999	$20,000 - $29,999	$30,000 - $39,999	$40,000 - $49,999	$50,000 - $74,999	$75,000 or more	Total
Cypress Square	18	4	19	11	4	7	2	65
El Camino	5	1	4	8	10	9	0	37
El Rancho	10	11	16	6	2	3	1	49
Lazy Wheel	8	3	11	12	4	5	0	43
Marina del Mar	16	7	21	8	3	1	1	57
Totals	57	26	71	45	23	25	4	251

Income Categories of Resident Households (percentages)

Park	Under $15,000	$15,000 - $19,999	$20,000 - $29,999	$30,000 - $39,999	$40,000 - $49,999	$50,000 - $74,999	$75,000 or more	Total
Cypress Square	28%	6%	29%	17%	6%	11%	3%	100%
El Camino	14%	3%	11%	22%	27%	24%	0%	100%
El Rancho	20%	22%	33%	12%	4%	6%	2%	100%
Lazy Wheel	19%	7%	26%	28%	9%	12%	0%	100%
Marina del Mar	28%	12%	37%	14%	5%	2%	2%	100%
Totals	23%	10%	28%	18%	9%	10%	2%	100%

Source: Residents' Survey

Assuming that the survey responses portray the mobilehome park population accurately, many resident households of Marina's mobilehome parks have low and very low incomes. Only 12% report household income above $50,000. Fully 23% of responding residents report household income under $15,000. 61% of all mobilehome park residents have incomes under $30,000 per year. By any measure, these residents are income-challenged. It is fully understandable that residents would be concerned about increases in the cost of food, medical care, space rents, and other necessities. Even a modest space rent increase, medical event, or other unexpected expense would make a major dent in the budget of a household earning less than $30,000 per year.

The survey included other information about mobilehome residents summarized in the following chart:

RESIDENT INFORMATION - MARINA MOBILEHOME PARKS

	SPACES	HOUSEHOLDS REPORTING	RESIDENTS REPORTED	AVERAGE HH SIZE	AVERAGE AGE	% WITH CHILDREN	AVERAGE TENURE
Senior Parks:							
Cypress Square	87	67	96	1.4	70	1%	11.2
El Rancho	96	55	75	1.4	71	0%	11.2
Marina Del Mar	83	64	86	1.3	68	0%	13.6
All-Age Parks:							
El Camino	61	38	101	2.7	50	28%	10.0
Lazy Wheel	69	47	132	2.8	49	38%	13.6
All Parks (Total):	396	271	490	1.9	61.6		11.9

Source: Residents' Survey

The average household size among households responding to the survey is just under two persons. This varies by park, with the senior parks having more residents living alone and the family parks having more household members. About a third of the households in the two all-age parks have children present. The average length of time that residents have occupied their mobilehome is about 12 years.

The resident survey also asked for information about mortgages.

	MORTGAGE STATUS OF MOBILEHOME OWNERS						
	Park Name	Park Type	Total Units in Sample	All Cash On Purchase	Mortgage Paid Off Later	Homes Owned Free & Clear	% Homes Owned Free & Clear
Senior Parks:							
	Cypress Square	SENIOR	66	49	5	54	81.8%
	El Rancho	SENIOR	53	42	1	43	81.1%
	Marina del Mar	SENIOR	59	28	14	42	71.2%
All-Age Parks:							
	El Camino	FAMILY	37	9	2	11	29.7%
	Lazy Wheel	FAMILY	46	22	6	28	60.9%
All Parks (total):			261	150	28	178	68.2%

Source: Residents' Survey

The mortgage status of mobilehome residents differs significantly by park. More than three-quarters of residents in the senior parks own their homes free and clear, whereas the free and clear rate is lower for the family parks.

5.5 The Affordability of Space Rents in Marina's Mobilehome Parks

The federal government says that apartment rents exceeding 30% of household income are "unaffordable". The figure 40% is sometimes used by others. The 2008 draft Housing Needs Assessment for the City of Marina indicates that 23% of owner-occupant households and 33% of renter-occupant households in Marina pay more than 35% of available income for their housing.[35] Since we need to identify an upper limit, not a standard, I will use the 40% affordability limit in this analysis.

The presence or absence of mortgage obligations affects the affordability of mobilehome residency significantly. Mobilehome residents are therefore broken into two groups in the following chart – those with no mortgage and those with a mortgage.

[35] "Housing Needs Assessment", chapter 2 of draft Housing Element, December 2008, Table 2-25, page 2-17.

Park Name	Mobilehome Owned Free and Clear				
	No. of MHs	Percent MHs With Mortgage Paid Off	Avg. rent	Avg. income	Avg. Gross Rent as % of HH income
Cypress Square	45	86.5%	$475	$27,544	34.4%
El Camino	13	43.3%	$433	$32,731	24.1%
El Rancho	21	84.0%	$347	$24,810	25.3%
Lazy Wheel	16	61.5%	$606	$29,812	39.5%
Marina del Mar	30	83.3%	$342	$23,283	29.2%
Total / Avg.	**125**	**74.0%**	**$429**	**$26,892**	**31.2%**
Park Name	**Mobilehomes With Mortgages**				
	No. of MHs	**Percent MHs With Mortgages**	**Avg. rent**	**Avg. income**	**Avg. Housing Cost as % of HH income**
Cypress Square	7	13.5%	$460	$53,214	37.4%
El Camino	17	56.7%	$452	$47,500	40.4%
El Rancho	4	16.0%	$359	$40,000	32.7%
Lazy Wheel	10	38.5%	$653	$42,500	49.3%
Marina del Mar	6	16.7%	$405	$29,833	41.5%
Total / Avg.	**44**	**26.0%**	**$486**	**$44,182**	**41.4%**

Source: Residents' Survey

These summaries indicate that mobilehome residents with no mortgage are, on average, able to afford their housing payments. Mobilehome owners with mortgages have more income, on average, than mobilehome owner with no mortgage. Nevertheless, mobilehome residents paying a mortgage are paying relatively high percentages of their incomes for housing costs. Using the 40% affordability standard, housing costs are unaffordable for roughly half of all mobilehome owners with a mortgage. For the other half of the with-mortgage group, and for roughly three-quarters of the no-mortgage group, housing costs are affordable, by the 40% affordability standard.

If housing costs are unaffordable for 50% of those with a mortgage and 25% of those with no mortgage and considering that 68% have no mortgage and 32% have a mortgage, housing costs are unaffordable for roughly 33% of mobilehome resident households in Marina, or about 131 households.[36]

What would it take to address this problem? Following the 40% affordability principle, it would appear that the entire problem could be handled by roughly $15,000 per month, an amount that would allow subsidies averaging $115 per month for those meeting the affordability limit.

[36] (.32*.5+.68*.25) = .33. These calculations are based on survey data, and on averages, and are therefore only rough estimates. The results are indicative of what may be true for mobilehome households, but there would have to be confidential, case by case investigations to determine more precisely the affordability issues among residents of Marina's mobilehome parks.

5.6 The Availability of Affordable Housing in Marina

Unlike some jurisdictions in California, Marina has a varied supply of relatively affordable housing. Mobilehomes themselves are relatively affordable in Marina. Both mobilehome prices and space rents are moderate as compared with mobilehome prices and space rents in other communities in Northern California. A two-bedroom mobilehome can be purchased in Marina for $40,000 to $80,000 with a monthly rent of about $550. Imputing the annual cost of the home at 8%, and adding estimates of taxes and insurance, a home in a Marina mobilehome park might cost between $1,200 and $1,500 per month. If the home is paid in full, as many are, the monthly cost of mobilehome park residency might be between $600 and $800 per month. These ranges are relatively affordable, considering the cost of housing in Northern California.

But mobilehomes are not the only affordable housing option. Apartments are also relatively affordable in Marina. One-bedroom apartments rent in Marina for $850-$1,000 per month. Two-bedroom apartments in Marina rent for $1,100 to $1,400 per month.[37] Signs for vacant apartments abound, indicating an active market. Single-family homes were relatively expensive until the mortgage crisis, but homes are said to have dropped in value by something like 40%. Some are now available as rentals. There are therefore several different relatively affordable home choices in Marina – single-family homes, apartments, and mobilehomes.

The phrase "relatively affordable" means "affordable as compared to housing alternatives elsewhere in Northern California". Whether a particular home, apartment, or mobilehome is affordable to a particular household depends on household income. An affordability problem stemming from low income is an income problem, not a housing problem. Housing, however affordable, cannot be expected to compensate for low or very low incomes. Communities have to decide what they can and should do to alleviate the affordability problems of very low income residents. In making these choices, communities should be clear about the source of the problem.

The Proforma Tenure Cost Comparison chart on the following page gives a rough idea of the costs of typical mobilehome, apartment, and single-family home residency in Marina. The costs of mobilehome residency were taken from survey responses. The costs of single-family home and apartment residency are estimates based on interviews and the draft Housing Element.

[37] City of Marina, "Housing Needs Assessment", Table 2-19.

PROFORMA TENURE COST COMPARISONS				
		Mobilehome	Single Family Home	Apartment
HOME VALUE		80,000	350,000	
MORTGAGE		533	1,896	0
PROPERTY TAXES		67	292	0
INSURANCE		22	97	0
RENT		550	0	1,100
TOTAL COST				
	With Mortgage:	1,172	2,285	
	No Mortgage:	639	389	1,100
REQUIRED INCOME				
	With Mortgage:	35,167	68,542	
	No Mortgage:	19,167	11,667	33,000
ASSUMPTION: 2-BEDROOM IN EACH CASE				
AFFORDABILITY LIMIT: RENT = 40% INCOME				

Source: Residents' Survey, Interviews

The affordability estimates are based on housing costs being up to 40% of available income. This is higher than the HUD standard – 30% - but matches reality on the ground. The fact is that many California households do spend 40% or even 50% of their available income on housing. In the case of mobilehomes, the monthly cost may be little more than the rent because the home may be paid in full. In the case of single-family homes, the monthly cost may be lower still if the home is owned free and clear, since there is no rent.

These calculations indicate that 2-bedroom apartments in Marina are affordable to a household having a combined family income of $33,000 (or more); that a modest 2-bedroom single family home in Marina would be affordable to a household having a combined family income of $69,000 if they are paying a mortgage, or $12,000 if the home is owned free and clear; and that a typical 2-bedroom mobilehome in Marina would be affordable to a household earning $35,000 if there is a mortgage, or $19,000 if the home is paid for.

These calculations indicate that mobilehome residency is affordable to some households, especially when the home is paid for. The calculations also indicate that other tenure choices may be affordable as well. In particular, the most affordable housing arrangement is a single family home owned free and clear. The calculations also indicate that even when mobilehomes are owned free and clear, there is an affordability problem for residents having very low incomes.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Answers to Questions Posed at the Beginning of this Report

1. Are mobilehome space rents in Marina too high, too low, or about average?

Except for the rents at Lazy Wheel, the space rents in Marina are moderate. They are lower than average space rents in Monterey County, have increased at close to the inflation rate, and have increased by less than apartment rents in Northern California over the past 20 years. The rents at Lazy Wheel did increase sharply in 2007 because of the sale/purchase of the property. It would therefore be appropriate for rents at Lazy Wheel to remain close to their current levels for several years. Other than Lazy Wheel, the park owners have been unnecessarily restrained in the rent increases they have imposed in the past several years. It would therefore be appropriate if rents at other parks in Marina were to increase gradually to close the gap with market rents elsewhere in the county.

2. Is there a problem about space rents that the City of Marina should address?

No. There is an income problem for some mobilehome residents, but there is no problem with space rents per se. Space rents in Marina are lower than they might be in the case of El Rancho, El Camino, Cypress Square, and Marina Del Mar. Space rents at Lazy Wheel are at the top of the local market and should therefore remain fixed or increase only moderately for several years. There is, however, insecurity about space rents and mobilehome values that might be addressed through a renewed MOU or model lease program.

No one likes rent or price increases, but inflation is a reality we cannot change. The cost of housing, like the cost of gas, food, and most other necessities, does increase over time. As much as we might want to, there is nothing the City of Marina or any of us can do to stop or slow inflation. Attempts to ignore, contradict, or legislate against inflation are doomed to failure.

3. Are the prices at which mobilehomes are selling in Marina reasonable, considering the overall market?

Mobilehome values, overall, have increased by more than the CPI and by more than space rents over the past 20 years. Mobilehome prices are influenced by the overall real estate market as well as by space rents. In the late 1990s and into the 2000s there was a bubble in housing prices generally that contributed to increases in the prices at which mobilehomes in Marina sold. The bubble burst in 2007-2008 and prices of mobilehomes declined, just as prices of single family homes and condominiums declined. Nevertheless, there is an active market in mobilehomes at prices significantly greater than purchase prices in the 1990s and before.

4. Is there an actual or perceived problem that rent control might address?

There certainly is a perceived problem, but it is unclear that there is an actual problem. Rent control would be a mistake, for reasons outline in Section 3.1. There are other solutions that would be far less divisive and far more cost-effective, as outlined in Section 4.

5. Has something changed from the situation that has prevailed in Marina and surrounding communities, without rent control, for many years?

No. Nothing fundamental has changed. The mobilehome market in Marina works today much as it has worked for a half century. What has changed in some communities is that land values continue to increase by more than inflation and that the real estate and financial markets are currently in turmoil. As land value increases, the pressure on scarce urban and coastal land increases, driving the costs of housing higher. At present, the market is in a downturn and financing is harder to secure. Nevertheless, nothing fundamental has changed. Mobilehome sales are active, the real estate turmoil notwithstanding. Mobilehomes continue to provide relatively affordable housing for Marina mobilehome residents as they have for 50 years.

6. Are park owners in any way exploiting the captive nature of the mobilehome / mobilehome park relationship?

There is no evidence that park owners are exploiting the captive nature of the mobilehome / mobilehome park relationship. To the contrary, park owners (other than the owner of Lazy Wheel) have increased space rents less than they might have, considering inflation and the market generally. At Lazy Wheel the average annual rate of rent increase over the last 20 years (5.8%) matches closely the average annual rate of increase in mobilehome values over this time period (6.1%). In the other parks, over this 20 year period, increases in mobilehome values have exceeded increases in space rents and increases in goods and services generally, as measured by the CPI and CPI-Rent.

7. Are mobilehome residents more financially challenged than homeowners or apartment dwellers in Marina?

Some mobilehome residents have low and very low incomes, but many of Marina's low and very low income residents live in apartments, not mobilehomes. Some low and very low income residents live in single family homes. Space rent control would obviously not help low or very low income residents who live in apartments or single family homes.

Mobilehome rent control would subsidize mobilehome residents irrespective of income level and without consideration of need. A subsidy program, on the other hand, would target subsidies to those most in need of assistance. Section 8 subsidies are available to some very low income apartment residents.

8. Is it possible or likely that space rents in Marina would increase significantly in the foreseeable future as they have in some surrounding communities?

It is both possible and likely that space rents in Marina will continue to increase at or near the inflation rate for the foreseeable future. Considering the need for infrastructure improvements in the parks and considering the fact that space rents have not kept up with inflation at some parks, space rents will have to increase during some periods by more than the inflation rate whether or not there is rent control. It is not likely, however, that space rents in Marina will be increased to the levels prevailing in the luxury parks in Castroville and Santa Cruz.

9. How do mobilehome parks fit into Marina's plans for future development, including plans for creating and preserving affordable housing?

Contrary to a stated intention in the 2004 Housing Element, Marina seems poised to approve thousands of new housing units in several major new developments in the city without allocating any land for new mobilehome park development. In accordance with another section in the Housing Element, Marina seems poised to re-zone existing mobilehome parks so as to lock in the present mobilehome use for Marina's five mobilehome parks. It is not clear, however, that mobilehome use matches the City's vision for the downtown redevelopment area. It is possible that locking in the mobilehome zoning would be counter-productive in long run planning terms.

10. What might be the effects of rent control on residents, park owners, taxpayers, and the City of Marina?

Rent control has side effects that are not obvious before these programs are initiated. Parks under rent control tend to become run down. Public discourse in cities with rent control tends to be dominated by pro-rent-control and anti-rent-control factions. Rent control routinely causes protracted litigation. Rent control is also expensive in other ways, diverting civic energy from projects and programs that can truly help residents and advance a city's goals to a program that does no more than shift income and assets from one group (park owners) to another (park residents) without helping those most in need of assistance (very low income residents).

11. How do the costs of mobilehome residency compare to the costs of living in a single family home or an apartment in Marina?

Mobilehome residency is one among several affordable housing options in Marina. Depending on whether there is a mortgage or the home is owned free and clear, mobilehome, single family home, or apartment living may be the least-cost housing arrangement.

12. Are there alternative programs that might balance the market and address financial insecurity more effectively than rent control?

Yes. A program involving a memorandum of understanding, a model lease, and rent subsidies for low income residents would be a better alternative than rent control.

13. Are there mobilehome residents for whom paying space rent is a financial burden?

Yes. There are some mobilehome residents whose incomes are very low. For these residents, space rent increases would be burdensome. Indeed, for these residents, even current rents are burdensome. It is noteworthy that, for these residents, a subsidy program would be far more useful than rent control. Rent control might decrease the rate of future space rent increases, but rent control would do nothing to assist low income homeowners with space rent burdens right now.

6.2 RECOMMENDATIONS

- **That the City sponsor a transparent, inclusive process involving all stakeholders in order to work out a cooperative solution to residents' insecurity regarding mobilehome space rents and mobilehome values.**

- **That the City, mobilehome park owners, and mobilehome park residents explore the possibility that a renegotiated memorandum of understanding (MOU) and model lease program would bring lasting stability and genuine balance to the Marina mobilehome market.**

- **That the City abandon the proposal to re-zone mobilehome parks and continue to seek locations for additional mobilehome park space outside the downtown revitalization project area.**

- **That the City cover the administrative costs and consider making a matching contribution to a rent subsidy program otherwise funded by park owner contributions of 3% of gross space rentals, in order to address the income needs of the lowest-income mobilehome park residents.**

APPENDIX 1

SURVEY OF MARINA MOBILEHOME PARK RESIDENTS

(if a question is not applicable - write "N/A")

1. In what year was your mobilehome manufactured? _ _ _ _

2. What type of mobilehome do you live in? (check one)
Singlewide _____
Doublewide _____
Triplewide _____

3. What are the dimensions of your mobilehome? **Length_____ Width_____**

4. In what year did your household move into the mobilehome? _ _ _ _

5. Before you moved into the mobilehome park where did you live?______________
city state

6. Before you moved into the mobilehome park where did you reside?
apartment rental unit ___
house you rented ___
house you owned ___
condominium you owned ___
another mobilehome park ___
other (please describe) ___
____

7. What was the monthly space rent when your household moved into the mobilehome that you now live in? _______

8. What is your current monthly space rent? **$ ________**

9.What utilities <u>do</u> you pay for in addition to the space rent? (check those that apply)
Gas____ Electricity____ Water ____ Sewer____ Garbage____
Other (list) ______________________________________

10. Does your household own or rent the mobilehome? **Own ____**
(the home, not the space) **Rent ____**

11. What was the purchase price of your mobilehome? **$______________**

12. Did you pay in full (all cash) for your mobilehome? YES______ NO_______

13. If you did not pay all cash, how much was your downpayment? $________

14. What is the <u>total mortgage</u> now due on your mobilehome, if any? $________

15. What are your <u>monthly mortgage</u> payments, if any? $________

16. <u>Including yourself</u>, how many persons live in your mobilehome? ____

17. Please fill in the following information about the <u>adults (persons 18 or older)</u> in your household

	Household Member #1	Household Member #2	Household Member #3	Household Member #4
Age				
Employed Full-time				
Employed Part-time				
Not working				
Retired				

18. What are the ages of any children in your household?

Child #1______ Child #2______ Child #3_______ Child #4_______

19. What was the total income of your household in 2006 before taxes?
(please include income from <u>all sources</u> including social security, pension, interest, dividends, and any public assistance)

under $15,000 ____
$15,000 - $19,999 ____
$20,000 - $29,999 ____
$30,000 - $39,999 ____
$40,000 - $49,000 ____
$50,000 and above ____

APPENDIX 2

MOBILEHOME PARK OWNER SURVEY

1. Park Name ____________________________________

2. Name of Contact _______________________

3. Phone Number _____________________________

4. In what year was the park built? _____

5. How many mobilehome spaces are in the park? _____

6. How many spaces are occupied by:

Singlewide mobilehomes _____

Doublewide mobilehomes _____

Triplewide mobilehomes _____

7. What is the average rent for occupied spaces? _______

and/or describe the ranges of rents

____

____

____

8. What is the rent for incoming purchasers of mobilehomes? ____

9. Does the park offer lower rents for low income tenants? ____
If yes, please describe the park policy

____

____

____

10. How many residents have entered into leases of one year or more? _____

11. Are incoming residents required to enter into a lease? _____

a. If yes, what is the length of that lease? ____

12. What are the requirements for mobilehomes that are moved into the park - size, age,condition etc.

____

____

13. Does the park own any mobilehomes? ______

a. If yes, how many? ______

b. Is the park selling or renting those homes ______

c. If the spaces are rented, what is the rent Including the space and mobilehome rent? ______

14. When did the current owner purchase the park? ______

15. How many spaces are covered by leases of more than one year. _____

If the park has a standard lease please provide a copy

APPENDIX 3

2008 SPACE RENT SURVEY - MONTEREY COUNTY					
		RENT	NO. OF	BASE RENT	BASE RENT
LOCATION	PARK	CONTROL	SPACES	LOW	HIGH
Castroville	Monte Del Lago	NO	310	985	1135
				985	*1135*
King City	Pine Canyon	NO	123	255	280
				255	*280*
Marina	Cypress Square	NO	92	440	500
Marina	El Camino	NO	62	407	500
Marina	El Rancho	NO	97	310	406
Marina	Lazy Wheel	NO	69	550	650
Marina	Marina del Mar	NO	83	299	468
average				*401*	*505*
Moss Landing	Trail's End	NO	40	475	495
Moss Landing	Moss Landing	NO	104	370	405
average				*423*	*450*
Prunedale	Cabana	NO	49	550	550
Prunedale	Ponderosa Oaks	NO	60	465	575
average				*508*	*563*
Salinas	Lamplighter	YES	250	600	750
Salinas	Cal-Hawaiian	YES	157	455	755
Salinas	Alisal	YES	82	383	740
Salinas	Mid-Town	YES	80	575	600
Salinas	La Canada	YES	119	424	571
Salinas	Rancho Salinas	YES	137	528	570
Salinas	Village	YES	118	350	475
Salinas	Del Monte	YES	64	350	450
average				*458*	*614*
Seaside	Seaside	NO	98	480	635
Seaside	Green Parrot	NO	47	400	400
Seaside	Trailer Terrace	NO	59	355	410
average				*412*	*482*
Soledad	Soledad	NO	30	411	461
Soledad	Nielsen's	NO	27	265	265
Soledad	Santaelena	NO	100	200	200
average				*292*	*309*
total spaces			2457		
weighted average				*496*	*611*

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KEY INFORMANTS

In order to better understand mobilehomes, Marina, and the citywide context for the mobilehome study, the author interviewed stakeholders and others. Many thanks to all who shared their time and thoughts. Unless attributed specifically, all opinions in the report are the author’s.

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Dave Evans, park owners’ association representative
Fran Hirsch, park manager
Dean Moser, park owner and manager

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Albert Vieira, park owner
Bill and Sue Denhoy, park owners
Manuel Vieira, park manager
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Gege Winton, realtor
Michael Tate, park owner
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