

**Ep #321: Frank Rolfe - Essential vs. Non-Essential  
Investing Strategies**



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**Dr. David Phelps**

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David Phelps: Good day, everyone. This is Dr. David Phelps of the Freedom Founders Mastermind community and Dentist Freedom Blueprint podcast. Today, bringing back a long time friend, a mentor, somebody who I really respect in the industry and the industry is big. I'm talking about in alternatives, I'm talking about economics and specifically here, the expertise in what we would call really a niche of the affordable housing arena and that's manufactured housing. Mr. Frank Rolfe. Frank, how are you doing sir?

Frank Rolfe: Doing great, David. Thanks.

David Phelps: So a little bit of background on Frank. I've had him here with us a number of times over the years, and it's always great to get some updates from his area of expertise, but just so you get a little bit of flavor about Frank. He is a key principle in AHCF management. That's affordable housing community funds, LLC, the fund manager for the affordable housing community funds and the MHP funds, which is the marketing arm for those funds. MHP funds and their affiliated companies are believed to have a portfolio containing, this may change from when it was written Frank, but that time it was you were the fifth largest number of mobile home lots, third largest number of mobile home parks in the country with over 19,000

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lots in over 165 parks in 28 States. That may change a little bit. Let's say you've been there, done that.

Frank Rolfe: That's roughly correct.

David Phelps: Pretty close, pretty close to date. Okay. Frank's been in the mobile home park industry since 1996 when he purchased his first park right here in Dallas, Texas. Since that time Frank's owned and operated over a 130 mobile home parks throughout the Great Plains and Midwest. Recently he and his partners were the subject of articles in the New York times, Bloomberg and numerous other publications, television shows focusing on the affordable housing industry in the US. As a kind of unique aside. And I bring this up because I think it is pretty cool, before he got into the mobile home park industry, Frank built from scratch the largest privately owned outdoor billboard company in Dallas Fort worth, which is then sold to Universal Outdoor, which is not Clear Channel.

You also bought a large Los Angeles outdoor billboard company, Leonard Outdoor as a turnaround 1999, and eventually sold it to, Hayward Outdoor of San Bernardino. You also are educators on the arena, you and Dave Reynolds, your partner at mobile home university, which you've taught hundreds, probably thousands of investors what you've learned over the years, your experience, which you always have great stories, Frank. Candace and I, my wife, we actually tromped ride with you did some bus tours of some of the parks and always great stories. I know you go back to that first park, Glen Haven. And I think one of your earliest comments was if I knew then what you learned later, you never would have started there, but then if you hadn't started there, Frank, you wouldn't be where you are today.

Frank Rolfe: That's exactly correct.

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David Phelps: So I think life has a way of presenting us challenges and adversity, which can turn an opportunity if you've got the right mindset and the fortitude to pursue through it. Glen Haven became the tinnitus, the catalyst for what you turn into a great industry. So let's jump into it in terms of really kind of where the market overall is. I mean, I've been a big fan of yours, but also in my own investing in manufactured housing, there's kind of a misnomer about what mobile homes, mobile home communities, manufactured housing is all about. And it's really been both the cause of, I think, limitations on with zoning and municipalities about affordable housing because of that misnomer, but also it's to provide you and others opportunities to do what you do and that's to improve the landscape of those communities that's existing. So it gives a little bit of a history, Frank, what were mobile home parks back then, or mobile homes themselves? What's manufactured housing today and kind of where are we going with this?

Frank Rolfe: Sure. Well, Dave, you're definitely correct. The industry got off to a ... It's a riches to rags to somewhere towards riches story. The product itself was very upscale back in the 50s and 60s. In fact, the demographics in parks was higher than stick-built back in the 50s in the early 60s. And then it lost its identity in the 70s and the 80s and became strictly affordable housing for most people. There are still fancy parks out in Malibu and some other spots. But the average customer today is obviously on the lower income threshold. That being said, it's proven to be hugely resilient, mainly because we are the only affordable type of detached dwelling. And with COVID recently, and it's really changing history significantly. People really like the idea of having a yard and no neighbors and wide open space and owning their own home. And then on top of that, you see in the collapse of other sectors of real estate. So that single sad event has actually propelled mobile home parks, not to their former

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greatness of the 50s, but definitely back on the radar screen of respectability.

David Phelps: Now, because of the misrepresentation of what mobile homes or manufactured housing is, you can't really go into any municipality day and start one up from ground up, can you? I mean, that's just not feasible.

Frank Rolfe: No, it's not. But the real reason we figured out why the cities hate mobile home parks, it's not actually the stigma. The stigma is a lot of it. People don't want to have a mobile home park anywhere near them, but the problem is the money. We had a park. We've now sold it up in Arnold, Missouri, just up the highway from where I am about 150 lots. And if you look at the economics of that park, that park was costing the city about a million dollars a year, because the tax income was very, very low. The lot's revalued about 50,000 a lot, and in Missouri is a 1% state. So they're getting about \$500 a year per lot in tax. And the mobile homes are only valued at about 5,000 bucks. They were all old homes. So the city was getting \$550 per lot in annual tax.

But every single home in that park had between one and two kids costing the school district about \$8,000 a pop. So cities have figured out that mobile home parks are huge money losers. And with a city coffers being as low as they've ever been, they can't afford to bring in more money losing stuff. If you build a self storage, you build an office building it's all straight profit. City has no cost whatsoever. If you build retail, they do even better. They get sales tax and no costs and all property tax, but they figured out that that affordable housing is not good for them. And that's why they shut it down.

Now they use the stigma as a weapon. So what they'll do, for example, we tried to expand a park here a couple of years ago,

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and I went to represent us at the zoning hearing. And they packed the place. There was me, and there's probably 300 angry residents there. And they use that stigma lever to turn every application down, because it's very convenient for them. They can't say they don't like losing money because that would be a violation of their duty to serve requirement under the government. So, yeah, they use the stigma very intelligently as a weapon to stop the construction of new parks. So yeah, every year there's estimated to be no more than 10 parks built in the US but about a 100 torn down.

David Phelps: The ones that are torn down. Is that just because the current owner is not available to maintain them, keep them up, or are there other reasons why a jurisdiction can shut one down for other violations? And that becomes the end of that particular park.

Frank Rolfe: Yeah. I would say all 100 are redevelopment. There's another trick people don't realize with city government. Cities hate parks. So if you want to get the zoning for anything you want to build, it could be obviously big box retail, high density, multi-family. What you do is you buy a mobile home park and you trade the city destruction of the park for whatever zoning you want. So for example, the most recent one I saw being torn down. I was driving to one of our parks and went into Indiana. Here was a very large park, about 150 lots being demolished to make way for a Home Depot. And that's, mobile home parks often because of their age, most rebuilt the 50s, 60s. Now they're in the heart of town. So they make pretty attractive land locationally. But then the fact that see will grant you any permit to eradicate it. That's a home run for developers. So that's why they keep getting torn down.

David Phelps: So the sellers, then at this point, they're just looking at the opportunity to liquidate. And if the price is right, then a mom

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and pop, or anybody who has where the value play is such to sell it to the developer who has now the incentive to take it and go back and rezone it. Is that going to be the continuation? Is that going to be the progress of mobile home park communities as they are today?

Frank Rolfe: Yeah. Well, it depends. If you keep raising your rent to market and you rent it effectively, then the value of the park often hovers well above the land value. But if you're an older mom and pop and you haven't raised the rents, because you do what we call mom and pop quantitative easing, and you feel sorry for the customers and you refuse to raise them. What it ends up doing it just as a precursor to demolition. So some of these markets, well in Austin, for example, there's mobile home parks where the rent is 250 a month and the market is 650 a month. I mean, at 650 a month, the park would be the highest and best use for the moment of the land. But at 250, no, anyone would tear that down and rebuild. And so it's kind of weeding out slowly but surely the worst operators, because the land value in that case is higher than the park value.

David Phelps: Got it. Mom and pop quantitative easing. That's a good one. I like that. So then where does manufactured housing go from here? As you mentioned, people want their own space. They want their land. People, especially with COVID, are realizing that being in a tight box with the neighbors on the walls, a spread of disease, but also just you have no privacy. So people really, really want to get out at least have their own home, their house and manufactured housing is well-built today. Same standards as stick-built, at not a fraction of the cost, but what maybe half the cost or thereabouts.

Frank Rolfe: More of a fraction.

David Phelps: More of a fraction. Okay.

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Frank Rolfe: I mean, new factory homes, 30 bucks, a square foot. Single family, over a 100 a square foot.

David Phelps: Yeah. So, where do you see this playing out as the cost of housing continues to go up, but people want their own place? Where can people put a manufactured housing if the municipalities are not wanting to have communities of them?

Frank Rolfe: Yeah. It's going to be a struggle. As far as new park construction, I would say the most fertile areas might be opportunity zones, but of course in the problem is finding people who want to live in the opportunity zone area. So that's a problem. You can still build parks way, way out in the County. The problem is way out in the County you don't have city water, city sewer, city services, and you're way out in the County. I don't know, to be honest with you, if you'll ever see new park construction, as we know the mobile home park animal, but there are people building tiny home developments. For example, there's a large one in Austin being built by a guy named Scott Roberts. They're very expensive. I think his construction cost is coming in about a 100,000 per space. And so it's going to be a different animal.

And the price point in these would be under 400 square feet for about a 1,000 a month. So it's not your typical mobile home park resident. That's for sure. But I see that may take up some of the slack as far as millennials and affordable housing. If you truly call it even affordable, which I'm not sure that it is, but our nation has uniform building code, which withholds the ability to put mobile homes on stick-built lots. And then at the same time, it also precludes some other forms of affordable housing that Europe has built in the US parks. In other countries they do 3D printable homes, for example, in Russia, that look really, really nice. You've seen the HGTV shows on tiny homes. There's ways you can build mobile homes that are far more attractive

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than what we have, but a lot of it ties back to bureaucracy. And as we all know, the government is just seemingly in love with greater bureaucracy at the moment. So it's unlikely you'll see any movement there at all.

David Phelps: Kind of pull it back to a larger look at the economics of where we are in the political space that we have today. We have had this massive federal stimulus quantitative easing from the federal standpoint, credit expansion, like we've never seen before. In terms of investments, particularly real estate, obviously your bias is towards what has worked and continues to work extremely well, affordable housing. I mean, what you do, because there's always a need and a place for that. What do you see going forward if, just kind of from a broad view, Frank, because you have an economics background, what do you foretell in terms of the opportunities that might be in place for those who like to invest in different real estate asset classes? What would be some general principles that you would probably convey if you were laying out a principles class on investing in the future?

Frank Rolfe: Sure. Well, the first thing the nation is tipped his hat now on industries that it favors over others. So we now know the essential industries from the non-essential. And so that's scary. We've never actually had those broken into two camps before. We were very lucky with mobile home parks. We fell on the essential label, but our good friends in the lodging industry came on the nonessential label. And it wasn't maybe fair who chose what and I don't recall there ever being any vote on any of it. I don't even know where the list came from to be honest with you. Some bureaucrat just made it up on the back of an envelope at lunch one day. But to me, that favors to some degree real estate, because now we always will have this fear going forward of the next pandemic and the next non-essential label.

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So I'm obviously more into essential industries. So then you say on the essential side in real estate, what works. I mean, obviously housing is like the big thing in America right now. We are in a certifiable American housing crisis of biblical proportions. I mean, right now, the government subsidy programs are only serving 20% of all of the applicants that actually meet the profile. So they're 80% short in those programs. So I would say, anything you can figure out in the sphere of housing that allows people to get a nice place to live at a lower cost is a winner. Now what all those are. I don't know. I only deal in the mobile home park aspect of that. I think you'll see. Well, I'll tell you what area I think you'll see a huge amount of increase in right now. And that's the RV park industry.

Right now, RV parks are not like mobile home parks. They're like an actual business and the SBA and the USDA both have loan programs right now that are hugely attractive. 25 year fully amortizing debt as low as 10% down. And so they're very much promoting RV park ownership now. What's interesting about their program is you're not allowed to do it if more than 50% of everyone in the RV park is not transient by nature. Then it becomes not a business, but a housing industry, but I don't think they monitor the program after you buy it. And I'm not sure what happens when it segues into being much more residential. There's a whole industry being built upon people who are retiring into RVs. And in many municipalities, we can't put RVs in mobile home parks.

So there is a future in the whole extended stay RV industry, perhaps a really big future because RV industry and like mobile home has had a great PR run. Their identity is fantastic. Their go RV-ing campaign has done phenomenally well. There's no stigma, no pushback. And a lot of Americans who could not handle the stigma of retiring into a mobile home, have no issue

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with an RV. I know myself, I know a college professor, very upscale guy, big house, 5,000 square foot house. Recently announced he's selling it all off and go to just live in an RV and travel America. No pushback at all. Now, if he had said, I'm going to move into a mobile home park from being an upscale college professor, he would have lost all of his friends instantly, but now people think, Oh, that's cool.

And I know a large number of people like that. So I think there's some future in that industry. I think you'll see a lot of future in any form of real estate that is in the suburbs and the exurbs. I think that's going to be the new thing. You've seen it. It's called the great reshuffling by Zillow. On top of that, you have so many other drivers to that great gaining strength. I mean, Apple's bringing out their own car in 2024, supposedly. When you get self-driving vehicles. So the commute becomes fun. So there's no longer a challenge. People will press out an extra 15, 20 minutes. And that opens a whole new world of real estate. For example, in the self storage arena there's a lot of storage in the suburbs and the exurbs that never is on the radar screen, they're never discussed in any article.

And while the big storage companies are suffering in the urban markets where everyone's leaving by the bushel baskets, that'll be picking up. So I think there's a lot of opportunity out there. But I, myself personally, after enduring COVID now for a year, nearly a year, I'm forever changed on the way I look at things in life. I myself now put things in the stacks of essential and non-essential, and I don't think I'll ever get over that. It's kind of like the Texas S&L crash. Once you live through it, you can't go back. You're scarred.

David Phelps: Yeah. These are really watershed moments what we're talking about which really changed the dynamics and the behavior or the sentiment of the people who went through it

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forever. I mean, we will not go back and think the same way. Just as you said, essential, not essential. You can't get that out of your head, because you've gone through it. You've had to struggle through it, persevere through it. And now it will always be top of mind when thinking about strategies or tactics or what's next. Great insights. I don't want to lead the witness here, but you don't have to answer to me directly, but will you guys maybe go into have some funds for RV parks? I mean, I'm just ...

Frank Rolfe: Well, we're very much in specialization and we do own some RV parks down on the Texas Mexican border, but that's not really been our forte. Mobile park business is strange, because when we say we're the fifth largest mobile home park outfit in America, we're also classified as a fifth largest RV, because the industry mixes the two together and that because ELS, the largest mobile home park owners also largest RV park owner. So it just kind of, sadly for RV, they didn't really like the name association, but I mean, our industry museum is called the RV MH hall of fame and museum. So you can't be in one without the other. To get the SBA loans, obviously you have to be a small business, a business. It's not something we could do in a fund structure anyway, I don't think, but again, I'm just throwing out ideas to you.

David Phelps: Yeah, no, it's good. Good stuff. All right. So last question, again, from a economic standpoint. Historically low, low interest rates, trillions of dollars of credit that had been pumped in the economy, COVID effects, we really haven't seen the aftereffects yet because we've got all this artificial stimulation, the quantitative easing, as you said. At what point does the price of housing, respective of the financing of the current financing that's available that allows people to still to afford houses that go up and up in price, where do the things top out? I mean, what, in the economics picture, Frank, what's going to

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stall out the continuing increase of the pricing of housing in general? Every market's different of course, but what forces one, from your standpoint, you get the stuff better than anybody else.

Frank Rolfe: Housing's all about debt. I know very few people own their house outright. I own my outright. You may own yours outright. But most people do not. And as a result they're at the mercy of lending and the lenders have really set these prices because the lenders have agreed to make loans on them. So when I see a house that sold in 1970 for 30 grand, and today's valued at 800 grand, the only reason it's worth 800 grand is there's a lender out there willing to advance a loan of 730,000 on that home or whatever the amount is. If you see a lending correction, if the lender start getting spooked, if you start seeing large losses, I don't know how bad it could get, because then it falls back to people just buying with cash. I'm sure you remember, back in the Texas S&L crash, where every single house in straight lane was available for sale at as much cash as you had.

My wife and I would go walk through them for fun. They'd say, "Well, the guy's got 4 million in it, but he'll take like 700,000 or the bank will." So that's the issue. I don't know where lending's going. I do know that I don't see, and I lived through the Reagan era and I think you were around in the Reagan era and that's was my first president when I started in business. And I wrote the interest rate to 17% era. And back then Reagan had less than a trillion in debt. So he could do it. I mean, he was willing to tough it out and do it. Today, what are we at? 30 trillion of debt. Largest debtor in the world. We can't do that. So I think our rates will remain low until the US loses control of manipulating them to stay low, because to go up would mean the insolvency of the US government really rapidly.

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But on the housing side, it's really, it's a lender question. And I know right now, I believe single family home prices are up to about the 2007 level again in pricing. So the lenders kind of forgot whatever happened last time, conveniently over 12 years, they kind of gee, well, I don't remember that. What was that great recession again? And of course, a lot of people, the banking industry weren't around during the great recession. All these 25 year old guys, they don't even know what a great recession was, but that to me, that would be the scariest part.

And again we've seen so much new this past year that I never thought we'd ever see. I never thought we would see essential versus not essential businesses. Never thought we'd see COVID, self quarantine. I don't know what we're going to see in lending going forward. I, as you do, watch the news, I see all the new bureaucratic insertions into everything. And that's not typically good for the banking industry. And so I don't really know. Every day I'm as interested as you are to turn on MSN and look and see what the headlines are. And I've never amazed, often depressed, but never amazed at what happens, because I anticipate the worst every day. And normally it delivers on that.

David Phelps: Yeah, it certainly does. So based on where the cycle is right now, politics, and as you said, the bureaucracy that's put in place every day, good chance of some kind of a shakeup or correction in the next, throw it out there, 12, 24 months.

Frank Rolfe: Yes, well, being an economics major from Stanford. I can tell you from whatever that's worth that historically, you always have your big recession the first year of the new presidential term.

David Phelps: That's it.

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Frank Rolfe: That's how the history has worked. So you got a new president. You're going to have a big recession. It appears to me. I mean, they all have their own label, and I've been through almost all of the ones in modern times. So I've been through dot com. The Texas S&L crash. All of them. This to me, it looks like it will probably be some kind of gigantic stock market correction. I mean, look at some of these companies in the values. Tesla is just one, but I looked at Starbucks the other day, Starbucks right now has got declining store sales and their value at instead of a 10 price to earnings ratio to 133.

And you look at that stock and you say, you know what? There's no way if that was a starting business, not a public company, you went to the bank and you try to borrow money on those stats. They would laugh you out of the bank. And so I don't really understand why these values are so high. And you saw Charlie Munger, Warren Buffett's partner originally say, it's the most overvalued he has ever seen the stock market. That it now defies all economic labels. There's no way to describe the insanity. So yes, I imagine within 12 months, just from an economics historical perspective, you will have a humongous recession that'll be led by a stock market collapse. I don't think Biden's plans are going to probably work in almost any of the arenas. I think you're going to see, Oh my gosh, just an obliteration of all kinds of sectors, oil and gas, all kinds of things.

And that's just the way it works. And then you just basically dig out of that. Now I feel good about our sector because we're essential and we're affordable, but I have a radar in my brain that goes all the way back to my early days. I've never worked for anyone but myself. I have it like an alarm system and that alarm system is going off big time. I'm hearing the siren 24 hours a day on such items as the stock market. I don't believe

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in it in the least. I think it's absolutely destined for doom. And I think it'll hit the next 12 months.

David Phelps: And then Biden can conveniently blame it all on Trump. I mean, that's the way it works.

Frank Rolfe: That is normally how it has always worked historically. That is always correct. Although you can blame it all you want, but the problem is then people look around themselves and say, gee, was I doing better now or was I doing better before? And so I think by the midterms, you'll see a whole new sentiment in America, different than what you may have just seen. Let's see how it all plays out. We are definitely literally at a time of American history being made, because there've been whole decades where you could just go to sleep and nothing really happened, but this is a different one.

David Phelps: Frank, so well said. I always enjoy conversations with you. Thanks for your time today. I'll probably be ringing you up again within the next few months as the climate continues to change and fun to talk to you. Thanks for your time today.

Frank Rolfe: Thanks a lot. Thanks for having me.

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