Start-Up

- Purchasing land may be expensive, especially for larger plots for commercial lease. Marketing and preparing the land for lease can also be expensive for small private owners.

Differentiation

- Price and location make the difference for land leasing. The size of the property also differentiates plots of land. New land leasing companies can only sometimes control their competitive advantage in these factors, except for the price.

Capital Expenses

- Land leasing companies face significant barriers to entry related to capital expenses, such as high initial investments in land acquisition, development costs, infrastructure improvements, and regulatory compliance, which can deter new entrants and limit market competition.

☆ **Key Success Factors**

How can potential entrants overcome barriers to entry?

Accommodate environmental requirements

Accommodating environmental requirements helps land leasing companies overcome barriers to entry by ensuring regulatory compliance, avoiding costly fines and enhancing market appeal. Meeting these standards can attract eco-conscious tenants and investors, facilitating smoother project approvals and competitive differentiation.

Attract local support

Attracting local support helps land leasing companies overcome barriers to entry by fostering community goodwill, easing regulatory approvals and gaining access to local incentives. This support can streamline project development and enhance acceptance and occupancy rates.

Substitutes

Moderate Steady

What are substitutes for industry services?

Real Estate Sales & Brokerage

- The real estate sales and rental industry substitutes the land leasing industry by offering alternative property acquisition and use options. When individuals or businesses face high lease costs or inflexible lease terms, purchasing property or opting for traditional rentals can become more attractive.
- Owning surrounding land adds to the homeowner's assets. The household can use the home and land as collateral to secure large loans.
- Most land leasing companies don't market to homeowners capable of purchasing the surrounding land. Retirees and lower-income households buy houses and lease the surrounding land because property ownership costs more.

Apartment Rental

- Low-income households and retirees gravitate toward apartments and complexes. Renting provides a low-cost alternative to traditional homeownership.
- Renters don't have to maintain their homes' exteriors or yards; maintenance fees cover the building's upkeep.
- Land leasing companies may lease the land to apartment complex management companies. Renting remains a substitute for more prominent land leasing revenue sources, like manufactured home communities.

Key Success Factors

How do successful businesses compete with substitutes?

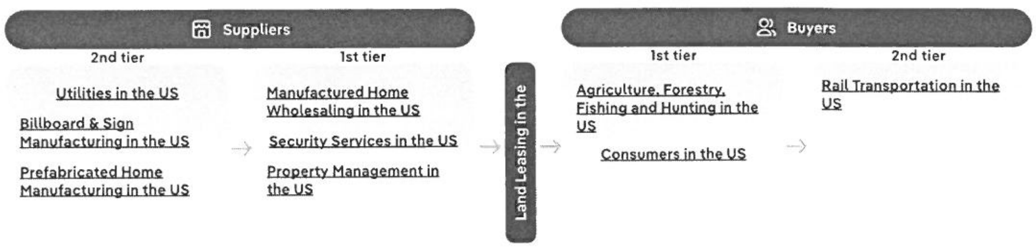
Appeal to business from a desired demographic

Manufactured home sites are popular in states and regions with warm average yearly temperatures. Companies in the southern and coastal states easily attract tenants.

Ensure appropriate pricing policy

Ensuring an appropriate pricing policy helps land leasing companies remain competitive by aligning lease rates with market demand and offering better value than purchasing or renting options, attracting and retaining tenants in a competitive landscape.

Buyer & Supplier Power



IBISWorld

Source: IBISWorld

What power do buyers and suppliers have over the industry?

High Steady

Buyers: Many substitutes exist

- Finding land for lease can frustrate households and companies. But, the plethora of land available offers many alternatives. High demand for certain locations or property types can shift power back to lessors, but overall, buyer preferences heavily shape market dynamics and strategic decisions.
- Households and companies gain buying power when willing to sacrifice preferred location and size. They can avoid poor leasing terms and get lower rents.

Moderate Steady

Suppliers: Availability and cost of materials can vary

- Suppliers wield considerable power over the land leasing industry by influencing the availability and cost of essential services and materials. This includes construction materials, utilities and maintenance services for developing and managing leased properties.
- Suppliers controlling scarce resources or having few alternatives can drive up prices or dictate terms, impacting operating costs and lease pricing. Supplier reliability affects property quality and readiness, influencing tenant satisfaction and occupancy rates.

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Key Success Factors

How do successful businesses manage buyer & supplier power?

Alter goods and services produced in favor of market conditions

Altering goods and services to align with market conditions helps land leasing companies manage buyer power by meeting evolving tenant demands, enhancing value, differentiating offerings, reducing buyers' leverage in negotiations and maintaining a competitive edge.

Implement superior financial management and debt management

Since large-scale land leasing requires a substantial initial investment, most big land leasing companies have built up significant amounts of debt. Also, land leasing companies extend financing to tenants. Companies must properly manage their finances.

Companies

Key Takeaways

Sun Communities' strong performance highlights the business opportunities in RV parks, not just manufactured homes. Manufactured housing continues to experience growth, fueled by factors like affordability, low inventory in the traditional housing market and increasing interest in alternative housing options.

Equity Lifestyle Properties invests in protecting the environment around its land. Landowners must properly maintain the land's environmental quality, especially for regulatory reasons.

Major Players

Company	Revenue	Market Share
Sun Communities, Inc.	$1.8bn	9.3%
Equity Lifestyle Properties, Inc.	$1.2bn	6.3%
Other Companies	$16.6bn	84.4%

Companies

Company	Market Share (%) 2024	Revenue ($m) 2024	Profit ($m) 2024	Profit Margin (%) 2024
Sun Communities, Inc.	9.3	1,839.0	308.1	16.8
Equity Lifestyle Properties, Inc.	6.3	1,236.6	303.3	24.5

Sun Communities, Inc.

Company Details

Industry Revenue (2024)	$1.8bn
Industry Profit (2024)	$308.1m
Total Employees (2024)	6,780
Industry Market Share (2024)	9.3%

Description

Sun Communities is a public company headquartered in Michigan with an estimated 5,961 employees. In the US, the company has a notable market share in at least three industries: Land Leasing, Campgrounds & RV Parks, Residential RV & Trailer Park Operators and Campgrounds & RV Parks. Their largest market share is in the Land Leasing industry, where they account for an estimated 14.9% of total industry revenue.

Brands & Trading Names

- Sun Communities

Other Industries

- Campgrounds & RV Parks in the US
- Residential RV & Trailer Park Operators in the US

Company's Industry Revenue, Market Share, and Profit Margin Over Time

Year	Market Share (%)	Revenue ($m)	Profit ($m)	Profit Margin (%)
2019	6.7	970.6	136.2	14.0
2020	7.3	1,092.8	115.2	10.5
2021	9.7	1,545.5	281.5	18.2
2022	9.5	1,622.6	144.1	8.9
2023	9.5	1,754.9	-113.8	-6.5
2024	9.3	1,839.0	308.1	16.8

What's impacting Sun Communities, Inc.'s performance?

Sun Communities will acquire Park Holiday's UK

- Sun Communities, Inc. announced that it would acquire Park Holidays UK for about $1.3 billion. Park Holidays' operating team will continue to run daily operations under the new ownership. This move will increase the company's footprint into the United Kingdom. The company has stated it believes they can efficiently integrate with Park Holidays and create significant value, according to it's CEO.

Sun Communities receives ratings from S&P Global Ratings and Moody's

- Sun Communities, Inc. has received ratings from S&P Global Ratings and Moody's. S&P Global Ratings has assigned a BBB issuer rating. Moody's Investors Service has assigned a Baa3 issuer rating. Both firms attached a "stable outlook" description to the company. These ratings will broaden the access the company has to capital and increase the opportunities the company has to expand.

Sun Communities acquires Safe Harbor marinas

- Sun Communities, Inc. closed the acquisition of Safe Harbor Marinas, LLC. As part of the acquisition, Sun Communities acquired three of Safe Harbor's managed properties. Safe Harbor has an approximate 40,000-member network of boat owners across 22 states. This move will expand the footprint of Sun Communities in the market.

Equity Lifestyle Properties, Inc.

Company Details

Industry Revenue (2024)	$1.2bn
Industry Profit (2024)	$303.3m
Total Employees (2024)	4,000
Industry Market Share (2024)	6.3%

Description

Equity Lifestyle Properties is a public company headquartered in Illinois with an estimated 4,200 employees. In the US, the company has a notable market share in at least three industries: Land Leasing, Campgrounds & RV Parks, Residential RV & Trailer Park Operators and Campgrounds & RV Parks. Their largest market share is in the Residential RV & Trailer Park Operators industry, where they account for an estimated 9.1% of total industry revenue and are considered an All Star because they display stronger market share, profit and revenue growth compared to their peers.

Brands & Trading Names

- Encore
- Loggerhead Marinas
- Thousand Trails

Other Industries

- Campgrounds & RV Parks in the US
- Residential RV & Trailer Park Operators in the US

Company's Industry Revenue, Market Share, and Profit Margin Over Time

Year	Market Share (%)	Revenue ($m)	Profit ($m)	Profit Margin (%)
2019	6.1	879.6	236.7	26.9
2020	6.2	923.7	188.5	20.4
2021	6.5	1,032.6	205.9	19.9
2022	6.6	1,118.6	220.0	19.7
2023	6.4	1,179.0	248.7	21.1
2024	6.3	1,236.6	303.3	24.5

What's impacting Equity Lifestyle Properties, Inc.'s performance?

ELS announces partnership with Loggerhead Marinelife Center

- 4.22.21 ELS has announced a multi-year partnership with the Loggerhead Marinelife Center in an effort to improve its commitment to environmental sustainability. As the operator of more than 430 home communities, RV resorts, campgrounds and marinas in the United States, ELS anticipates this partnership will prove beneficial for both companies and provide an opportunity for eco-friendly innovation in both its existing properties and future planned projects.

Equity Lifestyle Properties Inc. discusses commitment to sustainability

- Equity Lifestyle Properties Inc. (ELP) has outlined its commitment to ESG causes. As part of the recent relocation of its head office, ELP has insisted contractors install low-flow eco friendly restroom features in an effort to conserve water and limit its environmental footprint. ELP has also ensured that the properties it represents pose no threat to indigenous plant life and fauna, as well as incorporate environmentally friendly materials into its construction projects. ELP also promotes diversity among its workforce through the Cristo Rey Work-Study Program, Consider Others, and Share Your Soles programs.

You can view and download more company details on my.ibisworld.com.

External Environment

Key Takeaways

Rising house prices benefit land leasers by driving more clients towards affordable mobile homes. As conventional housing becomes less accessible, manufactured homes attract buyers, enhancing revenue per unit for land leasing businesses.

Access to credit is crucial for both consumers and land leasers in the manufactured home market. Limited credit availability can hinder purchases and threaten over-leveraged companies, impacting the industry's overall stability.

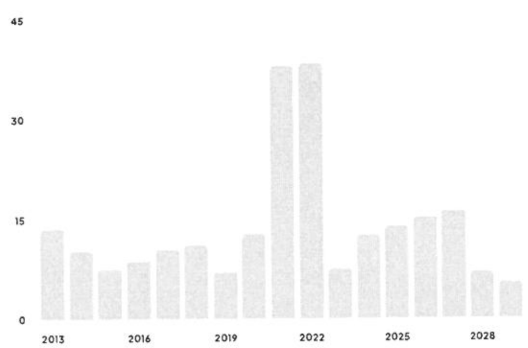
Regulation & Policy	Assistance
Moderate Steady	**Low** Steady

External Drivers

What demographic and macroeconomic factors impact the industry?

The growing number of adults aged 50 and older affects the land leasing industry by increasing the demand for age-appropriate housing and amenities. This demographic shift prompts developers to focus on senior-friendly communities, leading to more leasing opportunities in the healthcare and recreation sectors. Adaptations for accessibility and lifestyle preferences may result in higher rental rates, influencing investment decisions and market strategies in the industry.

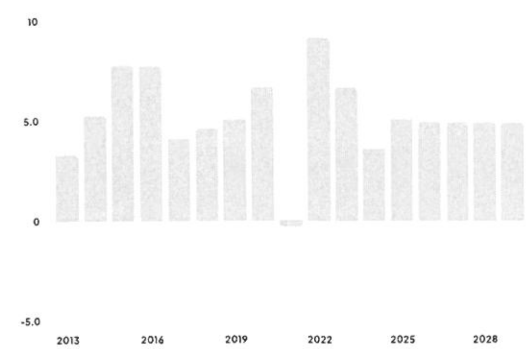
House price index
Growth



IBISWorld Source: IBISWorld

Low-income households comprise a large client base because mobile and manufactured homes provide a low-cost alternative to traditional home ownership. Land leasers benefit from rising home prices. Revenue per house sold rises and buyers priced out of conventional markets gravitate toward manufactured homes. A drop in the house price index poses a significant threat.

Access to credit
Growth

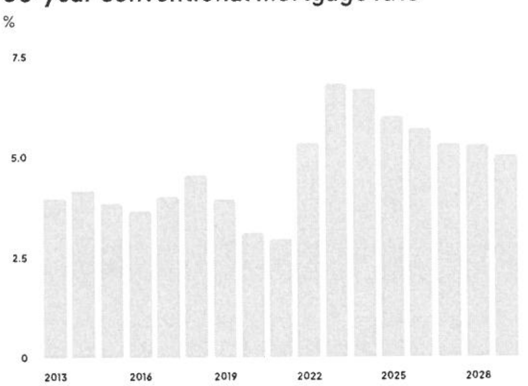


IBISWorld Source: IBISWorld

Access to credit represents the ability of consumers to obtain loans. Buyers of manufactured homes rely on loans to make their purchases, and land leasers use credit to run their operations and acquire new property. If banks reduce credit availability, fewer people will buy manufactured homes, and over-leveraged companies can go bankrupt.

Windmill 407

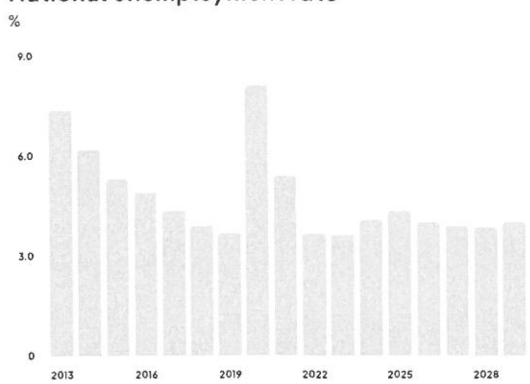
30-year conventional mortgage rate



IBISWorld Source: IBISWorld

Interest rates impact the traditional and manufactured home markets. Mortgages finance most traditional home purchases; on-site home purchase costs fluctuate with interest expenses. Manufactured home buyers worry less about interest rate fluctuations, but tight credit markets present a risk to existing and potential homeowners.

National unemployment rate



IBISWorld Source: IBISWorld

The national unemployment rate shapes the land leasing industry by influencing economic confidence and consumer spending power. High unemployment typically reduces demand for leased properties, as individuals face financial constraints and businesses downsize or delay expansion. Conversely, low unemployment can boost leasing activity, with more individuals seeking residential rentals and companies expanding operations, leading to increased property demand and potentially higher lease rates.

Regulation & Policy

Moderate Steady

What regulations impact the industry?

Environmental Regulations

Several federal regulations, including the Clean Water Act, Clean Air Act, Endangered Species Act, and National Environmental Policy Act, impact the Land Leasing industry. Regulation compliance can involve additional costs for environmental assessments, permits, mitigation measures, or pollution control technologies. Regulations may also limit development options on certain lands, reducing the potential profitability for land leasing companies.

REIT Regulations

Companies that nominate themselves as Real Estate Investment Trusts (REITs) must abide by several rules and regulations. To qualify as REITs, companies must distribute at least 90.0% of their taxable income to shareholders in the form of dividends, and at least 75.0% of their total assets must be real estate and cash.

Community Zoning Laws

Community zoning laws significantly impact the land leasing industry by dictating land use and influencing leasing opportunities and values. These regulations determine permissible activities on a property, affecting potential tenant interest and lease structuring. Strict zoning can limit developer flexibility, impacting supply and pricing. Conversely, favorable zoning can enhance land desirability and lease terms, shaping market dynamics and investment strategies.

Amenity Safety Laws

Amenity safety laws significantly influence the land leasing industry by setting facility standards that attract tenants. Compliance with these regulations ensures tenant safety, reducing liability and enhancing property marketability. However, meeting stringent safety requirements can expand operational costs for lessors. This can impact lease pricing and terms, potentially impacting profitability while simultaneously fostering tenant trust and long-term lease agreements.

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Assistance

Low Steady

What assistance is available to this industry?

Government
Private-Public Land Development Partnerships

Private-public land development partnerships support the land leasing industry by facilitating projects that might be unfeasible for private entities alone. These collaborations leverage public resources and incentives, attracting investment and stimulating development in underserved areas. By sharing risks and benefits, such partnerships enhance infrastructure, strengthen land value and create leasing opportunities, ultimately driving economic growth and diversification in local markets across the country.

Non-government
Manufactured Housing Institute

The Manufactured Housing Institute (MHI) supports the U.S. land leasing industry by advocating for favorable policies and regulations that enhance the growth of manufactured housing communities. MHI provides industry data, best practices and education to stakeholders, promoting the benefits of manufactured homes as affordable housing solutions. By influencing legislation and increasing awareness, MHI fosters an environment conducive to expanding leasing opportunities in this sector.

Financial Benchmarks

Key Takeaways

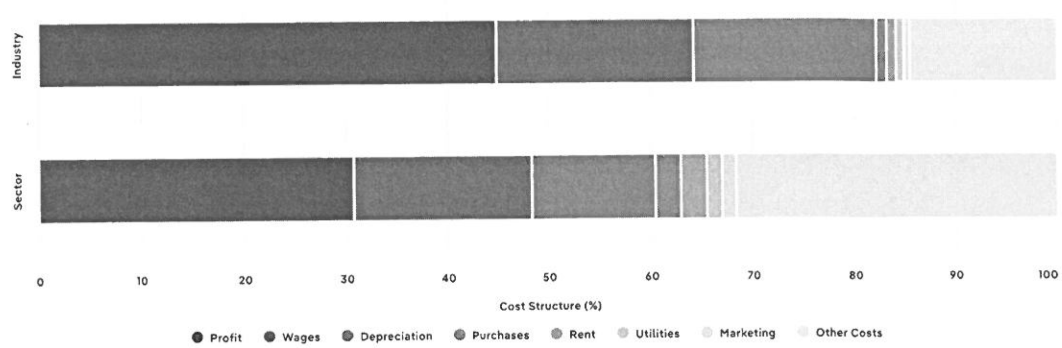
Land doesn't count toward depreciation costs because its potential usefulness never ends. Its intrinsic value might fluctuate based on market conditions, but it doesn't depreciate like a building or machine.

Land lease agreements typically generate consistent, predictable income through rent payments. This recurring revenue stream can be a stable source of profit compared to businesses with irregular income flows.

Profit Margin		Average Wage		Largest Cost	
45.0 %	Higher than sector	$31,215	Lower than sector	Wages	19.3% of Revenue

Cost Structure Benchmarks

Average operating costs by industry and sector as a share (%) of revenue 2024



Source: IBISWorld

What trends impact industry costs?

Backhoes, trucks and equipment help prepare and maintain land for lease

- Capital expenses include building purchases, community services and amenities, structural and land improvements, equipment replacements and community furniture and fixtures. Larger players have higher depreciation expenses because of the size of the community infrastructure and facilities they operate.
- Land never depreciates since its lifetime of use has no end. Machines for managing properties contribute to depreciation costs.
- Backhoes, trucks, bulldozers and other small and large machines help landowners manage the land for lease. Machines prepare the land for lease and perform maintenance upon the tenant's request.
- Low depreciation and wage costs underscore land leasing's low dependability on people other than the owner.

Wages have slightly climbed because of a tight labor market

- Wages don't heavily impact land leasing profitability. Most land leasing companies don't have employees. However, the labor market has been tight recently. This has led to increased competition for talent, and land leasing companies have had to raise wages to attract and retain qualified employees.
- Those with employees don't require highly skilled workers. The land itself comprises most of the business. Consultations and legal fees go outside the internal cost structure and don't contribute to wages.

Profit is extraordinarily high and few factors hold it back

- Profit remained elevated on the back of higher home prices. Despite rising costs for some types of land leasing companies, most companies cashed in the post-2020 economic environment.
- Land leasing is easy to manage. Most companies incur little to no administration costs aside from negotiating the initial terms of the lease. The high selling prices of properties in 2021 and 2022

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dwarfed higher negotiation and settlement costs brought on by rising sales volume.

- It is important to mention that operating profit is a misleading indicator of profitability in this industry. Since companies (especially large ones) use extensive debt to finance expansion and operations, interest payments make up a large portion of expenses. Therefore, net operating income (total operating revenue less total operating expenses) is a more appropriate benchmark for an operator's actual profit.

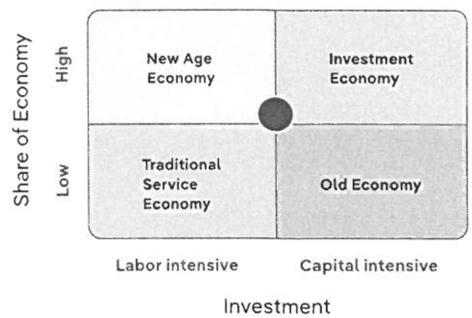
Purchase costs are limited

- Purchases in this industry primarily consist of maintenance and repair work and land or leasing costs where applicable. Like most other costs, big land lessors usually spend more on purchases than their smaller rivals because of the extra maintenance and repair work needed to run bigger operations.
- Geographic location can impact costs because of differences in labor rates, materials availability, and local compliance requirements. Properties in remote areas might have higher transportation costs for both labor and materials.

Marketing spend varies by company size

- Marketing costs vary by the size of the land lessor. Larger lessors can run national advertising campaigns, while smaller lessors focus on local markets.
- Certain times of the year may require more aggressive marketing strategies, impacting costs. For example, peak leasing seasons might see increased marketing spending.
- The choice of marketing channels—such as digital marketing, print advertising, or trade shows—affects costs. Digital marketing might offer cost-effective options with a broader reach, while traditional methods like direct mail may involve higher costs.

Share of economy vs. Investment



IBISWorld Source: IBISWorld

Financial Ratios

Days' Receivables	Interest Coverage	Debt/Net Worth
41.0 Higher than sector	**2.3** Higher than sector	**2.2** Higher than sector

Industry Multiples

Ratio	2018	2019	2020	2021	2022	3-Year	5-Year	10-Year
EBIT/Revenue	39.7	39.7	37.0	28.2	25.2	30.1	34.0	33.7
EBITDA/Revenue	N/A	N/A	50.2	31.7	28.7	36.9	36.9	38.2
Leverage Ratio	14.3	1.8	2.0	3.2	3.5	2.9	4.9	10.2

Industry Tax Structure

Ratio	2018	2019	2020	2021	2022	3-Year	5-Year	10-Year
Taxes Paid/Revenue	6.1	7.0	6.7	5.9	5.8	6.1	6.3	6.6

Income Statement

Ratio	2018	2019	2020	2021	2022	3-Year	5-Year	10-Year
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Business receipts	39.7	52.5	89.2	98.8	108.9	99.0	77.8	73.6
Cost of goods	32.7	56.6	40.4	49.2	49.7	46.5	45.7	46.8
Gross Profit	67.3	43.4	59.6	50.8	50.3	53.5	54.3	53.2
Expenses								
Salaries and wages	3.7	4.0	2.1	3.2	3.2	2.8	3.2	4.0
Advertising	8.5	8.5	8.5	0.6	0.6	3.2	5.3	6.9
Depreciation	1.7	2.7	1.6	2.7	2.8	2.4	2.3	3.2
Depletion	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	7.2	6.5	6.5	0.8	0.7	2.7	4.3	5.9
Rent paid	2.2	3.3	4.7	1.6	1.6	2.7	2.7	3.1
Repairs	0.8	0.3	0.5	0.4	0.4	0.4	0.5	1.1
Bad debts	8.1	2.0	6.1	0.6	0.8	2.5	3.5	4.8
Employee benefit programs	2.5	1.6	2.8	1.6	1.8	2.1	2.1	1.7
Compensation of officers	5.7	0.5	4.8	2.5	2.9	3.4	3.3	2.7
Taxes paid	6.1	7.0	6.7	5.9	5.8	6.1	6.3	6.6
Interest Income	11.9	13.0	16.4	6.6	4.9	9.3	10.6	9.9
Other Income								
Royalties	0.0	0.2	0.0	0.0	0.0	0.0	0.1	0.1
Rent Income	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1
Net Income	17.8	12.1	11.1	8.7	8.6	9.4	11.7	15.2

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Balance Sheet

Ratio	2018	2019	2020	2021	2022	3-Year	5-Year	10-Year
Assets								
Cash and Equivalents	42.3	42.5	42.1	3.7	3.3	16.4	26.8	34.6
Notes and accounts receivable	12.1	12.4	12.0	15.2	11.2	12.8	12.6	12.3
Allowance for bad debts	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Inventories	0.7	0.8	4.4	1.2	0.9	2.2	1.6	1.8
Other current assets	12.0	12.2	11.9	7.4	6.8	8.7	10.1	10.6
Other investments	51.7	60.7	59.9	39.2	28.6	42.5	48.0	47.7
Property, Plant and Equipment	74.5	61.9	63.7	63.7	41.0	56.1	61.0	69.3
Accumulated depreciation	32.2	32.6	31.8	40.3	31.5	34.5	33.7	33.0
Intangible assets (Amortizable)	6.7	5.6	5.6	3.6	4.2	4.5	5.1	5.5
Accumulated amortization	1.7	1.3	1.7	1.1	1.1	1.3	1.4	1.3
Other assets	5.3	5.4	5.2	6.6	6.5	6.1	5.8	5.5
Total assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Accounts payable	0.8	0.7	0.7	1.3	1.0	1.0	0.9	0.9
Liabilities and Net Worth								
Mort, notes, and bonds under 1 yr	2.1	1.7	1.5	0.9	1.0	1.1	1.4	1.4
Other current liabilities	12.6	12.6	12.6	7.9	7.1	9.2	10.5	11.6
Loans from shareholders	1.6	1.3	1.2	1.3	1.5	1.3	1.4	1.8
Mort, notes, bonds, 1 yr or more	43.5	36.6	41.4	36.0	45.7	41.0	40.6	41.1
Other liabilities	4.4	4.2	3.5	5.4	5.3	4.8	4.6	4.9
Total liabilities	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Capital stock	10.4	10.4	5.8	7.0	6.0	6.3	7.9	8.8
Additional paid-in capital	79.3	79.3	80.9	55.0	44.5	60.1	67.8	72.1
Retained earnings, appropriated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retained earnings-unappropriated	3.9	3.9	3.9	1.6	1.6	2.4	3.0	9.9
Cost of treasury stock	15.7	15.8	15.7	17.9	18.2	17.2	16.6	16.2
Net worth	57.2	63.7	61.5	56.7	45.0	54.4	56.8	56.7

Liquidity Ratios

Ratio	2018	2019	2020	2021	2022	3-Year	5-Year	10-Year
Current Ratio	4.3	4.3	4.3	2.7	2.5	3.2	3.7	3.2
Quick Ratio	N/A	N/A	N/A	2.6	2.4	2.5	2.5	1.9
Sales/Receivables	1.0	8.1	8.3	6.6	8.9	8.0	6.6	3.8
Days' Receivables	370.2	45.2	43.7	55.3	41.0	46.7	111.1	253.0
Days' Inventory	61.2	5.1	39.9	9.1	6.4	18.5	24.3	85.1
Inventory Turnover	6.0	72.1	9.1	39.9	57.0	35.4	36.8	31.4
Payables Turnover	5.1	6.1	5.6	36.8	47.5	30.0	20.2	13.1
Days' Payables	71.4	4.7	6.4	9.9	7.7	8.0	20.0	45.5
Sales/Working Capital	0.4	4.2	5.7	6.6	9.8	7.3	5.3	3.0

Coverage Ratios

Ratio	2018	2019	2020	2021	2022	3-Year	5-Year	10-Year
Interest Coverage	2.1	1.8	1.9	2.1	2.3	2.1	2.0	2.3
Debt Service Coverage Ratio	5.6	17.1	12.7	0.4	0.3	4.5	7.2	6.8

Leverage Ratios

Ratio	2018	2019	2020	2021	2022	3-Year	5-Year	10-Year
Fixed Assets/Net Worth	2.4	1.9	1.9	2.0	1.8	1.9	2.0	2.2
Debt/Net Worth	1.7	1.6	1.6	1.8	2.2	1.9	1.8	1.8
Tangible Net Worth	0.6	0.6	0.6	0.6	0.4	0.5	0.6	0.6

Operating Ratios

Ratio	2018	2019	2020	2021	2022	3-Year	5-Year	10-Year
Return on Net Worth, %	9.6	67.3	60.2	49.7	56.0	55.3	48.5	28.7
Return on Assets, %	5.5	42.9	37.0	28.2	25.2	30.1	27.7	16.4
Sales/Total Assets	0.1	1.0	1.0	1.0	1.0	1.0	0.8	0.5
EBITDA/Revenue	N/A	N/A	50.2	31.7	28.7	36.9	36.9	38.2
EBIT/Revenue	39.7	39.7	37.0	28.2	25.2	30.1	34.0	33.7

Cash Flow & Debt Service Ratios (% of sales)

Ratio	2018	2019	2020	2021	2022	3-Year	5-Year	10-Year
Cash from Trading	72.1	66.7	55.6	56.5	47.0	53.0	59.6	61.7
Cash after Operations	53.0	46.6	35.2	47.9	38.2	40.4	44.2	43.7
Net Cash after Operations	43.7	49.0	31.3	53.7	39.0	41.4	43.4	38.8
Debt Service P&I Coverage	1.0	1.7	1.2	3.3	2.9	2.5	2.0	1.5
Interest Coverage (Operating Cash)	2.0	2.1	1.6	4.0	3.6	3.1	2.7	2.2

Key Ratios

Year	Revenue per Employee ($)	Revenue per Enterprise ($ Million)	Employees per Estab. (Units)	Employees per Ent. (Units)	Average Wage ($)	Wages/ Revenue (%)	Estab. per Enterprise (Units)	IVA/ Revenue (%)
2005	133,646	0.2	1.3	1.3	23,267	17.4	1.0	77.1
2006	139,177	0.2	1.3	1.4	24,321	17.5	1.0	79.0
2007	132,770	0.2	1.4	1.4	23,291	17.5	1.0	80.4
2008	146,551	0.2	1.4	1.4	25,417	17.3	1.0	81.0
2009	118,565	0.2	1.3	1.3	20,330	17.1	1.0	80.8
2010	137,047	0.2	1.3	1.3	21,558	15.7	1.0	80.4
2011	138,702	0.2	1.3	1.3	21,406	15.4	1.0	80.6
2012	142,471	0.2	1.3	1.3	23,608	16.6	1.0	82.2
2013	146,365	0.2	1.3	1.3	22,247	15.2	1.0	80.3
2014	140,999	0.2	1.3	1.3	22,360	15.9	1.0	80.8
2015	139,835	0.2	1.3	1.3	26,191	18.7	1.0	84.3
2016	135,065	0.2	1.3	1.3	29,122	21.6	1.0	87.8
2017	143,992	0.2	1.3	1.3	31,138	21.6	1.0	85.9
2018	142,169	0.2	1.3	1.3	27,344	19.2	1.0	83.6
2019	148,408	0.2	1.3	1.3	27,748	18.7	1.0	84.3
2020	151,365	0.2	1.3	1.3	26,575	17.6	1.0	86.1
2021	153,542	0.2	1.3	1.3	31,017	20.2	1.0	81.0
2022	154,314	0.2	1.3	1.3	30,911	20.0	1.0	81.1
2023	158,390	0.2	1.3	1.3	31,072	19.6	1.0	81.8
2024	162,025	0.2	1.3	1.4	31,215	19.3	1.0	82.2
2025	164,531	0.2	1.4	1.4	31,312	19.0	1.0	82.5
2026	167,690	0.2	1.4	1.4	31,431	18.7	1.0	82.9
2027	171,382	0.2	1.4	1.4	31,570	18.4	1.0	83.5
2028	173,371	0.3	1.4	1.5	31,643	18.3	1.0	83.7
2029	174,987	0.3	1.5	1.5	31,702	18.1	1.0	84.0
2030	175,976	0.3	1.5	1.5	31,738	18.0	1.0	84.1

Key Statistics

Industry Data

Values

Year	Revenue ($ Million)	IVA ($ Million)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Wages ($ Million)
2005	15,136.4	11,671.4	88,292	87,400	113,258	2,635.1
2006	15,226.1	12,024.8	81,842	80,954	109,401	2,660.8
2007	13,857.0	11,146.8	76,070	74,960	104,368	2,430.8
2008	13,201.4	10,698.8	65,087	63,979	90,081	2,289.5
2009	12,778.5	10,330.9	84,767	83,651	107,776	2,191.1
2010	14,756.8	11,868.9	84,947	83,817	107,677	2,321.3
2011	14,748.6	11,892.2	84,314	83,203	106,333	2,276.1
2012	15,419.8	12,670.5	84,038	82,945	108,231	2,555.1
2013	15,669.5	12,582.7	84,677	83,491	107,058	2,381.7
2014	15,889.0	12,831.6	89,097	87,789	112,689	2,519.7
2015	16,133.5	13,605.4	91,011	89,621	115,375	3,021.8
2016	15,670.4	13,752.6	91,772	90,317	116,021	3,378.8
2017	16,361.4	14,058.4	90,437	89,099	113,627	3,538.1
2018	16,367.7	13,688.8	91,492	90,256	115,128	3,148.1
2019	17,317.0	14,594.3	91,540	90,215	116,685	3,237.7
2020	17,640.7	15,191.2	91,241	89,947	116,544	3,097.2
2021	17,967.5	14,548.2	90,046	88,643	117,020	3,629.6
2022	18,033.9	14,634.1	89,714	88,362	116,865	3,612.4
2023	18,885.1	15,439.2	89,976	88,577	119,232	3,704.8
2024	19,682.3	16,178.0	90,131	88,690	121,477	3,791.9
2025	20,344.4	16,791.1	90,397	88,920	123,651	3,871.7
2026	21,165.5	17,554.8	90,623	89,101	126,218	3,967.2
2027	22,144.1	18,480.2	90,926	89,354	129,209	4,079.1
2028	22,819.5	19,107.0	91,164	89,556	131,622	4,164.9
2029	23,472.9	19,708.2	91,571	89,928	134,141	4,252.5
2030	24,049.2	20,227.1	92,037	90,363	136,662	4,337.4

Note

Figures are inflation adjusted to 2024

Industry Data

Annual Change

Year	Revenue %	IVA %	Establishments %	Enterprises %	Employment %	Wages %
2005	N/A	N/A	N/A	N/A	N/A	N/A
2006	0.6	3.0	-7.3	-7.4	-3.4	1.0
2007	-9.0	-7.3	-7.1	-7.4	-4.6	-8.6
2008	-4.7	-4.0	-14.4	-14.6	-13.7	-5.8
2009	-3.2	-3.4	30.2	30.7	19.6	-4.3
2010	15.5	14.9	0.2	0.2	-0.1	5.9
2011	-0.1	0.2	-0.7	-0.7	-1.2	-1.9
2012	4.6	6.5	-0.3	-0.3	1.8	12.3
2013	1.6	-0.7	0.8	0.7	-1.1	-6.8
2014	1.4	2.0	5.2	5.1	5.3	5.8
2015	1.5	6.0	2.1	2.1	2.4	19.9
2016	-2.9	1.1	0.8	0.8	0.6	11.8
2017	4.4	2.2	-1.5	-1.3	-2.1	4.7
2018	0.0	-2.6	1.2	1.3	1.3	-11.0
2019	5.8	6.6	0.1	0.0	1.4	2.8
2020	1.9	4.1	-0.3	-0.3	-0.1	-4.3
2021	1.9	-4.2	-1.3	-1.4	0.4	17.2
2022	0.4	0.6	-0.4	-0.3	-0.1	-0.5
2023	4.7	5.5	0.3	0.2	2.0	2.6
2024	4.2	4.8	0.2	0.1	1.9	2.4
2025	3.4	3.8	0.3	0.3	1.8	2.1
2026	4.0	4.5	0.3	0.2	2.1	2.5
2027	4.6	5.3	0.3	0.3	2.4	2.8
2028	3.1	3.4	0.3	0.2	1.9	2.1
2029	2.9	3.1	0.4	0.4	1.9	2.1
2030	2.5	2.6	0.5	0.5	1.9	2.0

Note

Figures are inflation adjusted to 2024

Key Success Factors

How do successful businesses overcome volatility?

Access secure revenues

Accessing secure revenues provides land leasing companies with predictable cashflow, buffering against market fluctuations. This stability enables strategic planning, investment and risk mitigation, ensuring business resilience and sustainable growth despite economic uncertainties.

Adapt quickly to changing regulations

Adapting quickly to changing regulations enables land leasing companies to maintain compliance, avoid penalties and seize new opportunities. This agility reduces operational disruptions, preserves market position and fosters long-term stability amid regulatory volatility.

What products or services do successful businesses offer?

Be an early adopter of new technologies

Early adoption of new technologies enables land leasing companies to enhance efficiency, offer innovative solutions, improve client experiences and gain a competitive edge, ultimately driving success in a rapidly evolving market.

Offer leasing finance

Offering leasing finance helps land leasing companies attract a broader client base by providing flexible payment options, reducing financial barriers, fostering long-term partnerships, enhancing market reach and driving business growth.

How do businesses use location to their advantage?

Carry out all necessary maintenance to keep facilities in good condition

Maintaining facilities ensures they remain attractive and functional, enhancing site appeal for potential tenants. Superior conditions can command higher lease rates, attract premium clients and capitalize on strategic location benefits, boosting profitability.

Operate in states where regulations are more favorable to the industry

Companies that own land where zoning restrictions prevent the entry of new landowners will reduce competition. Understanding local government zoning policy yields an advantage.

How do successful businesses handle concentration?

Secure economies of scale

Companies with a large number of closely located properties under management can reduce administration, management and service expenses, resulting in lower average costs and higher profit.

Conduct market research

Conducting market research helps land leasing companies manage concentration by identifying competitor strengths and market gaps. This allows them to tailor offerings, differentiate services and strategically expand, reducing dependency on concentrated markets and enhancing competitive positioning.

How can potential entrants overcome barriers to entry?

Accommodate environmental requirements

Accommodating environmental requirements helps land leasing companies overcome barriers to entry by ensuring regulatory compliance, avoiding costly fines and enhancing market appeal. Meeting these standards can attract eco-conscious tenants and investors, facilitating smoother project approvals and competitive differentiation.

Attract local support

Attracting local support helps land leasing companies overcome barriers to entry by fostering community goodwill, easing regulatory approvals and gaining access to local incentives. This support can streamline project development and enhance acceptance and occupancy rates.

How do successful businesses compete with substitutes?

Appeal to business from a desired demographic

Manufactured home sites are popular in states and regions with warm average yearly temperatures. Companies in the southern and coastal states easily attract tenants.

Ensure appropriate pricing policy

Ensuring an appropriate pricing policy helps land leasing companies remain competitive by aligning lease rates with market demand and offering better value than purchasing or renting options, attracting and retaining tenants in a competitive landscape.

How do successful businesses manage buyer & supplier power?

Alter goods and services produced in favor of market conditions

Altering goods and services to align with market conditions helps land leasing companies manage buyer power by meeting evolving tenant demands, enhancing value, differentiating offerings, reducing buyers' leverage in negotiations and maintaining a competitive edge.

Implement superior financial management and debt management

Since large-scale land leasing requires a substantial initial investment, most big land leasing companies have built up significant amounts of debt. Also, land leasing companies extend financing to tenants. Companies must properly manage their finances.

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KEYSER MARSTON ASSOCIATES.

ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Erwin Ordonez
City of Morgan Hill

From: Reed Kawahara

cc: Garrett Toy

Date: April 30, 2008

Subject: Petition for Rent Increase - Windmill Mobile Estates

In accordance with your request, Keyser Marston Associates, Inc. (KMA) has undertaken an assessment of the Petition for Rent Increase submitted by the property owner of Windmill Mobile Estates. The focus of our assessment has been two-fold:

1. To review the income and expense data provided by the property owner, Mr. Peter Wang, to assess whether the data appears "reasonable" and

2. To calculate the rent increase for the affected spaces given the Maintenance of Net Operating Income ("MNOI") provision of the city's rent control ordinance.

Background

The City of Morgan Hill has a mobile home park ordinance (Municipal Code Chapter 5.36), dating to 1981, that limits the amount that space rents can be increased from year to year. The basic provisions of the ordinance are that rents, for leases 12 months or less, can increase by no more than 75% of the annual increase in CPI. However, the MNOI provision of the ordinance also allows for the rents to increase such that the NOI is maintained at a level that is at least 40% of the increase in CPI from a 1981 "Base Year".

Mr. Wang purchased the Windmill property in August 2005. In October 2007, Mr. Wang submitted the petition for rent increase along with accompanying analysis and supporting data requesting a rent increase of $192 per space per month in order to achieve a "fair return", and a separate calculation for a rent increase of $81 per space per month based on the MNOI provision. Our assignment is limited to the $81 request.

In undertaking this assignment, we have performed the following tasks:

1. Reviewed the petition and accompanying documentation
2. Reviewed the city's ordinance, city staff reports and other background information
3. Compared detailed income and expense data for Windmill with another mobile home park in Morgan Hill, Hacienda Valley.
4. Conducted a site tour of both Windmill and Hacienda and met with their respective on-site property managers.
5. Interviewed Mr. Wang and the owner of Hacienda, Millenium Housing, to understand operational differences between the properties.
6. Discussed economic modeling and methodological issues with Mr. Wang's economic consultant, Dr. Richard Fabrikant.

Review of Income and Expenses

The ordinance provides that, if the Base Year NOI is not known by the current property owner, then the Base Year NOI can be imputed based on the first full year's operating data that is available, adjusted for inflation back to 1981. Since Mr. Wang does not have the actual Base Year NOI data, the petition included the calculation of the Base Year NOI based on the calendar year 2006 operating results. As part of our assignment we were tasked to review the 2006 operating data to determine whether it appeared reasonable. In consultation with city staff, our assessment was based on (1) a comparison of operating income and expenses between Windmill and Hacienda[1], and (2) discussions with Mr. Wang to understand line item differences in operational results between the two properties.

In general, both Windmill and Hacienda appear to be well run and well maintained. Both properties maintain a clubhouse/community room, swimming pool, and landscaped common areas. There are some inherent operational differences between Windmill and Hacienda owing to their differing sizes (90 spaces vs. 166 spaces respectively), resident demographics (Hacienda is a seniors-only property), and other differences. These and other considerations have been taken into account in our comparison.

[1] Hacienda was utilized for the comparison in part because the city already had detailed operating statements from that property and the property owner, Millenium Housing, was amenable to assisting our efforts to understand the data.

The comparison of income and expenses is summarized in Table 1. The overall conclusion from our assessment is that the 2006 income and expense data submitted by Mr. Wang appears to generally be in line with Hacienda, with the lines items in which the operational results differed markedly explained as follows:

1. Space rent income – If not for the city's rent control ordinance, we would expect the space rents to be similar between the two properties, as they should be representative of "market" rents, with rent differences reflecting differences in location, amenities, or other factors. Due in large part to the rent control ordinance, the space rent income between the two properties is not comparable.

2. Other Income – The bond financing for Hacienda required significant debt service reserves that generate annual interest income. This condition is not present at Windmill.

3. Payroll Expenses – Even accounting for its larger size, the Hacienda property has higher staffing levels than Windmill.

4. Repairs and Maintenance – The higher expenses for Windmill are reflective of capital improvements that were made in 2006. This line item was more in line with Hacienda in 2007.

5. Insurance, Taxes, Licenses – As a non-profit, Millenium is eligible for a property tax exemption for much of the property. This is not applicable to Windmill.

It should be noted that in 2006 the property taxes at Windmill were unusually low due to the fact that the assessed value in 2006 was not yet fully reflective of the property's purchase price in 2005. In 2007 the property taxes were unusually high[2]. The ordinance does not appear to provide for adjustments to the NOI for such circumstances.

Rent Increase Calculation Based on MNOI Formula

A. Calculation of Base Year NOI

As noted, the ordinance specifies that the Base Year NOI can be imputed based on the first full operating year of ownership by the new owner. Per the ordinance, the adjustments to the operating expenses are based on the following:

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[2] The 2007 operating statements were provided to us by Mr. Wang, however our assessment was generally limited to the 2006 data contained in the petition.

1. Property taxes increased (discounted) at 2% per year
2. Management expenses calculated at 5% of gross income
3. Other operating expenses increased (discounted) at 10% per year

Although it would follow that in order to impute the Base Year NOI, the operating income would be discounted as well as the expenses, the ordinance does not provide assumptions for discounting of income. At the direction of city staff, we have utilized the same assumptions on discounting of income as those utilized by the property owner; space rent income discounted at 75% of CPI and other income discounted at 100% of CPI.

The resulting calculation of Base Year NOI is shown on Table 2. The Base Year NOI is estimated to be $2,565 per space per year for the 90 spaces in the park. This amount is slightly lower than the $2,644 in the petition calculated by property owner's consultant, Dr. Fabrikant, due to a slight modification to the method of discounting income and expenses. We have had discussions with Dr. Fabrikant on this modification, and it is our understanding that he concurs with the change.

B. Calculation of Rent Increase

Per the ordinance, the property owner is allowed to increase the rents such that the NOI is increased at the rate of 40% of the increase in the CPI over the Base Year. This is calculated by dividing the most recently reported monthly CPI at the time of filing by the figure for February 1981[3]. As shown on Table 3, this calculation results in an allowed rent increase per space of $856 per year, or $71 per month.

The $71 increase is lower than the $81 requested in the petition due to the modification to the method of discounting income and expenses. In our opinion, the $71 is the maximum allowable rent increase based on the 2006 operating data, not $81, and it is our understanding that Dr. Fabrikant and Mr. Wang concur with this amount.

C. Phase-In of Rent Increase

The ordinance specifies that the rent increase in any year cannot exceed twice CPI or 15%, whichever is less. The $71 would represent about a 20% increase over the current average rent for the affected spaces ($362). The ordinance provides that in such circumstances the rents can be increased by twice CPI (or 15%) for as long as

[3] It should be noted that, subsequent to adoption of the ordinance, the Bureau of Labor Statistics re-adjusted the reference base year. Therefore, the current February 1981 CPI Index is 84.7, not the 260.5 referenced in the ordinance.

necessary to grant the full rent increase. In order to administer this, annual tracking of the allowed rent increase relative to the unpaid portion of the $71 increase would be required.

We feel in addition that it is appropriate for the property owner to be allowed interest on the annual unpaid balance of the rent increase in recognition of the time value of money. We have reviewed an analysis by Dr. Fabrikant wherein the annual interest rate applied to the unpaid balance of the rent increase is equivalent to about 3.8%. This interest rate recognizes that the leases are staggered over the course of the year, and we feel it is reasonable given current commercial interest rates.

The ordinance does not specify the particular mechanics of how the future rent increases are to work. The attached Table 4, however, contains an example of how the increase might work given the parameters specified in the ordinance. Using the assumption that CPI increases by 3% per year, the current rents are allowed to increase at a maximum amount of 6% per year (2 x 3%) until such time as the full $71 monthly increase is repaid. At that point in time the annual rent increase reverts back to the standard increase of 75% of CPI, or 2.25% in the current example. In order to track the balance of the unpaid rent increase it is necessary to include a schedule that calculates the beginning and ending balance in each year (shown in the box on Table 4). As shown, in each year the allowed rent under the ordinance (Column "B") is less than that which the property owner would have received if the $71 increase were allowed from the outset (Column "A"), difference, or shortfall, is added to the unpaid balance. Beginning in Year 6 and thereafter, Column "B" exceeds Column "A" allowing for a pay off of the balance. As shown in the example, the balance is fully paid off in Year 9. The maximum allowed annual rent is shown in Column "C".

Conclusions

Based on our assessment, the income and expense data provided by Mr. Wang appears to be reflective of the property's operating results in 2006 and the operating expenses are generally in line with Hacienda (with differences as noted in this memorandum). Based on the city's mobile home park ordinance and the parameters described in this memorandum, a rent increase of $71 per space per month is an applicable and reasonable increase relative to the property owner's pending Petition for Rent Increase. An example of the application of future rent increases is also provided.

Thank you for requesting our assistance on this matter. Please call with any questions you may have.

Table 1.
Summary of 2006 Income & Expenses
Windmill Petition for Rent Increase
City of Morgan Hill

All figures rounded

	Windmill		Hacienda		Summary of Differences
	Per Space Per Year	Per Space Per Month	Per Space Per Year	Per Space Per Month	
I. Income					
Space Rental Income	$4,587	$382	$7,080	$590	Historic increases in space rents limited by City Ordinance
Utility Income	$1,627	$136	$1,680	$140	
Other Income	$15	$1	$560	$47	Interest earnings (re: bond financing) at Hacienda; n/a to Windmill
Total Income	$6,229	$519	$9,320	$777	
II. Operating Expenses					
Payroll Expenses	$255	$21	$710	$59	Higher staffing levels at Hacienda
Utilities	$1,468	$122	$1,610	$134	
Repairs & Maintenance	$451	$38	$240	$20	Capital improvements at Windmill in 2006
Insurance, Taxes, Licenses	$454	$38	$250	$21	Property tax exemptions at Hacienda; not applicable to Windmill
Legal/Professional/Mgt. Fee	$299	$25	$280	$23	
General & Administrative	$70	$6	$70	$6	
Resident Relations	$0	$0	$20	$1	
Total Expenses	$2,997	$250	$3,180	$265	
III. NOI	$3,232	$269	$6,140	$512	

Sources:
(1) Windmill per property operating statements; KMA meetings/interviews w/ property owner and site manager.
(2) Hacienda based on property operating statements (average of FY2005/06 and FY2006/07);
KMA meetings/interviews with property owner and site managers.

Prepared by Keyser Marston Associates, Inc.
\\Sf-fs1\wp\16\16036\16036.009\Tables 4-29-08.xls; Table1; 4/30/2008

Table 2.
Estimate of Base Year 1981 NOI
Windmill Petition for Rent Increase
City of Morgan Hill

					Income per Space			Operating Expenses per Space				
	Year	Annual CPI Index	% Increase	75% of Increase	Space Rent Income (1)	Other Income (2)	Total per Space	Net Other Expense (3) 10.0%	Mgmt. Fees (4) 5.0%	Property Tax (5) 2.0%	Total per Space	NOI per Space
	1981	90.8			$2,445	$713	$3,158	$225	$158	$210	$593	$2,565
1	1982	97.6	7.49%	5.62%	$2,582	$766	$3,349	$247	$167	$214	$629	$2,720
2	1983	98.4	0.82%	0.61%	$2,598	$773	$3,371	$272	$169	$218	$659	$2,712
3	1984	104.0	5.69%	4.27%	$2,709	$817	$3,526	$299	$176	$223	$698	$2,827
4	1985	108.4	4.23%	3.17%	$2,795	$851	$3,646	$329	$182	$227	$739	$2,907
5	1986	111.6	2.95%	2.21%	$2,857	$876	$3,733	$362	$187	$232	$781	$2,953
6	1987	115.4	3.41%	2.55%	$2,930	$906	$3,836	$398	$192	$236	$827	$3,009
7	1988	120.5	4.42%	3.31%	$3,027	$946	$3,973	$438	$199	$241	$878	$3,095
8	1989	126.4	4.90%	3.67%	$3,138	$992	$4,131	$482	$207	$246	$935	$3,196
9	1990	132.1	4.51%	3.38%	$3,244	$1,037	$4,282	$530	$214	$251	$995	$3,286
10	1991	137.9	4.39%	3.29%	$3,351	$1,083	$4,434	$583	$222	$256	$1,061	$3,373
11	1992	142.5	3.34%	2.50%	$3,435	$1,119	$4,554	$642	$228	$261	$1,130	$3,424
12	1993	146.3	2.67%	2.00%	$3,504	$1,149	$4,652	$706	$233	$266	$1,205	$3,448
13	1994	148.7	1.64%	1.23%	$3,547	$1,168	$4,714	$776	$236	$272	$1,284	$3,431
14	1995	151.6	1.95%	1.46%	$3,599	$1,190	$4,789	$854	$239	$277	$1,370	$3,419
15	1996	155.1	2.31%	1.73%	$3,661	$1,218	$4,879	$939	$244	$283	$1,466	$3,413
16	1997	160.4	3.42%	2.56%	$3,755	$1,259	$5,014	$1,033	$251	$288	$1,572	$3,442
17	1998	165.5	3.18%	2.38%	$3,844	$1,300	$5,144	$1,137	$257	$294	$1,688	$3,456
18	1999	172.5	4.23%	3.17%	$3,966	$1,354	$5,321	$1,250	$266	$300	$1,816	$3,505
19	2000	180.2	4.46%	3.35%	$4,099	$1,415	$5,514	$1,375	$276	$306	$1,957	$3,557
20	2001	189.9	5.38%	4.04%	$4,265	$1,491	$5,756	$1,513	$288	$312	$2,112	$3,643
21	2002	193.0	1.63%	1.22%	$4,317	$1,515	$5,832	$1,664	$292	$318	$2,274	$3,558
22	2003	196.4	1.76%	1.32%	$4,374	$1,542	$5,916	$1,830	$296	$325	$2,451	$3,465
23	2004	198.8	1.22%	0.92%	$4,414	$1,561	$5,975	$2,013	$299	$331	$2,643	$3,332
24	2005	202.7	1.96%	1.47%	$4,479	$1,592	$6,070	$2,215	$304	$338	$2,856	$3,214
25	2006	209.2	3.21%	2.41%	$4,587	$1,643	$6,229	$2,436	$217	$344	$2,997	$3,232

(1) Space rent income discounted at 75% of CPI
(2) Other Income discounted at 100% of CPI
(3) Other Expense discounted at 10% per year.
(4) Management Fees at 5% of total income.
(5) Property taxes discounted at 2% per year.

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Table 3.
Rent Increase based on MNOI
Windmill Petition for Rent Increase
City of Morgan Hill

December 2006 CPI Index	210.4	
February 1981 CPI Index	84.7	
Difference	125.7	
Difference as % of 1981	148.4%	
	x 40%	
	59.4%	
Base Year NOI per Space	$2,565	(Table 2)
Allowed Increase Factor	59.4%	
Allowed NOI Increase per Space	$1,523	
Total Allowed NOI for 2006 per Space	$4,088	
Allowed NOI for 2006 per Space	$4,088	
(Less) Actual NOI for 2006 per Space	($3,232)	(Table 2)
Allowed Rent Increase per Space	$856	
per month	$71.36	

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Table 4.
Example Calculation of Rent Increase Balance
Windmill Petition for Rent Increase
City of Morgan Hill

Avg. 2008 Monthly Rent	$362
Monthly Rent Increase	$71.36

					"A"	"B"	Balance of Unpaid Rent Increase				"C"		
	Year	CPI	75% of CPI	2x CPI	$71 Increase Up Front (Rent/Space/Yr)	Max. Increase at 2x CPI (Rent/Space/Yr)	Beginning Balance	Shortfall/ (Payments)	Interest 3.8%	Ending Balance	Max. Rent (Rent/Space/Yr)	Increase	%
1	2008				$4,344	$4,344	$0	$0	$0	$0	$4,344		
2	2009	3.0%	2.25%	6.0%	$5,200	$4,605	$0	$596	$23	$618	$4,605	$261	6.00%
3	2010	3.0%	2.25%	6.0%	$5,317	$4,881	$618	$436	$40	$1,095	$4,881	$276	6.00%
4	2011	3.0%	2.25%	6.0%	$5,437	$5,174	$1,095	$263	$51	$1,409	$5,174	$293	6.00%
5	2012	3.0%	2.25%	6.0%	$5,559	$5,484	$1,409	$75	$56	$1,540	$5,484	$310	6.00%
6	2013	3.0%	2.25%	6.0%	$5,684	$5,813	$1,540	($129)	$54	$1,465	$5,813	$329	6.00%
7	2014	3.0%	2.25%	6.0%	$5,812	$6,162	$1,465	($350)	$42	$1,158	$6,162	$349	6.00%
8	2015	3.0%	2.25%	6.0%	$5,943	$6,532	$1,158	($589)	$22	$590	$6,532	$370	6.00%
9	2016	3.0%	2.25%	6.0%	$6,077	$6,924	$590	($590)	$0	$0	$6,679	$147	2.25%
10	2017	3.0%	2.25%	6.0%	$6,213	$7,339	$0	$0	$0	$0	$6,829	$150	2.25%
11	2018	3.0%	2.25%	6.0%	$6,353	$7,779	$0	$0	$0	$0	$6,983	$154	2.25%
12	2019	3.0%	2.25%	6.0%	$6,496	$8,246	$0	$0	$0	$0	$7,140	$157	2.25%
13	2020	3.0%	2.25%	6.0%	$6,642	$8,741	$0	$0	$0	$0	$7,300	$161	2.25%
14	2021	3.0%	2.25%	6.0%	$6,792	$9,265	$0	$0	$0	$0	$7,465	$164	2.25%

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