

THE NORTHWEST REPORT

June 2012

For Manufactured Home Community Owners, Operators and Investors

NEWS AND TRENDS

The Manufactured Housing Institute continues to report increases in the number of new manufactured homes being produced and shipped in 2012. As business improves, more people have become cautiously optimistic that a true recovery in manufactured home sales is underway, however slow and methodically it may unfold. As the trend continues upward, manufactured home retailers and community owners selling manufactured homes in their communities are reporting a vast improvement in customer inquiries, responses to advertising and drive through+curiosity seekers looking to make a housing change. Advertising on the internet seems to be the most effective form of advertising, followed by newspaper and real estate style magazines. Open Houses and other special events or promotions still draw the most qualified buyers and small internet or Craigslist listings draw the least qualified buyers, according to respected industry sources.

SUB-METERING – CONTRIBUTING ARTICLES

In today's rental markets cash flow is a large concern. With the rising costs of utilities, owners are looking for ways to improve monthly cash flow. One good answer is sub-metering of utilities. Utility Recovery Systems of Washington (URS) is based outside of Tacoma, WA. They offer installation, reading and billing of tenants for sub-metering. In most cases return on investment is short term which makes it something to consider. They install and service water sub-metering systems in several states including Washington, Oregon, Idaho and Montana. URS specializes in manufactured homes for installation and service on water sub-metering systems. They arrange for the installation of the water meters out of state by qualified companies and do the installation of the technology ourselves. URS prefer to use Cereniti technology as it is one of the best available in the country for performance and very low, if any, maintenance costs for the long term. One of the owners has been doing service and installation of sub-meters for over 10 years and is very knowledgeable of the industry. They belong to the Washington Landlord Association and Utility Recovery Systems of WA and can be reached at PO Box 88369, Steilacoom, WA 98388 or phone at 877-639-2307 urs@ursofwa.com or dave@ursofwa.com.

(This article contributed by Marlene Kaplan, Attorney in Washington)

Many communities historically charged a base rent fee which included utilities. When utility costs rose it was determined that it would be better practice to segregate the utility costs and charge them separately as a pass through+charge to each resident.

In order to change the policy of inclusion of utilities to segregation of utilities as separate pass through+charges, the resident must be informed in the same manner as a rent increase+, even if the community reduces the base charge to accommodate the cost of the new pass through+charges.

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This requires three months advance written notice prior to the residents anniversary date.

Once it has been determined that a pass through charge will be effectuated (after proper notice) a community faces the choice of whether to meter each lot space or determine the appropriate charge to each resident by dividing the overall utility cost by the amount of lot spaces in the community.

Metering each space is often preferred to induce residents to conserve energy and water use. If residents know that the amount of usage will not impact on the monthly charge there will be much less incentive to save energy costs. The cost of metering is an initial significant expense but does pay off in reduced use and higher marketability of the community itself.

Once a pass through charge has been properly instituted, non-payment would be tantamount to non-payment of rent and should be included in a Five Day Pay Or Vacate Notice if unpaid. The best practice would be to reject the entire rent payment if the pass through charges are not included to avoid chasing the pass through charge itself.

S.A.F.E ACT REMINDER

If you finance a home in your community you must have your Mortgage Loan Originator license if the home you are financing is not your personal residence. In 2008 the government passed the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE) which mandated states to begin licensing mortgage loan originators. Many manufactured home community owners are searching for a solution that complies with the latest regulations. One such solution is to get aligned with a licensed mortgage broker originator. To find a competent mortgage source of manufactured housing lenders, contact your state trade association executive director.

MHC LENDING OUTLOOK

Interest rates for manufactured home community purchases remain historically low, as pressure from the Fed to keep rates low and a large supply of cash has lenders flush with capital. Lending criteria remains tight, especially for the B and C+ grade properties and those with significant vacancy or infrastructure issues. Appraisers are very cautious and most appraisals are exhaustive and conservative in both their approach to the property and skepticism about a community owners ability to increase rents in the future. Activity is brisk however, as owners look to refinance and take advantage of the low rates, and many investors are actively looking to add properties to their existing portfolios. Most manufactured home communities that are placed on the market are selling quickly in 2012 and there is a pent up demand for high quality communities, especially the larger properties. In the Pacific Northwest larger properties are few and far between, so the medium sized properties are seeing the lion's share of interest and offers. Regardless, the market is brisk and there is clearly a lack of good quality inventory to choose from.

TAX CONSEQUENCES HAVE MANY OWNERS IN A SELLING MOOD

A common discussion between sellers and brokers these days is taxes. Most people feel, regardless of the outcome of the 2012 election, that the Federal Government will begin to slowly raise taxes in 2013 and beyond to deal with a national debt that has increased for 30 years unabated.

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Capital gains tax is foremost on most investors' minds and the thought of a potential increase or change in capital gains tax rates, limits and exceptions appears likely to occur. Always check with your tax adviser or Certified Public Accountant for prudent tax advice and ask them if 2012 would be a good time to sell any of your real estate investments.

ECHO BOOMERS TO SHAPE HOUSING MARKET FOR THE NEXT TWO DECADES

The National Association of Realtors predicts that the echo boomer generation, comprising 62 million individuals between 17 and 31 years of age, will drive the housing market over the next 20 years. However, it remains to be seen whether this demographic can save the residential property market, as its members have been hit hard by unemployment and carry high levels of student loan debt. NAR chief economist Lawrence Yun believes the economy and unemployment rate should improve with a few years, noting that as long as people have jobs, they can repay student loans. Until then, experts say echo boomers will rent -- although recent surveys indicate that homeownership remains a goal for most Americans.

CAVCO INDUSTRIES REPORTS RESULTS

Cavco Industries, a manufactured home builder, posted improved financial results for its fiscal fourth quarter ended March 31. Revenue at the Phoenix-based firm surged to \$99.5 million for those three months, up 156 percent from the comparable period of 2011, and net income grew to an estimated \$2.9 million from \$1.7 million year over year. For the fiscal year as a whole, Cavco's revenue catapulted 158 percent from a year earlier to \$443 million, and its net income mushroomed to \$29.7 million from \$4.1 million. In the Pacific Northwest Cavco owns Fleetwood Homes and Palm Harbor Homes. Both products are distributed to independent retailers, community owner-operators and through Palm Harbor retail sales centers in Oregon and Washington. Production facilities are in Woodburn, Oregon and Nampa, Idaho (Fleetwood) and Millersburg, Oregon (Palm Harbor).

NATIONAL AND STATE DATA

The Manufactured Housing Institute recently released its most current data, which is through April of 2012. Increases were across the board with both single-section and multi-section home shipments up compared with the same period last year.

Manufactured home shipments for April 2012 were 4,650 new homes, up 17.6 percent from April 2011. Single-section homes continue to account for the largest portion of the increase, with shipments up 23.4 percent over the figures from last April. Multi-section production is up 12.9 percent. The product mix in the Pacific Northwest is 18 percent single-section and 82 percent multi-section.

Compared with the prior year, 2012 has recorded shipment increases every month so far. For the first four months of this year shipments totaled 17,340 homes compared with 13,650 homes in 2011, a net increase of 27.7 percent.

The SAAR (Seasonally Adjusted Annual Rate) was 52,642 in April 2012, down 8.1 percent from 57,268 in March 2012. The SAAR corrects for normal seasonal variations in shipments and projects annual shipments based on the current monthly total. Total floors shipped in April 2012 were 7,124, an increase of 16.1 percent over April 2011.

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COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

The top ten states for manufactured home market share as a percentage of all home sales are: Texas with 19.5 percent, Louisiana with 7.2 percent, Alabama with 5.0 percent, North Carolina with 4.8 percent, Florida with 4.7 percent, Kentucky with 3.9 percent, Mississippi with 3.7 percent, Oklahoma with 3.3 percent, South Carolina with 3.2 percent and North Dakota with 2.9 percent.

In Oregon, year to date shipments are down 4.7 percent (Oregon ranks 32nd), Washington down 4.5 percent (rank 25th), California down 1.7 percent (rank 14th), Idaho down 20 percent (rank 37th) and Montana up 49.1 percent (rank 31st).

Just Listed

95 Spaces- Manufactured Community in Kent, Washington

City Services Metered 8%+ Cap Rate
Asking \$5,100,000

MANUFACTURED HOME COMMUNITIES FOR SALE

109 Space Family Park in Mountain Home, Idaho

Operates on Septic/Well
OFFERING PRICE \$2,750,000

35 Space Quality Family Park in Mountain Home, Idaho

Public Utilities/All Metered
OFFERING PRICE \$1,425,000

27 Space Family Park in Poulsbo, Washington

Located on the Kitsap Peninsula
City Sewer / Well Water
New Loan . Principles Only
OFFERING PRICE \$1,450,000

17 Spaces- 3 Star Well Maintained Senior Community

Located in the Tacoma, WA
Primarily Double-wide Homes on City Services
OFFERING PRICE \$849,900
Email or call for additional information

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COMMERCIAL REAL ESTATE BROKERS
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JUST SOLD

51 Space Senior Park, Vancouver, Washington

Sold for \$2,740,000- 7.25 Percent CAP Rate

17 Space Family Park, Clackamas County, Oregon

Sold for \$886,000.00- Close to 7% CAP Rate

Over \$455,000,000 in park sales. Visit our website at www.nwparks.com

For more information on manufactured home communities for sale or an assessment of your community call Bill Jackson of Northwest Park Brokerage at 206.652.4100 or email Bill at: billj@nwparks.com

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