

TENANT IMPACT REPORT

IMPERIAL AVALON MOBILEHOME PARK

September 2014

1. **Purpose of Tenant Impact Report.** This Tenant Impact Report ("TIR" or "Tenant Impact Report") is being prepared pursuant to California Government Code § 66427.5. The purpose of this TIR is to explain the protections afforded to those Resident Households¹ that elect not to purchase, as well as those Resident Households that elect to purchase, a condominium interest in Imperial Avalon Mobilehome Park ("Park"), located at 21207 South Avalon Boulevard, Carson, California. All Resident Households will be afforded the opportunity to either (i) buy the space on which their mobilehome is situated or (ii) continue to rent the space on which their mobilehome is situated. For purposes of this TIR, the term "mobilehome" shall have the same meaning as defined under California Civil Code § 798.3, which, among other things, includes a "manufactured home" as defined under California Health & Safety Code § 18007.

1.1 **Change of Ownership.** Whenever a mobilehome park is to be converted from a rental-only park to one where spaces/lots may be owned by the residents, the Subdivision Map Act, found in the California Government Code § 66427.5, requires the entity which is converting the mobilehome park to file a report on the impact that the conversion will have on the residents of the mobilehome park. The Park will remain a manufactured housing community, with the existing Resident Households having the right to either buy their Condominium Unit² or to remain and rent their lot. The Park is not being closed and the Residents are not vacating the property, but rather, the Resident Households have available to them additional options that were not available to them before the conversion occurs. After conversion, the Resident Households will be able to either purchase their individual spaces and a share in the common area and facilities from the Park owner ("Park Owner"), and participate in the operation of the Park through a homeowners' association ("Homeowners' Association"), or continue to rent their individual spaces.

The State of California recognizes the substantial difference between a change of use, which results in the closure of a mobilehome park from a change in the method of ownership by the implementation of different State of California statutes applicable to each. For

¹ "Resident Household" or "Resident Households" means any person(s), entity, or group of person(s) who has a tenancy in the Park under a Rental Agreement or Lease (as defined under Section 2) on the date of the issuance and delivery of the Final Public Report (as defined under Section 4.2(c)). Please note that this definition does not mean the same as Resident or Residents as defined in Section 1.2 herein.

² "Condominium Unit" means the airspace unit which is defined as 1 foot below grade and 40 feet above grade, with the lateral and horizontal planes demarked by the lot lines established on the ground (in other words, the space the Resident is currently occupying), plus 1/225th fee simple ownership of the common area and facilities and one membership in the Homeowners' Association to be formed as part of the entitlement process. For those who elect to remain renters, this means that those households will continue to rent the same space they were renting prior to the conversion of the Park.

all purposes hereunder, California Government Code § 66427.5 controls for purposes of determining what rights the non-purchasing Resident Households will have after the conversion is completed. As detailed below, the conversion of the Park will result in neither actual nor economic displacement of its Residents.

1.2 Definition of Resident(s).

(a) Categories of Resident Households within the Park. California Government Code § 66427.5 divides the Residents of the Park into two (2) income categories for the Resident Households: (1) non-lower income and (2) lower income households. Lower income households are defined in Health & Safety Code § 50079.5 as "those persons and families whose income does not exceed the qualifying limits for low income families as established and amended from time to time pursuant to Section 8 of the United States Housing Act of 1937." The greatest protections are given to the lower-income households. The income limits are based on the county median income and the household size as prepared and distributed under the United States Housing Act. To qualify as a lower-income household, the following income limits were established for calendar year 2014.³

Household Size # of Persons	1	2	3	4
Income Must be at or Below:	\$47,850	\$54,650	\$61,500	\$68,300

(b) Definition of Resident(s). As used in this Tenant Impact Report, a "Resident" or "Residents" is a homeowner or other person who lawfully occupies a mobilehome in the Park.

1.3 Description of the Property. The Park was constructed in approximately 1973 and is a two-hundred and twenty-five (225)-space "Senior" Park (age restriction applies), situated on approximately twenty-seven (27) acres. The Park has wide asphalt streets with center gutters; utilities are underground. The common area contains a clubhouse with a full kitchen, bathrooms and pool tables. There is a shuffleboard court, a swimming pool and jacuzzi. The pool area is furnished including chaise lounges and chairs. There is a separate laundry room.

2. Residents' Current Position/Rights.

2.1 Current Occupancy. Currently, all of the Resident occupants reside in the Park on a month-to-month written rental agreement ("Rental Agreement").

For those Residents who are on a one (1)-year or month-to-month tenancy, the City of Carson ("City") Rent Control Ordinance currently regulates the rent increases.

2.2 Residents' Rights. In addition to the terms of the Leases and Rental Agreements, the tenancy rights of Residents residing in the Park are governed by California Civil Code § 798 et seq. ("Mobilehome Residency Law"), and other applicable California statutory and case law, and the City Rent Control ordinances.

³ 2014 State Income Limits for Los Angeles County.

3. **Park Owner's Rights Upon Conversion.**

3.1 **Right to Change Use.** Generally the Park Owner, pursuant to the California Government Code and Mobilehome Residency Law, has the right to terminate all existing tenancies and require the Residents to vacate the property and go out of business or change the use of the property, providing all applicable laws are followed. Under the conversion, however, non-purchasing Resident Households will NOT be required to vacate their space and, as described in more detail in Section 4 below, will have occupancy rights subject to any Lease or Rental Agreement, Mobilehome Residency Law, and California law, as applicable. Therefore, there will be no actual eviction or displacement due to the conversion and Resident-purchase of the Park.

4. **No Actual or Economic Displacement.**

4.1 **Impact of Conversion.** Under the California Government Code and the Mobilehome Residency Law, the subdivider is required, as a condition of conversion, to prepare a TIR to set forth the impact of the conversion. Further, the rental increase amount, which may be charged by the owner of the space subsequent to the conversion, is specified and is mandatory in California Government Code § 66427.5. As a result of the conversion, there will be no physical change of use. The property was before and will be after the conversion, operated as a mobilehome park. The difference is that instead of an investor/operator owner, a Homeowners' Association will operate the property.

4.2 **Rental Rate Increases: No Economic Displacement.** To the extent there is any economic displacement of Resident Households who elect to not purchase the space on which their mobilehome is situated, it is mitigated by allowing such non-purchasing Resident Households to continue their tenancy in the Park under the California Subdivision Map Act rental increases restrictions pursuant to California Government Code § 66427.5 (f) (1 & 2) ("Map Act Rents"). The Map Act Rents are based upon two (2) formulas: one formula for non-lower income permanent Residents and one formula for lower income permanent Resident Households, as defined in California Health and Safety Code § 50079.5.

(a) **Non-Lower Income Resident Households.** For the non-lower income Residents, the base rent may be increased in equal annual increases over a four (4)-year period to market rent. Market Rent is established by an appraisal "conducted in accordance with nationally recognized professional appraisal standards." The reason the rents are raised to market over a four (4)-year period is to allow the adjustment of rents, which under rent control have remained artificially low, to occur gradually. This protection provides time for those non-lower income households to plan for the rental adjustment to market. Although not required by law, for unsold lots rented to non-lower income Residents, the Park Owner has agreed to the extended application of City rent control ordinances as described under Section 7.1 below.

(b) **Lower Income Residents.** The State of California has emphasized its goal of protecting housing for the lower income population of California under California Government Code § 66427.5. The lower income households receive a guarantee of reduced rental increases beyond that which any local jurisdiction can enact under the current rent control cases and laws of California. Lower income is defined in California Government Code § 66427.5

by referencing California Health and Safety Code § 50079.5, which in turn defines lower income persons as persons and families whose income does not exceed the qualifying limits for lower income families as established and amended from time to time pursuant to Section 8 of the United States Housing Act of 1937. Lower income Residents are protected for the entire term of their tenancy.

(1) **Rent Increase Formula.** The base rental increase is the average increase for the previous four (4) years immediately preceding the conversion, but shall not exceed the Consumer Price Index ("CPI") average monthly percentage increase for the most recently reported period.

(2) **Application Process.** The Residents must provide the same information and confirmation of the Resident's income as though that Resident were applying for a State of California, Mobilehome Park Ownership Program ("MPROP") loan each year. In the event that program is no longer in existence, the last application documents will become the permanent documents, and the qualifying income levels will be those established by either the State of California Housing and Community Development Department ("HCD") or the United States Housing and Community Development Department, at the election of the owner of the space.

(c) **Effective Date of Map Act Rents.** The effective date of the Map Act Rents shall be the Conversion Date (as defined in Section 4.3 herein); however, the Park Owner has agreed to continue application of City rent control ordinances for non-lower income Residents with respect to their unsold rented lots as described under Section 7.1.

4.3 **"Conversion Date".** Conversion Date is defined as the date of the first sale of a space/lot.

4.4 **No Actual Displacement.** Each Resident Household will be given the choice to buy the lot on which their mobilehome is situated or to continue their tenancy in the Park under this Tenant Impact Report. To receive the protections provided herein and under the California Subdivision Map Act, the Resident must be a Resident, as defined in Section 1.2(b). Therefore, there will be no actual eviction of any Resident or relocation of their mobilehome by reason of the Park conversion to Resident ownership.

4.5 **Conclusion: No Actual Nor Economic Evictions.** The legislative intent behind relocation mitigation assistance as contained in Government Code § 66427.4 is to ensure that Residents who would be evicted due to the conversion of a mobilehome park to another use are protected, and that a plan is submitted and approved to ensure that protection. The purpose for the impact report is to explain how and when the Residents have to vacate the property, and what financial assistance the Residents would be receiving to assist in the costs of removing their mobilehome and other personal effects. However, under the present conversion, which will not result in another use and vacation of the property, the purpose of this Tenant Impact Report is to explain the options of the Residents and Resident Households regarding their choice to purchase or to rent their space. Any Resident who chooses not to purchase a PUD/Condominium Interest (defined below) may reside in the Park as set forth in Section 3 and Section 4.2 above. Thus, there will be no economic displacement based on the Map Act Rents nor actual eviction of any

Resident Household because of the conversion and, therefore, no relocation mitigation is required.

5. **PUD/Condominium Interest: Ninety (90) Day Right of First Refusal to Purchase.**

5.1 **PUD/Condominium Interest.** The conversion provides the Resident Households with the opportunity to acquire an ownership interest in the Park. As stated above, the form of ownership will be a PUD/Condominium Interest. "PUD/Condominium Interest" means a real property ownership interest that (i) will be transferred by a grant deed, (ii) will be insured by a policy of title insurance, (iii) contains front and back lot line boundaries properly marked by a licensed land surveyor and specific legal descriptions set forth on a "Condominium Plan", (iv) will be a matter of public record when recorded, and (v) comprises the airspace directly over the current rental spaces, a one-in-two hundred twenty fifth (1/225th) interest in the Park's common areas, and 1/225th interest in the common area lot, as tenants in common. All PUD/Condominium Interests are held pursuant to the description of general rights and associated factors as set forth in the articles and bylaws of the Homeowners' Association, certain conditions, covenants and restrictions, and California law pertaining to such ownership.

5.2 **Right of First Refusal.** As required by California Government Code § 66459, each Resident Household shall be informed that they have a ninety (90)-day right of first refusal period. The right of first refusal period commences upon the issuance by the California Bureau of Real Estate ("BRE") and delivery of the final public report ("Final Public Report"). During the ninety (90) day period each Resident Household shall have the exclusive right to decide whether or not to purchase a PUD/Condominium Interest or continue to rent his or her space.

6. **Legal Notices.** The Resident Households have received the Notice of Intent to File a Map with the City of Carson and will also receive all additional required legal notices in the manner and within the time frame required by the state and local laws and ordinances. All prospective tenants have and will receive the Notice to Prospective Tenant(s).

7. **Increased Benefits and Protections.** Notwithstanding the State of California legal protections afforded in connection with a conversion as described above, the Park Owner has agreed to provide the following increased benefits and protections:

7.1 **Extension of City Rent Control for Non-Lower Income Residents.** With respect to all non-lower income Residents, the City rent control ordinances will remain in effect on all unsold lots rented to such non-lower income Residents until at least forty-five (45) lots (i.e., twenty percent (20%) of all lots in the Park) are sold.

7.2 **Purchase Price for Lots.** The purchase price for lots will be set at fair market value as determined by a certified general licensed MAI appraiser, the cost of which will be borne by Park Owner.

7.3 **Purchase Price Discounts.** Each Resident Household that elects to purchase its lot and enters into escrow during the first ninety (90) days following the date after which the Park Owner offers the lots for sale will receive a fifteen percent (15%) discount off of the appraised value of their lot. Each Resident Household that elects to purchase its lot and enters into escrow during the ninety (90) days immediately following the initial 90 day period will

receive a ten percent (10%) discount off of the appraised value of their lot. Resident Households may qualify for the 15% discount or the 10% discount, but not for both.

8. **Purchase Impact.** Pursuant to the Park's governing documents, after conversion to Resident ownership, in the event a Resident or Resident Household wishes to sell his or her mobilehome, the purchaser of the mobilehome will be required to buy the lot as well. After conversion, however, the purchaser will have financing options that were unavailable prior to the conversion. Financing options include conventional real estate secured home loans secured by both the lot and the mobilehome, as opposed to personal property loans secured only by the mobilehome before conversion. The advantages of conventional real estate secured home loans as opposed to personal property secured loans are described in Section 10 below, and certain specific financing options available to certain purchasers are described in Sections 9 and 10 below.

All Resident Households electing to purchase their lots will benefit from the advantages of home ownership over renting, including building equity, benefiting from the appreciation of the value of real property, acquiring deeded land to leave to heirs, and participating as a voting member in the Homeowners' Association that governs the Park in which they live.

9. **Financing Options for Lower Income Households.** MPROP is a State of California funded program operated through the HCD. MPROP was established to finance the preservation of affordable homes by conversion to resident ownership as described under California Health & Safety Code §§ 50780-50786.5. MPROP is available to Resident Households who elect to purchase their unit and who qualify as a lower-income household as defined by the lower income limits provided by the HCD each year. Income limits for lower income households established for calendar year 2014 for Los Angeles County are described under Section 1.2(a) above. The likelihood of there being sufficient MPROP funding for Resident Households that qualify as lower income households will be increased if the City agrees to serve as the "applicant" for MPROP funding in accordance with MPROP regulations and if the City assists Resident Households and the Park Owner in obtaining such MPROP funding.

The MPROP program offers long-term (30-year) loans at 3% simple annual interest, to lower-income residents of a mobilehome park that has been converted, to enable housing affordability for residents who purchase a unit in the mobilehome park. An MPROP loan does not cover the entire purchase price; it is often paired with a conventional loan and other sources of financing, and provides, on a sliding scale, an amount sufficient to secure a monthly payment so that total monthly costs should not exceed 30% of the resident's monthly income.

MPROP exists to provide lower-income residents the opportunity to own an interest in the mobilehome park in which they live and to secure and maintain affordable housing through the conversion of existing rental mobilehome parks to resident owned mobilehome parks.

10. **Financing Options for Non-Lower Income Households.** After conversion to Resident ownership, non-lower income Resident Households that have elected to purchase their lot will have various options available to them to finance their purchase. Lending institutions consider mobilehomes on leased land to be personal property or "chattel". Chattel financing is shorter term with higher interest rates. Once a mobilehome park is subdivided in connection with

conversion, the mobilehome and the subdivided real property can be financed with a conventional real estate secured home loan. Real estate secured loan rates are historically lower than chattel financing and lending institutions offer many decades to make payments because of the value and security of the land.

Low-interest funding is also available through the Cal Vets program. Many cities also make partial funding/loans available through programs such as First Time Home Buyer, Cal Loan, AHIF, etc.

11. **Tax Advantages.** Property taxes will be based on the sales price of the lot. However, if more than 50% of the lots are purchased within the first year following the Conversion Date, a purchaser's property taxes will be based on the seller's property tax base under applicable California law. This would mean a significant savings if Resident Households choose to act on this right. A Resident Household that elects to buy instead of rent is also able to deduct mortgage interest on their tax return, affording additional savings.

12. **Assurance of Operating and Maintenance Funds for Common Area Facilities and Services.** To assure the availability and source of funds to defray the cost of common area facilities and services (collectively, "**Common Area Costs**") during the early period of Resident ownership and operation of the Park by the Homeowners' Association, the Park Owner is required by the BRE, pursuant to California Business and Professions Code § 11018.5 and 10 California Code of Regulations § 2792.9, to furnish funds, a surety bond or other security convertible to cash to an escrow depository, before the sale of any spaces to assure the Park Owner's fulfillment of the Park Owner's obligations as an owner of spaces to pay assessments in order to cover such Common Area Costs. The aforementioned security requirement is ordinarily in an amount equal to six (6) months' regular assessments for each space covered by the Final Public Report and is subject to terms assuring that the Park Owner pays all assessments levied by the Homeowners' Association against spaces owned by the Park Owner (i.e., unsold spaces) until 80% of the spaces covered by the Final Public Report have been sold. Such security requirements are BRE requirements that must be complied with by the Park Owner before the BRE issues the Final Public Report permitting the sale of spaces in the Park.

13. **Homeowners' Association Reserve Account Requirements.** With respect to the Park's major components which the Homeowners' Association is obligated to repair, replace, restore or maintain pursuant to California Civil Code § 1365.5(e) ("**Major Components**"), the Park Owner is required by the BRE to deposit funds into escrow equal to an amount designated by the BRE ("**BRE Required Reserve Deposit Amount**"), which is a portion of certain reserve component amounts determined in accordance with a study of reserve account requirements ("**Reserve Account Requirements Study**") prepared by the Park Owner and accepted by the BRE. The BRE Required Reserve Deposit Amount will be based upon the cost amount attributable to the already used portion of the useful life estimated for the Major Components in accordance with the Reserve Account Requirements Study. Among other things, the Reserve Account Requirements Study is required to (i) identify the Major Components that have a useful life of less than 30 years, (ii) determine the remaining useful life of the Major Components, (iii) estimate the cost of repair, replacement, restoration, or maintenance of the Major Components, (iv) estimate the total annual contribution necessary to defray such costs during and at the end of the useful life of the Major Components, and (v) provide a reserve funding plan describing how

the Homeowners' Association plans to fund the amounts described in clause (iv) above to meet the Homeowners' Association's obligation to repair and replace all Major Components with an expected remaining life of 30 years or less. Before any spaces are permitted to be sold, the BRE will require that the escrow release the BRE Required Reserve Deposit Amount to the Homeowners' Association to help defray certain of the costs to repair, replace, restore, or maintain Major Components in accordance with the Reserve Account Requirements Study as accepted by the BRE.

14. **Benefits of Conversion.** The purpose of the conversion of the Park from a rental park to a Resident-owned park is to provide the Resident Households with a choice. The Resident Households may either choose to purchase an ownership interest in the Park, which would take the form of a PUD/Condominium Interest (as defined in Section 5.1), or continue to rent a space in the Park, thereby allowing the Residents to control their economic future. The conversion provides the Residents the opportunity to operate and control the Park. Since the new owners of the Park will not be motivated to make a profit, but rather are motivated to ensure the best possible living conditions at the most affordable rates, payable through the Homeowners' Association dues, directly or through rent, both buyers and renters benefit from the conversion.

15. **Conclusion.**

15.1 The above described purchase rights and protections will be offered only if the Park is converted to a Resident-owned mobilehome park. Such programs become effective on the Conversion Date.

15.2 Upon conversion of the Park to Resident ownership, the current owner of the Park, as well as subsequent owners of PUD/Condominium Interests in the Park, shall abide by all terms and conditions set forth in this TIR. This TIR is a covenant that encumbers each individual unit.

15.3 All Resident Households choosing to continue to rent will have occupancy rights exactly as they have now, and all existing Leases and/or Rental Agreements will be honored, subject to California Government Code § 66427.5, Mobilehome Residency Law, and other California law, as applicable.

15.4 The conversion of the Park from a rental park to a Resident-owned park provides the Residents with an opportunity of choice. Resident Households may choose to purchase a PUD/Condominium Interest or continue to rent. The conversion also provides the potential for Residents to enjoy the security of living in a Resident-owned, controlled, and managed Park, whose motivation is not profit, but rather, achieving the best living environment at the most affordable rate.