John McLaren:

Leading by example is contagious. So, there's a lot of pride to ownership within our communities and we have a lot of different strategies that we use to enhance that, whether it's, sometimes people think this is silly, but recognizing residents for their home sites and how beautiful they look, how beautiful their home looks. People like that. Okay? So, really just come down to that relationship that you have within the community and the pride that exists of being a homeowner.

Matt Slepin:

Hi. This is Matt Slepin and welcome to Leading Voices in Real Estate. Today's episode is a conversation with John McLaren, the President and Chief Operating Officer of Sun Communities, a REIT and the largest owner operator of manufactured housing communities. My conversation with John took place on May 18th. This is the first Leading Voices is interview focused on the manufactured housing business. We've talked all around the subject on Leading Voices with interviews with leaders of home builders and apartment owners and the places in between, and we've had a lot of focus on affordable housing and housing affordability, for which manufactured housing could be a more important part of the discussion and the toolkit. John and I explore the different facets of the manufactured housing business in general, as well as a deep dive into Sun Communities' business. As our listeners are well aware, to be a landlord in a rising cost economy is often to be in the hot seat within popular culture for rental increases.

A friend of mine, Daniel Weisfield from Three Pillars Communities wrote a letter to the editor of the Washington Post, which had published an article critical of rent increases in mobile home parks. Daniel wrote a long letter, the conclusion of which, similar to the points of today's interview, is that, quote, "Manufactured housing communities are a powerful tool to create more social opportunity across the economic spectrum and to help lower income Americans build wealth through rent savings and home ownership." I invite you to look at the full text of Daniel's letter, which we will link to in our show notes. Before we hit record on our conversation, John was telling me that he kind fell into the real estate business and that, quote, "Nobody really enters the mobile home park business on purpose."

He went on to say that his career has been a great blessing in which he's achieved meaningful success and also, you'll hear it from him throughout our conversation, he has clearly found meaning and purpose. It's funny. I so often say the same thing. I fell into the real estate business early on and then fell into recruiting midway through my career. At least 25 years ago when I started in recruiting, I would've also said that nobody really enters the recruiting business on purpose. You kind of fall into it, which I did. So, I really related to the conversation with John since I too have found deep meaning in the business to which is not always ascribed great status, that for me has become a meaningful calling. Thank you, John, for allowing me these parallels. Also, thank you as always to ZRG Partners for sponsoring the podcast. ZRG is one of the fastest growing talent advisory firms across the globe and with its recent acquisition of my company, Terra Search Partners, we are together building a premier recruiting practice in the real estate industry.

I'm thrilled with the merger and partnership and the opportunity to leverage the ZRG platform to grow our business in real estate. I hope that you enjoy today's conversation with John and our deep dive into the manufactured housing niche. If you enjoy today's episode, please share it with a friend and go to the show notes where we link this episode to other related conversations within the Leading Voices archive. If you have comments, questions, or guest suggestions, please email me at mslepin@crgpartners.com. I hope that you enjoy the show. John McLaren, I welcome you to Leading Voices in Real Estate. You're the first person on the show from the manufactured housing business, which we're going to dive deep into, both generally about the business, specifically about your company, and then we're going to talk about your background. But that follows the arc of real estate. We talk a lot about residential. We talk a lot about affordable housing, which really is what manufactured is. So, lots of themes here and lots of strings to pull on. So, I'm really excited about the conversation.

John McLaren:

Me too.

Matt Slepin:

My first question is always just kind of a self introduction. So, tell the audience who you are, where you are, what your company is briefly, and then we're going to dive into all the things we just talked about.

John McLaren:

Sure. Again, Matt, it's great to be with you here this afternoon. My name's John McLaren. I'm the President and Chief Operating Officer of Sun Communities. We are a real estate investment trust. We have been a company since 1975, went publicly traded beginning in 1993. The way I describe the company is that we really have three main business lines, which the first and the biggest is our manufactured housing community portfolio, which represents about 50%, and then we have a pretty good sized recreational vehicle portfolio within that. Even within the RV side, we have a hybrid group, which is the combination of manufactured housing and RV. Then more recently, some additions of Safe Harbor Marinas, which is our marina portfolio, which is coast to coast in the United States, as well as Puerto Rico. Then our most recent venture was earlier this year, closing on a portfolio of 42 properties in the United Kingdom called Park Holidays.

So, it's been a really great four decades for the company as we've grown thoughtfully, methodically. I've been with Sun for about just almost 20 years, have had a variety of roles. First joined the company as a Regional Vice President, which meant that I had a small portfolio of properties that I was responsible for leading, and then grew into another position as the leader of our retailer side of what we do, which is the side of our business that sells homes within our communities, leases homes within our communities. Did that for a bit and then became Chief Operating Officer in 2008 and then President of the company in 2014. So, for me, as you might imagine, Matt, it's been a very fun, interesting, fulfilling career even before Sun, but most importantly, within Sun over the last 20 years. It's been a lot of fun.

Matt Slepin:

Right. It sounds great. Talk just a little bit about Sun's size and scale and role in the industry maybe as compared to competitors of scale, and then we'll dive into talking about what manufactured housing really means in the real estate world.

John McLaren:

Sure. Within our asset classes that we are in, there's really only one comparable that has all three of the business lines that we have that's of scale, and it's another publicly traded company that's out of Chicago. But our current portfolio as it stands in the beginning of May is we have about 646 properties across the United States, Canada, and the United Kingdom. I think the enterprise value of our company is approximately $30 billion.

Matt Slepin:

Okay and that other company in Chicago is Zeal's company, isn't it?

John McLaren:

That's correct.

Matt Slepin:

Just for comparison, what's their size, if we're comparing size here?

John McLaren:

Well, they're a little smaller. Okay? We look to them as they are exceptional operators in the asset class as well. Some of the things that we've done, for example, the marina business, they actually were the first ones to get into that side of the business when you look at the comparison between us and them. So, I think the way I describe the relationship as we both lead and follow at different points in time in terms of strategies.

Matt Slepin:

Right. What's the overall size of the manufactured housing world and how much of the manufactured housing stock in the country is in parks, if that's the right word, and how much are independent on someone's yard?

John McLaren:

Good question. So, I think as of late, well, I think the last statistics I saw is about 22 million Americans live in manufactured homes across the country, of which about 4.3 million of them live in approximately, it's a little bit more than 40,000 communities throughout the United States. As you might imagine, a community could be defined as a very small one that maybe only has 20 home sites associated with it to very large ones, which may have 2,500 sites associated with a given community. So, the majority of people live in manufactured housing on private property. So, we represent probably a fifth, little bit more than a fifth of the number of people living in manufactured homes throughout America.

Matt Slepin:

Mm-hmm. Then of that fifth, and I think the consolidation in the business, I think of mom and pops, I think of institutional. In the apartment business, we used to call it professionally managed apartments was, 20 years ago, the word they started to use that defined the difference. But that's a pretty small percentage, therefore, of the built population.

John McLaren:

Yeah. That's correct. We represent 283 of those 43,000 communities that exist across America. So, the vast majority of them are going to be family mom and pop operations that get passed down from generation to generation.

Matt Slepin:

Mm-hmm. Maybe last part of this question and we'll dive on other stuff. But therefore, the number of these communities of scale that can trade to institutional owners is a pretty thin business, although lots of people are talking about it.

John McLaren:

Sure. There's clearly been a lot of activity in our asset class. I can tell you, over the course of my career here with Sun, we really became active again in acquiring, operating communities back in 2010. I can tell you that between then and now, the prices and the cap rates associated, which manufactured housing communities' cap rates are significantly compressed, there's much more competition. There's a lot more private equity that's in the asset class trying to aggregate communities.

Our growth has been through ... We sort of joke about it because we've done some bigger portfolio acquisitions between 2010 and now. There's really not a tremendous amount of portfolios that exist today that would fit what we would like to have within Sun's portfolio. So, much of the aggregation that we've done over this time has been Wednesdays and Tuesdays, we call them, picked up along the way and our thought processes to grow thoughtfully and methodically along the way and just keep building upon a really solid foundation that we've built.

Matt Slepin:

Mm-hmm. Therefore, some of your growth is to take the operating platform you've built in this business to bring it into the RV business or vacation-ish business because it's hard to get scale within your specific sector.

John McLaren:

Yeah. That's absolutely correct. We would define manufactured housing as attainable housing is what we call it, and then what we define our RV portfolio as being is affordable vacationing. Okay? Because the reality is that most guests that come to RV resorts are usually traveling from within a 90 mile radius to the property. So, it's fairly close to home. The majority of our guests in RV resorts are also what we call annuals, which are people that would rent to site for the entire year or for the entire season, just come and go as they please. We love the asset class because it's an affordable option for vacationing vs. some other forms of vacations people might take.

Matt Slepin:

Right. We'll come back to that. We're going to talk about attainability of the housing and affordability of it. Because this is an affordable housing, attainable housing solution, are there many communities being built? I think the answer is no and I'm curious why that's the case.

John McLaren:

The answer to your question is yes, there are very few communities being built today in the manufactured housing side. A lot of it has to do with NIMBYism. Not in my backyard, which is not uncommon to any development that you might do. One of the ways that I represent the company is I'm typically the person who's at those planning commission meetings, those city council meetings talking about Sun, talking about our product, and sharing what we've done over the last four decades. So, we have built 10 communities over the last five years. As you might imagine, that process has been challenging. It can take two years to get through the entitlement process.

I think that we're fortunate that since we have built 10 properties over this period of time, it is marginally easier to have the conversations with the planning commissions, simply because I'm no longer showing beautiful renderings of what we're going to build, but I'm actually able to show photographs of what we've built and the kind of thought that goes into our communities, the stewardship that any developer can bring to a community. So, I think that word leads us a little bit. So, when I say it's marginally easier, this is another thing I tongue in cheek on, is that if it would take 24 months before to get through entitlements, maybe it takes 23 months now.

Matt Slepin:

That's not as big a differential in the cost structure as you want it to be. But the NIMBY thing, we had the head of the YIMBY movement talk on our podcast a couple months ago, or one of the leaders of the YIMBY movement, Yes In My Backyard. We didn't get to manufactured housing because it was really, her theme is very urban and infill. But attainable housing's the issue.

John McLaren:

Yeah. With all these different municipalities that I've interacted with over the years, it's a pretty wide range of how much planning has taken place in terms of, you can go to one city and they have very well defined what their affordable housing goals are, looked out five and 10 years in terms of what their needs are, and then you can go to another municipality that really is, it's almost like we're coming into share that with them. Okay? It's like you know what's taking place, but whether they don't have the bandwidth or things like that that haven't allowed them to really plan that out in the future, it's a very wide range.

Matt Slepin:

Right. Right. Absolutely true. You used another interesting word, one of my favorite words, which is stewardship, and I think when you're an institution and a public company, as a landlord, you have the opportunity and obligation to be a steward, which really changes the name of the game, and particularly your industry, which doesn't have much of that.

John McLaren:

Yeah. Stewardship is a word that is very much in Sun's DNA. Everything that we do within our business is looked at from a very longterm perspective, Matt, and whether it's the continual reinvestment that takes place back in our communities, whether it's the relationships that we have with the manufacturers whom we buy homes from, and innovating that product to become more aesthetically pleasing, more efficient environmentally, and things like that. I think those are the things that we try to influence along the way so that we're continuing to make progress in those regards.

Then more important than anything is we're part of the local community then. Okay? So, it's important for us to listen to the needs that that local community has. So, we've provided all sorts of different benefits, whether it's to build a city park or contribute to things, a recreation center that the city wants and things like that as part of the development because frankly, it is part of stewardship and frankly, when you look at it from just strictly the business side and wanting to be able to fill your newly built sites within your community, those sorts of things are going to aid into that investment return that we make as well.

Matt Slepin:

Of course. So, let's make the product real because I don't understand the product, either the horizontal product, the homes, if you will, and then the vertical product of the infrastructure. But talk about what these homes are. In your communities or in this overall industry of the 22 million people, do they largely own their own homes or do they lease them? How does that work?

John McLaren:

Yeah. The vast majority of folks that live in manufactured homes own their own homes. Within our communities specifically, we do have a decent sized home rental program within our communities. But it represents approximately seven and half percent of our overall occupancy. So, it's not a tremendously huge portion. Most of the people own their homes within our communities.

Matt Slepin:

Of the homes that are on your communities and that therefore people own, what's the useful life of one of these buildings, say, as compared to a stick-built building? Any sense of that? Just depreciating asset or appreciating asset?

John McLaren:

Well, we've seen a good amount of appreciation of homes within our communities and again, I think that that ties back to pretty much anything you might own, which is whether it's a home, a single family home, a manufactured home, a car, whatever it might be, how that home is cared for, makes a difference in terms of the life of the home. So, what I can tell you is that we have about a 1% turnover rate within our portfolio of homes that leave a community. So, although I've not lived that long, Matt, that would basically tell you that the average home would stay in one of our communities for 100 years. I can also tell you that the average resident lives in one of our communities for about 14 years. So, when they move, they're not moving the home, they're selling the home to somebody else who's buying it, and in many cases they've seen price appreciation in their home when they do sell it.

Matt Slepin:

But maybe like a car, the price depreciation in the second half of its useful life. This doesn't suggest these properties have a 100 year useful life. They still may just have a 50 year useful life in terms of a manufactured home. I want to use the word trailer. So, at one end of the spectrum, we have the nice word, manufactured home. At the other, it's a trailer. So, you don't upgrade it in the same way necessarily. Your community probably, by the quality of your work, extends everyone's expectation and therefore what they'll invest, I'm guessing.

John McLaren:

No, you're right. It's sort of like, You've heard the expression leading by example. Okay? One of the things that I always tell our team operationally is let's try not to forget that the vast majority of our communities are home sites. Okay? So, the bottom line is this. If your home sites look great, if the homes are well cared for, our community looks great. We've all been in communities of all sorts of different asset classes where the common area is the only area of the community that looks nice. So, you have to have all of it. So, what happens is that leading by example is contagious. So, there's a lot of pride to ownership within our communities and we have a lot of different strategies that we use to enhance that, whether it's, sometimes people think this is silly, but recognizing residents for their home sites and how beautiful they look, how beautiful their home looks. People like that. Okay? So, really just come down to that relationship that you have within the community and the pride that exists of being a homeowner.

That's why I think that we have that longevity. I will also add that we also do have rules to live in our communities as well. Okay? So, every year we go out and we look at every home in the portfolio, we provide the residents a little list of things that they might want to consider, whether the home needs to be painted or whatever it might be. Little updates that need to happen is just a normal course of being a homeowner. Right? To do that, what we also have to do is we have to provide support because the average family income in one of our communities is about $45,000 a year, and in some cases, might not have the money to paint a house. Okay? So, as part of what we call our Pride of Ownership Campaign, we may contribute paint. We may contribute a piece to it and an overall campaign to the community because really, it's part of that longterm reinvestment that we make. When they say rising tides raises all ships, it's a good thing for the community.

Matt Slepin:

Right. Do you provide services and maintenance services to do this at a cost that may be better for them, for one of your residents than going to a private contractor?

John McLaren:

Yes. We will provide access. Although we can't direct them to any specific contractor, we'll provide access to our contractor, should they choose to get pricing that is going to fall in line with our pricing power that we have within the portfolio overall.

Matt Slepin:

So, can you get them a refrigerator at a contractor price that works for them that they can't get if they go to a contractor to have to get the refrigerator?

John McLaren:

We can.

Matt Slepin:

Yeah.

John McLaren:

Yep.

Matt Slepin:

Yeah. We had, again, similar conversation on single family rental with Progress Residential on the podcast and we were talking about the pricing power of the SFR companies to do a renovation vs. Matt to go to the guy with a truck to do the renovation. They're going to get half the price at twice the speed because of repeat business and everything else.

John McLaren:

Absolutely. This is about taking care of all stakeholders. Okay? Everybody benefits from relationships like that.

Matt Slepin:

Mm-hmm. So, let's talk about, and here's some statistics I read online from the Manufactured Housing Institute. I think average cost of a manufactured home last year was a $106,000, 106,590 vs. a single family home of 351. Now, some of that is not just because it's manufactured. Some of it is the 50 year lifespan vs. 100 year lifespan, I'm guessing. But that's a third of the price, and then the average rental was 91 cents per square foot vs. a buck 90 per square foot between manufactured housing and apartment living. So, talk about those differentials, and does that differential also include the cost of ownership in that rental part?

John McLaren:

I think what you just illustrated there, Matt, was the tremendous value proposition that our form of housing brings. Okay? You talk about the differential in the home price itself, as well as in the rental side. But even on top of that, which is not in those statistics that you read, is there's a lower barrier to entry to get into home ownership in a manufactured housing community just by the simple fact that you are paying a $106,000 for your home vs. $350,000 for your home. So, when you live in a community that's been cared for for a long time, it becomes a very easy value proposition.

I've been in operations for many, many years and in the beginning when we really started growing as a company, were very aware of most consumers have a preconceived notion about the product and. The important thing was to get them to our properties because a picture says a thousand words. Okay? When they see the type of product and what it is by comparison to different asset classes or different costs associated with different asset classes, that's when you can really illustrate what the value is to live in one of our communities, or in a manufactured own community as whole.

Matt Slepin:

Right. Then when you say it's a lower barrier to entry for obtaining the home because it's a third of the cost, but can you finance it with Fannie, Freddie at single family rates of mortgages or is it channel financing at a higher interest rate?

John McLaren:

It is channel financing at a higher rate. The lower barrier to entry is typical. Typical terms for a new manufactured home purchase and financing would be in the 10% down range for down payment. Typical term would be maybe 20 years for that loan. But the rates are going to be, they're going to vary. They're going to vary anywhere between seven and 9%.

Matt Slepin:

Wow. So, overall, still affordable because of the price differential, but that financing is far inferior financing from a rate standpoint and the term standpoint.

John McLaren:

Yeah.

Matt Slepin:

Forget the down payment part.

John McLaren:

It's also not as elastic as rates are moving today and you would not see the manufactured housing rates move in the same fashion as single family 30 year mortgages today.

Matt Slepin:

Mm-hmm. Mm-hmm. Then talk about your side of this in manufacturing some of these homes and how you've seen that change. Also, there's a whole lot of conversation within the overall real estate business of creating componentized housing of different sorts. We use the word manufactured in one way or the other, but built in a factory. Factory built units is now popular. So, there may be less daylight between what you're doing and the rest of the industry's doing anyhow.

John McLaren:

Yeah, that's true. Sun has never been in the manufacturing side of the business. It's not one of our business lines. But I believe either we are or close to the largest factory built home purchaser in the country and have been for a number of years. So, with that, Matt, we've had significant dialogue with the manufacturers that we work with in terms of what I was mentioning earlier with home innovation, I will call it, and it really started a number of years ago when we started with the interiors of the homes and a different flow, more open floor plans. Typically, having a larger home, that's going to come with four bedrooms and things like that for families and as of late, over the last several years, we've really focused our attention on the exteriors of homes and that street appeal, especially as we've earnestly been building more ground up greenfield developments and manufacturing communities.

We wanted to build a different neighborhood [inaudible 00:26:59] built before in our industry. You're right, though, that certainly, the single family side or build to rent, you're seeing more of that componentized home building, whether it's all of it or part of the home is coming from a factory. I think it's something our industry's always done. The home is 100% built in the factory. If you look at it from an ESG perspective, it's a very good thing because you're minimizing scrap, you're not building in a weather environment, it's contained. Okay? So, by adding that to all different forms of building, I think, has got a greater positive impact on the environment.

Matt Slepin:

So, a friend of mine in Sonoma County built a vacation home with a company called Blu Homes, I don't know if you've heard of Blu Homes, and they're on hinges. So, they're able to flatten the house, and this is a high end house, and one of the benefits of the high end house is they go through a different zoning and permitting process. So, he saved two years of NIMBY hell in Sonoma County putting a house on his property, and it's gorgeous. So, what's the difference between the Blu Home that he acquired that went up and your home? Maybe your home continues to have wheel, it could move again one day, but probably not anyhow. So, I'm not sure of the difference here.

John McLaren:

There's not a tremendous difference. His house is probably built to a different construction code. All of our houses are built to HUD code, which basically makes them roadworthy and the construction standards. But in terms of the materials, and certainly there could be some differences in the actual finishes that your friend would want in their house and what would come with a high end home.

Matt Slepin:

He's a yuppie dude. Yeah.

John McLaren:

Yeah. But you'd see for the most part, they're still factory built homes. Okay? So, that line, just like you're saying, is becoming a lot blurrier in terms of what people are buying today.

Matt Slepin:

Are the HUD standards, and we'll leave the subject in a sec, but are the HUD standards required to be set up for there continued to be mobile homes? If you were to work with HUD to get rid of that since no one ever moves these things once they're sitting there, then some of the costs that you have around continued mobility could go into more permanent structuring.

John McLaren:

Yeah, and I think really, the HUD code, more than anything else, really serves to when that home leaves the factory, it's been inspected. So, it's met all of its requirements vs. anything that you might have to do in the field once that home is installed onto the site within the community. So, that's what makes part of the process so efficient because you're getting the permits and the inspections for the site itself and you might have a plumbing inspector or some local inspector make sure that the home's been installed correctly. The home itself, that's already taken place in the factory. So, it gets its head stamped from there.

Matt Slepin:

Yeah. I'm just thinking, though, because you say one of the requirements is that it continues to be able to be moveable. My friend's isn't moveable, and how much do you really care that once you get it there, its continued mobility matters? That might be a part of the cost structure and making things light so you can do it, not actually a good goal.

John McLaren:

That's an important point you're bringing up because just like I said, when you have 1% turnover a year, nothing's moving anyway. Okay? So, really, it's sort of immaterial.

Matt Slepin:

So, a couple subjects. Talk about the dynamics of turnover, the dynamics within your portfolio and other portfolio of rent increase, and you have a whole lot of pricing power because people can't move. But you're a steward, so you're not going to raise rents abusively. How do you find that balance? Then within the industry, maybe others don't find that balance in the same way that you do. So, talk about, you got these people. They're not going nowhere. So, how does that work?

John McLaren:

You're touching on the longterm view again, Matt, and then the fact that we have been an organization for over four decades. So, with that view, our rent increases on an annual basis. It's typically been between the two to 4% range. Okay? Over that same period of time over two decades, we've not had a single quarter where we've had NOI contract, net operating income. So, we've grown every quarter. It really comes down to, the way that I look at it, is stewardship's important, but that's across all stakeholders, whether it's our residents, whether it's our team, whether it's our shareholders, and trying to balance it all across stakeholders. So, that's been a formula that's worked really well for us and I can tell you that with inflation the way it is today, we have moved a little bit farther than ... I think our weighted average rent increase so far for 2022 is right at 4.2%. Okay?

You can reach a little bit of a point and overturn with that too because there is a cost turnover, and I think that's what you were alluding to a little bit too, which is that if you had a typical, call it 300 site community in the portfolio and the Delta difference between of 1% and a rent increase, it only takes one or two houses moving out to completely eliminate that increase that you had across that given community for the rent increase. So, there's two sides to balancing that equation. So, we look at both.

Obviously, when we consider rent increases in any given year, we look at the comparable set of properties around us. We look at what their rents are. We look at the quality of the communities themselves. We look at the occupancy of our own and those communities and try to place ourselves in a competitive spot so that, one, it's fair for the residents, two, it grows the portfolio, it grows the NOI of that community, and then it's going to serve for those longterm goals that we have as a company. Now, I'm really proud of our history with that and being stewards within the communities because there's some predictability to it, which if you view your residents within your communities, we view them as they are the advocates for our company. They are our sales force and that is the bottom line.

Matt Slepin:

I'm going to keep pushing on this, and this relates to you as well as your industry, and one of the things you say on one of your investor presentations is your NOI growth over 20 year same-store sales is 5.1 vs. same of multifamily reach was 2.4, I think. So, that's a hefty growth and certainly a hefty growth as compared to apartments, which have risen considerably. Is that therefore on the expense side? Because your rent increases aren't that much and you don't have much turnover. So, how are you achieving those numbers?

John McLaren:

We're achieving those numbers, again, through, I'll go back to, we don't have a lot of turnover. There's a cost of turnover. So, we never see that cost of turnover take place in our portfolio. I shouldn't say never. It's limited.

Matt Slepin:

Of course.

John McLaren:

Okay? So, that's a component to it. We've got a lot of different levers for growth, Which is that one is the rent increases, like we talked about before. Two is occupancy gains. So, how do you build a portfolio where you can continually have occupancy gains? We've been very inquisitive over the years of purchasing parcels of land adjacent to our existing communities, developing those parcels, and adding them on. As you might imagine, that's a highly accretive transaction that takes place because I think our typical margin in a manufactured home community is between 65 and 70%. So, that would mean you have a 30 to 35% expense ratio within that community. When you do an expansion, it might be 15%. Okay? That contributes to that growth as well.

Then there are other contributors that are outside our MH, which is, like on the RV side, we convert a lot of short term guests to longterm guests over the course of a year and every time one of those converts, it's about a 50% increase in revenue for that site for that first year. So, it's sort of like all of those things, Matt, fall into that equation. But once again, I go back to that steady, steady growth that we've had and being able to maintain that. I think that's really an important thing to reflect on when you look at what our NOI numbers have consistently been vs. other industries that might go up and down along the way.

Matt Slepin:

Right. It makes sense. I want to come back to more with the synergies and platform of your company a sec. I just want to stick a little bit more with the industry and the sector. It's so interesting with the statistics that you give and the service that you talk about that we don't hear about manufactured housing parks as a place for attainable housing all the time, given the discussion in our country about the housing shortage and the time it takes and that NIMBYism, which you have here too, and the cost of this housing. Now, it may also not often be infill. So, it may be more greenfield where the developments are. But gosh, it should be a bigger part of the housing discussion. So, that's conversation A, and then conversation B is there might be a huge gap between the institutional owners' behavior and those of non-institutional owners who don't quite follow some of the same rules that you do, and that might hurt your growth from a reputational standpoint. That's a complex question, but you can unpack it.

John McLaren:

Well, I couldn't agree more with your first point, and I think a lot of it has to do with just, I think the asset class, frankly, is misunderstood. There's a history behind us. Okay? I think that there's a handful of us that have done things differently in the industry, almost to the degree that in some respects, I would almost define some of us as being a different industry, to some degree, and just in terms of the way that we operate. I think a lot of the mom and pops generally run a very good, tight, clean, crisp community. But the thing that stops them from going further typically is capital or access to capital in the tougher times. Then you do see others that have gotten into the asset class. How do I state? I guess it's just like any other asset class. There's good and there's not so good players. Okay?

There are some that are trying to drive the maximum returns across all stakeholders who want to have a balance. So, I think that that contributes to the misunderstanding that takes place within the industry. I do like the fact that, once again, although marginal, as I said earlier, when I go into the planning commissions and city council meetings, it's becoming more understood, and I think that the home product itself, particularly over the last five years, has evolved to much more aesthetically pleasing and efficient housing than we had, especially 20 years ago. So, I think it's definitely catching attention. Certainly, I do think that our legislators are starting to look at this more as a solution and an option, more affordable and attainable housing. It's just taken a very, very long time. I've done the legislative fly-ins to Washington, things like that.

Matt Slepin:

It's interesting. A friend of mine, I don't know if you remember this person, but Gail Davis is a friend of mine who used to run the Manufactured Housing Institute, I believe.

John McLaren:

Oh, yeah. Yes. Yeah.

Matt Slepin:

Gail's a wonderful, wonderful person. But it was interesting because my recollection of her description of her job was during the period of time she had the range of behaviors of your peer group was really wide, and this is what we're talking about. So, it's interesting. But some of the behaviors at the one end of that spectrum were less than helpful for the industry.

John McLaren:

Yeah. I think really, it's sort of, what's your view, though? Is your view a short term view or is it a longterm view? That obviously plays into the decision making. It doesn't have to just be manufactured housing. It could be any asset class.

Matt Slepin:

Anything. It's all the same. The same in what I do as a recruiter. So, talk more about your company and the business platform and how these different components work together to create a hole that's so as efficient and successful as you've talked about? Then I want to talk about international as well.

John McLaren:

Yeah. Well, the first thing I would say is I would give the entire credit to our success over the years to our team. I'm the sort of leader who believes that the team comes first and when we have an inspired, engaged, and collaborative team within the company, that leads to all good things, which is the relationship with our residents and guests within the portfolio is outstanding. The relationship with each other is outstanding. We learn along the way. So, when you look at our three business lines that we have between manufactured housing, RV, and marina, and now the United Kingdom, there's a considerable amount of collaboration that takes place. So, it's been since 2010 when I really began leading the charge on acquisitions. I've viewed every acquisition as sort of like a dress rehearsal for the next map. Okay?

What are we going to learn from that and apply going forward? How can we better come together as a culture? That is the thing that I always looked at first. Okay? What is the quickest way for these new people that are joining the company to feel like Sun team members? Okay? Because once again, if it's the team first, that has such a positive impact than everything else you do. So, as you might imagine, we've learned a lot of things over that period of time from different strategies that prior owners have taken and we've taken some of them and we've applied them. We've taken some of them and we've maybe put our own spin to it. But more importantly, it's like having this repository for ideas to be able to flow up into the organization.

Years ago, we'd established our own Sun intranet, which is we have a place within our system that we call the fridge. Okay? It's kind of corny because think about when you were a kid, Matt. You were at school and you drew a picture and you gave it to your mom,. Where did she put it?

Matt Slepin:

The fridge.

John McLaren:

She put it on the fridge. Okay? So, this is the place where somebody who's got an idea can put it out there for everybody to see it in the organization. What ends up happening is somebody takes that idea and they adapt it for themselves or they come up with something on top of that and becomes a better idea, and it's like everything continually becomes refined. That's what makes things tick is that sort of creative spirit that takes place. Trust me when I say we've got hard operational guidelines too for the things that we do, but there's a white space where you can take the initiative. So, that is the cornerstone of the company and what we do.

Matt Slepin:

Let me push on that a little bit because I think that's the cost of entry to be a business platform is the behavior that you just talked about. So, everyone at institutional scale, if they don't have that, they're in trouble. So, I'm trying to think of either technology or synergies between these different business lines. Do you learn something in the RV business that then comes back to the manufactured homes business that makes you a better operator? Or do you learn something from how they behave in England around this that, wow, we hadn't thought about that in the States or vice versa?

John McLaren:

Yeah. I'll give you an example. So, we've gone through, on the RV side, what was once Sun RV Resorts is now called Sun Outdoors and went through a two year process of rebranding that side of the portfolio. So, along with that came a very robust social media campaign, or really platform, that's been built around all that. Then that led to the better engagement, getting better information from our customers that are at our RV resorts. So, we built essentially the warehouse, the data warehouse to know better what our customers have to say. So, we can now apply that back over to the manufactured housing side and really start to gain information about what our customers think about us and to apply what we do better.

We also, as part of Sun Outdoors, segmented the RV properties between ones that are going to be more short term in nature or ones that are going to be more annual in nature. So, that led to how do we want to look at the manufactured housing portfolio, which is how do we want to segment our all age communities vs. our age restricted communities? Is there branding that we want to do on the age restricted communities, which seems to make sense to us, to really get ahead of that a little bit more than we have before? So, it, you kind of said it in the beginning. It's like to have these different business lines allows you to maybe make the investment over here into something, but then be able to bounce it back over here and lever the investment more across the portfolio.

Our company intranet is, once again, a great vehicle at the field level for these ideas to bounce around because I will just tell you that I'm the person that says the best ideas come from the field, From the folks that are actually on the front line facing consumers every day, and we do a good job of listening. I'll also say most companies don't listen to what those folks out in the field have to say. When we do a good job of that is when we see really great results and new things come.

Matt Slepin:

Uh-huh. Well, I think that's the case, interestingly, as once any greet or other operating company with a sticky portfolio gets to scale, they turn from flipping from what was a transactional business to an operating business, and then how you choose to run that operating business and that platform, one of my favorite words, is up to you. I think that's how companies differentiate themselves over time in those businesses.

John McLaren:

They differentiate themselves culturally is what it is. Yeah. As you might imagine, with the main communities we have, there's going to be a property out there that might have a challenge from time to time, call it rent collection, just as an example. So, guess who's out collecting rents with the community managers? I am. Okay? It's not for me to do their job, but it's to demonstrate. Okay? It's to show them that there is nobody within our chain that everybody's willing to take a piece of it and do our jobs together. When you have a culture that leads by example, leads from the front, shoulder to shoulder, everybody, and where none of us are above anything, it has a tremendous impact on the overall results.

Matt Slepin:

Yeah. It's interesting. People talk about culture all the time and it always bugs me because you have a mission statement of your five guiding principles, and I love them, although I haven't read anyone say, "Hey, one of our guidance principle is to be an asshole." I've just never read that. Right? So, everyone's better than average in this, but where it really sorts itself out is 100% in how that translates into behaviors in the company and some of the technologies that force enable those behaviors. You have to walk the talk.

John McLaren:

Technology is vitally important, as you say. We've shared this on a number of our earnings calls. We are undertaking a big ERP project within the company right now. It's going to be a game changer for the company because what it's going to do is it's going to make everybody's job ... There'll be less touch points transactionally in things we do, which means we'll be able to spend more time engaged with each other and with our residents and our guests. So, that will raise our overall team member satisfaction, which has that effect in raising overall consumer satisfaction again. So, that's pretty cool.

Matt Slepin:

Absolutely true. A couple of other points that we've touched upon here and I'm curious about, one is you mentioned age restricted properties vs. all age properties. What's the difference in behavior within your portfolio and all the subjects we've talked about between those two types of properties?

John McLaren:

Most of it's going to be the activities that might take place within the communities themselves and certainly, the amenity cores that are going to be associated with those communities might be a little bit different. Even within our all age communities that we have in the portfolio, I can tell you that 25 to 30% of our residents are retirees or that differently would be qualified to live in one of our 55+ age restrictive communities. So, those are the big differences. You'd see a lot of commonality across the portfolio in terms of just operational execution, I would say, the beautification, the upkeep, and continuing investment into the communities. We have spent the last 10 years really shifting the amenity cores a bit within the age restricted communities and gearing things more towards more active activities. There's certainly more sports courts and trails and ball-

Matt Slepin:

You're going to say pickle ball, right?

John McLaren:

Well, we actually have one community in Casa Grande, Arizona called Palm Creek that has 32 pickle ball courts-

Matt Slepin:

Oh, my God.

John McLaren:

... in that community. Yeah. It's a sight to behold.

Matt Slepin:

But let's stick with all age communities for a second as we think about attainable housing. So, I have a prejudice, and it's easy to think of an age restricted community working well towards social goals around this. But I want to think of the all age communities working well towards social goals and outcomes of those communities as attainable housing for families that helps with the fabric of the community and for growing kids. Any comments on that?

John McLaren:

Yeah. I, again, I will always come back to this map. This comes back to the relationship that you have within the community itself. But when I go out on site visits out to properties, we'll finish the day up at 6:00 and then I'll go start knocking on doors and just speaking with people. I can tell you, when I first started doing it, people thought I had lobsters coming out of my ears, but I really wanted to know what they have to say. It was like an opportunity to say I'm willing to do it. Everybody should be willing to do this because this is really incredible intelligence to have on how we can be better, perpetually be better at what we do. So, we actually, we ask our managers throughout the portfolio to visit three residents at their homes every single day.

Now, the reality is I even have these books that are bright red on the top that sit on their desk where they journalize it because I wanted it to be bright red because I wanted to be able to find it quickly whenever I go to a property. I know it's not a perfect world. If our community managers get out a couple days a week, that's great, but that interaction makes a difference, whether it's the things like the back to school events that we might do in our communities and providing pencils and paper and color paper and things like that to kids that might need is, summer activities that we have around our amenity cores that keep the kids busy and stuff like that.

These are great things that build community is the bottom line. Okay? So, when you see that taking place, who wouldn't want to live there? There's so much going on and why wouldn't every community be proud of having a neighborhood like this within their local community? Because my neighborhood, I live in a neighborhood. They don't do anything like that. Okay? But here's a place where there's actual programming around a family community. Once again, our residents are our sales force. We need them to be advocates for what we do to help make that a successful process.

Matt Slepin:

Yeah. Very last question before we turn to talking about you a little bit. Anything from the acquisition in England and how they do this there? Do they have a different attitude, does it mean something different, and is that translatable here or vice versa?

John McLaren:

Yeah. The biggest discovery that I made when I first started going out to the UK and doing diligence on the portfolio was they call them caravan parks.

Matt Slepin:

Right. I knew there was a different word. Yep.

John McLaren:

Yeah. I think most Americans equate a caravan to an RV. Okay? Makes perfect sense. When I arrived, I realized that they are not RVs in any way, shape, or form. If you've ever been to the UK, I don't know that I'd want to be driving an RV down some of those narrow windy roads. Then the fact the matter is people don't, for the most part. So, these are static manufactured homes that are sitting in a community that is comprised primarily of second homeowners as a vacation home. In fact, in the UK, by law, you're required to own a home in a caravan park. You're required to own a primary residence, and they actually do check to make sure that is actually the case. The other big difference with the homes themselves is we've all driven down the highways and we've seen homes being towed by a big truck to a property. That's not how it works in the UK.

They actually, they are flatbedded in. There's maybe one set of wheels and axles that sit underneath that home. But that is only for positioning the home within the community itself. They are not designed to be trailered down a public road. So, frankly it's stickier than even what we have here in the United States. So, that was probably the biggest discovery in terms of how a community functions. But for us, I can't say enough about team at Park Holidays. The other big thing that I saw when I went was how culturally we were well aligned and the operational process and that longterm view, the continual improvements that are made into the properties. So, I'm a pretty monotone guy, but I'm beaming from ear to ear, Matt, and it's really a thrilling endeavor for Sun and all of Sun's stakeholders.

Matt Slepin:

That's great. It's funny. As you say, you're a monotone guy. So, let's talk about you for just a few minutes before we wrap up. I'm thinking Midwest is coming out and monotone is your word, but it feels like I want people from Midwest to own everything instead of people from New York owning everything. It has more of an operational stewardship, ownership vs. this is an investment cold hard fact. Now, I know it is at the same time. These coexist. But it's just an interesting thing of that cultural attitude that you've brought to the conversation.

John McLaren:

I think it's just the way that you approach the business maybe is a little bit different. Maybe some of the steps in what you do are changed in order. The order's changed maybe and things like that. But I have an interesting role here at Sun. There are times, like a pandemic, as an example, where things maybe throw everybody off a little bit. Somebody here has got to be calm, and even if you're not

Matt Slepin:

Exactly.

John McLaren:

So, it's what leaders do. That speaks to culturally who we are. We have our culture statements, which at the time, at the beginning of the pandemic, were called our core success attributes, which are commitment, intensity, empowerment, service, and accountability. The pandemic for Sun, I saw a thousand examples of people demonstrating those core success attributes at the hardest of times, and that told me everything. It was like, it was kind of cool because it was that validation of everything that I believe, which I'd seen along the way because we talk about them a lot. But for all to culminate, as terrible as the last two years have been for many, many people, to see some of that, I'll call it grace merge through it has been a very fulfilling thing for me.

Matt Slepin:

That's great. You know what's interesting, it's in these challenging times that leadership at all levels comes to the front and for you as a leader to go, "Okay, I'm going to be calm during this thing," which who knows what's going on, for me, it was actually my third or fourth crisis when COVID hit and it was the first one of them where instead of freaking out, more or less, I got really calm and said, "Okay, we know what to do. We're just ready for dealing with this thing." But then also, that translates all the way down to your people and the level of empathy that they're dealing with for your residents, but that's built into your DNA as well.

John McLaren:

Yeah, and what a difference that makes. It's like, yeah. To echo a little bit about what you're saying, we deal with the occasional weather event from time to time. Okay?

Matt Slepin:

I bet you do.

John McLaren:

As you might imagine, we have a very refined emergency response plan. So, when the pandemic hit, although there isn't any company that was prepared for a pandemic, We were more prepared just from a cultural perspective and the things that we had in place for dealing with emergencies in general. I think that the probably, I call it the single biggest accidentally brilliant thing we did was my core group got together in the very beginning and thinking about all the questions we need to answer in an unfamiliar situation. We actually opened it up to the entire company and within a couple hours, had a thousand questions.

Matt Slepin:

Right. The fridge. Yeah.

John McLaren:

Yeah. You don't use this word all the time, but it was awesome what came in because we could have never gotten our plan in place and the execution underway quicker without just the broadest collaboration we've ever had as an organization with people looking at what was happening from all different perspectives. To be able to go through and tick off all those different questions in very rapid sequence, it was very powerful. It set things up for a much better path.

Matt Slepin:

Yeah. It's interesting. So, first of all, you know how to deal with crises and, gosh, you have communities in Florida where you're going to have hurricanes. So, you have emergency response capability within your company. Second thing is you're going to admit that you just don't know what to do in a pandemic. So, you have to get outside or internal people thinking about it.

John McLaren:

My father was a sovereign captain and he would always say growing up, he goes, "If you're in the middle of the North Atlantic and you've got a hundred foot swells pounding down on you, doesn't matter how you got there. What's the solution" But that's what we're focused on at every different level. Okay? But more importantly, one of the things that I always share with our team is a quote that they've heard many times, which is, "Execute and refine, which is in the end, make decisions. Okay? They might not be perfect, we can refine them, but if we're making decisions and we're moving forward, we're going to do very well.

Matt Slepin:

Let me ask a different kind of question. This might be the first Leading Voices where I've talked to someone who has a COO title. You also have President title. So much of what we've talked about is COO-ish conversation, and I'm a little bit curious about the difference for you and your wisdom that you could help with our audience to think about the word COO vs. the word CEO and where those differentiate in terms of strategy vs. operational stuff maybe. But just talk a little bit about that because we've been very operational in the conversation, which I love and respect.

John McLaren:

Yep. I think the way I describe it for me is Gary has been our CEO here at Sun for over 28 years. He's a visionary leader. He's a gifted deal maker. So, the combination of him and I, and I say this humbly because I really don't like talking about myself very much, but it's been a really great partnership because I would say he's definitely the more visionary side of things and say, "What if we tried this? What if we tried that?" That trickles down all the way through the organization where we've got a team full of people that can execute, and that's where I sit in operationally putting some of these visions into play and getting from A to Z very quickly. So, I'd describe him as really the visionary for the company where I am the operator of the company with some vision to go with it too, but we've been working this partnership now for 20 years. So, it's almost like you can sit in a room and look at each other and know what you're thinking-

Matt Slepin:

Of course.

John McLaren:

... and then how that all connects and comes together in terms of a successful strategy.

Matt Slepin:

Yeah. My metaphor for this is the yin and yang, and you got to have one of each. Then when they compliment each other as well and you finish each other's sentences, you got to have a company that works.

John McLaren:

Yeah. So, it makes it very thrilling.

Matt Slepin:

Congratulations on that. We've talked about you through the conversation. So, we may miss that part of the conversation where I formally ask you about your whole background. But is there any antecedents in your background that you want to talk about that helps us understand how you got here?

John McLaren:

Real estate was not my intended path. Sort of got into an accident. I actually started out as a residential realtor and then went from there into the financial side of the business for seven years.

Matt Slepin:

Of this business?

John McLaren:

Yeah. I was with a company called Greentree, which became Conseco, and spent five years on really, we'll call it the backend operations. So, it was more the collection side of the business and selling foreclosures and things like that. So, it was a great way to cut your teeth. It was interesting, as you might imagine.

Matt Slepin:

Was that during the S&L crisis? What were the years? Were there a lot of foreclosures then in this asset type?

John McLaren:

Yeah. Towards the end, yes. But this was between '95 and 2000. Then in 2000, Conseco had created a Six Sigma program, which was still kind of a new thing. GE was very much into Six Sigma. Conseco CEO was Gary Wendt, who came from GE Capital, and he brought Six Sigma with them. So, I applied and was accepted to be a black belt is what they called us in Six Sigma. So, that was a bit of an epiphany moment for me where it was really ... Up until that point, I was really isolated to the regions where we were in, didn't understand how the business fully operated until I got into Six Sigma and started having some projects, and that kind of opened my eyes.

So, from there, I left the company in 2002 and joined Sun. I had a small portfolio. I was a regional. I've had two positions over the course of my career here that didn't exist until I created them and pitched them, and it made sense. I ask people today, if there's a need, you see a business case for something, it could become something very big for the organization. So, in my case, home leasing was that initially and then really, the sales side was the second one before I became Chief Operating Officer.

Matt Slepin:

That's great. Last question on Leading Voices is always the same, which is what's your advice for a young person getting into their career in real estate?

John McLaren:

I think I would equate it to what I've heard. I have a daughter who just graduated from college and it always makes me chuckle when I hear her or friends, it's great that they've gotten new positions. They're just getting out of college. They're getting their first jobs and they describe them as their dream job. The fact is, is they don't know that yet.

Matt Slepin:

They don't know anything yet. Yeah.

John McLaren:

Yeah. I guess if I were to give advice, it would be, be flexible because it's important to have a path and have a direction and to chart that path. It's important to meander around that path because you'll see more along the way. You never know what's really going to invigorate you in a direction that you want to go, which has happened over the course of my life, like I shared with you. I think that some of what's taken place in the early part of my career was not a direction I had set out on, but I'm grateful for what's taken place. It's been a challenging, rewarding career thus far and I would say for me, it's a privilege to be a part of a really addressing the affordable housing crisis across America. It is definitely a privilege to be part of that and I hope that we are more part of that. So, I always tell the team, and this is one of the other things I tell somebody starting their career, anything imagined is possible. Don't ever lose sight of that because that is the truth.

Matt Slepin:

It is. It's interesting. I think of that meandering path all the time and I give advice, I wrote an article on the subject once even, and it was just, you don't know what's going to happen. You don't know the place you're going to stick. You don't know the people who are going to stick with you. You don't know the relationship that's going to pay off and become a meaningful relationship. You don't know who you're going to marry. Right? They're all the same. When you're open to those changes and sometimes it takes a while, and we talked about the opening of this, for me, it took until I was age 40 to find myself in my role in real estate. If you believe that that might actually be a truism, which it isn't, I was a late bloomer that way. But if you believe that, it takes a lot of pressure off to just explore and figure out what's right for you.

John McLaren:

Yep. For sure. It is definitely an honor and a privilege to be in this position and to be able to lead a team as large as Sun, not everybody has that opportunity.

Matt Slepin:

Yeah. Well, congratulations and thank you. This has been a wonderful conversation. I've thoroughly enjoyed it. Thank you.

John McLaren:

You too, Matt.

Matt Slepin:

Thank you for listening in to Leading Voices and I hope that you enjoyed today's episode. I have a request. If you enjoyed the episode and found it to be valuable, please share it with a friend or two. If they're podcast wary, take their smartphone in your hand and subscribe for them and teach them to listen. You'll change their life. Seriously, thanks for listening and keep in touch. You know you can reach me at matt@terrasearchpartners.com. See you next time.