Jan and Linda Derksen
Arcata California 95521

April 4, 2016

Arcata City Council and Staff
736 F Street
Arcata, CA 95521

Re: FollettUSA's Long Term Lease offered to Lazy J Ranch Mobile Home Park residents allows for high space rents, allows for unpredictable space rents, and makes lease signers exempt from a future Space Rent Stabilization Ordinance

Dear City Council Members and Staff,

We'd like to tell you why we don't want to sign a long term lease with FollettUSA, the owners of the Lazy J mobile home park where we live.

FollettUSA's long term lease raises 7 red warning flags that give us pause about whether the lease will give us lower space rents or predictable space rents.

Red Flag #1. **3% minimum** increase in space rent per year. (1) This long-term lease clause requires that space rent increases will be much higher than inflation (CPI) for the foreseeable future.

Consider the fact that inflation has not come close to 3% in the last decade. Also consider that most economists don't expect it to rise to that level in the next five years and perhaps much longer. Inflation last year was 1 tenth of 1%, almost zero. If we had signed this lease last year, FollettUSA would have demanded a space rent increase from us that was 3% above inflation!

Keeping space rents in line with inflation should provide enough money to cover basic expenses (30% of gross income) and capital expenditures ($125/space) and a reasonable profit. (2) The previous park owners, Johnson Ranch, kept space rents in line with inflation and prospered for 40 plus years before selling the Lazy J to FollettUSA in 2013.

Red Flag #2. "Formula Adjustments to Base Rent." (3) These adjustments would increase Lazy J space rent above and beyond the 3% we just talked about. Thus the lease provides for dramatic increases in space rents to pay for upscale capital expenses that will gentrify the Lazy J (see below Red Flag #4).

"Formula Adjustments" refers to property taxes (4), capital replacements (5), and capital improvements (6). A California attorney who analyzed FollettUSA's long term lease said about this clause, "It's the other "Adjustments" contained in paragraph 5.3 which are the problem. This paragraph and its subparagraphs allow "**pass throughs" which shall add on to the monthly rent load** <u>**significantly**</u>. These include a property tax increase which could be triggered if there is a 'change of ownership' under Prop 13, as in a sale of the park. In addition there is a pass through which includes the cost of all capital items +6% interest, and **no approval vote power by residents** is included for new capital improvements which many times is present in leases." (7) [bold emphasis added]

The attorney also pointed out that the lease is worded so that any "formula adjustments" to the base rent will "become a part of base rent and be added to the base that is increased each year" instead of being treated as **true** pass-throughs with a "date upon which the charge will drop off once full reimbursement is obtained." (8)

Red Flag #3. Five-year amortization period for long-term (15-30 year) capital expenditures. (9) This provision is bad for Lazy J residents because long-term capital expenditures should be paid off over 15-30 years, not just in five years.

As you know, amortization usually applies to the lifetime of an item, say 15 years for something like re-asphalting a street or 20 years for replacing a roof. A 5-year amortization period means that the residents of the Lazy J from 2014 to 2019 will pay 99% of the capital expenses incurred during this time period even though the lifespan of the improvements and replacements will be for 20 years in the future.

The 5-year amortization applies to capital expenses of more than $50,000. You need to consider that the Arcata Lazy J is a big mobile home park with 220 spaces for rent. Add together all the smaller capital improvements in one year, and the $50,000 threshold will be easily met, meaning that the current Lazy J residents are going to be paying almost the entire bill for all the long-term capital expenditures at the park incurred during this short time period.

The next four red warning flags take into consideration other management actions at the Lazy J in the past two years that might give us pause about signing a lease with FollettUSA.

Red Flag #4. Indications of gentrification. Gentrification means higher space rents and wealthier residents who can pay them. For example, FollettUSA has plans for a new clubhouse/community building with a new laundromat. Maintenance fees will be passed on to the Lazy J residents.

Red Flag #5. Elimination of poorest residents at the Lazy J. A 41% space rent increase (10) on incoming residents has **prevented people on fixed minimum social security income from entering the Lazy J as new residents** for the last two years. This kind of exclusion never happened during the previous 40 plus years when Johnson Ranch owned the park. FollettUSA is also engineering the gradual **attrition of the poorest current residents** by imposing above-inflation rent increases every year. These above-inflation space-rent increases have occurred for the past three years and presumably will continue into the future. The social security income of these poorest residents, which rises according to CPI (inflation), will not keep up with the space rent increases, and they will soon be forced to leave the park for economic reasons.

Red Flag #6. Anyone who signs the Long Term Lease is immediately exempt from any Space Rent Stabilization Ordinance (SRSO) provisions. (11) If the City of Arcata adopts a mobile home SRSO, FollettUSA will continue to receive high space rents from residents who signed the lease, residents who had hoped for lower rents and more predictable rents. Getting signatures on the lease is important to FollettUSA because every signature reduces the number of residents who would enjoy the provisions of any Space Rent Stabilization Ordinance that the City of Arcata might adopt. Instead, these residents will be subject to the high space rents that the long term lease allows.

Red Flag #7. Trends in California to gentrify some mobile home parks. Look at two of the most popular websites extolling the high returns for mobile home park owners: the Park Street Partners website (see footnote #2) and the Mobile Home University (12) website. Browsing these websites and seeing the recent changes at the Lazy J, we are left to surmise that FollettUSA envisions big profits for its owners/investors.

Three red flags in the Long Term Lease permit huge space rent increases. Four more red flags indicate that FollettUSA is on course to drastically increase profits.

Signing this lease would not result in lower or predictable space rents. Signing this lease would prevent us from enjoying the provisions of a future SRSO. Now you know why we and many of our neighbors refuse to sign it.

Thank you for reading our letter and for considering our comments.

Sincerely,

Jan and Linda Derksen

Footnotes

(1) Paragraph 5.2.: "…However, in no event shall the Base RENT adjustment under this paragraph 5.2 be less than three percent (3%) or more than six percent (6%)."

(2) http://www.parkstreetpartners.net/mobilehomeparkinvestments/wise

(3) Paragraph 5.3.: "Formula Adjustments to Base Rent. Commencing with the first Anniversary Date of this AGREEMENT and upon written notice of at least ninety (90) days, the Base RENT then in effect shall be subject to formula adjustments."

(4) Paragraph 5.3.2.1.: "If … there is an increase in Property Taxes in excess of two percent (2%), the Base RENT then in effect shall be increased…"

(5) Paragraph 5.3.2.2.1.: "The term "Capital Replacement" refers to replacement of any existing thing or item in the PARK with a useful life of one (1) year or more. Examples of Capital Replacements: A roof to replace the old roof on the existing clubhouse; … any and all street repairs/renovations/slurry/re-asphalting, including replacement of overlay."

(6) Paragraph 5.3.2.2.2. "The term "Capital Improvement" refers to anything or item which is new and not before existing in the PARK and has a useful life of one (1) year or more. Examples of Capital Improvement: Construction of a new swimming pool where none existed before; adding new landscaping where none existed before; installing air conditioning in the clubhouse where none existed before. However, in the event PARK builds a new clubhouse or community center, such capital expense shall not be subject to the rent increase provisions of this paragraph 5.3."

(7) Letter Re: Lazy J Ranch Mobile Home Park Long Term Lease Agreement, 12/8/2015.

(8) Ibid.

(9) Paragraph 5.3.2.2.: "If there have been Capital Improvements and/or Capital Replacements (as defined below) made by the OWNER during the relevant time period, the amount of the increase to the Base RENT shall equal the total cost of Capital Improvements and/or Capital Replacements made by the OWNER…**amortized over a five (5) year period**, divided by twelve (12) and divided by the number of homesites in the PARK. … OWNER shall be entitled to receive interest on the unamortized balances of such Capital Improvement and/or Capital Replacement, calculated by utilizing a six percent **(6%) interest** factor. … Capital expenses will only be subject to this paragraph 5.3 if the **total capital expenses** (improvements and/or replacements) are in excess of Fifty Thousand Dollars ($50,000) in the relevant twelve (12) month time frame." [bold emphasis added to original text]

(10) The space rents for **new** residents at the Lazy J increased from $342 to $481 in just two years, an increase of 41%. $342/month space rent in 2013. $481/month space rent in 2015. $481 minus $342 = $139. $139/$342=40.64%

(11) California's Mobilehome Residency Law 798.17(a)(1)

(12) http://www.mobilehomeuniversity.com/articles/why-invest-in-mobile-home-parks.php