

The Northwest Report

Issue 61 September 2018

For Owners, Operators and Investors in Manufactured Housing Communities Nationwide

Developing New Manufactured Home Sites in 2018 A Welcome Sign of Economic Growth

In 2018 we have seen the development of several manufactured home communities in the Pacific Northwest, and the successful expansion of many other existing manufactured home communities. These new sites have been a welcome addition to the existing supply of manufactured home sites available for consumers, and developers are reporting that these sites are filling up fast, *very fast*.

This is clearly positive news for the industry and it points to long-term projected industry growth that should last for the foreseeable future. A number of manufactured home community owners are currently exploring the possibility of expanding their communities to adjoining land that has previously remained undeveloped for a decade or more. But what is even more welcome news is the positive reaction developers have received when approaching local land use officials about developing this land.

Manufactured homes fill a vital role in the nation's need for affordable housing, and land use officials are hungry for anything that shows they are aware of the shortage of housing in their communities and they are taking positive steps to address the concerns of the community where they live and work. Of course, there are very few planners who have any experience overseeing the engineering, design-review, construction and completion of a manufactured home rental / land-lease community. That's where manufactured home industry trade associations and veteran industry leaders can step in.

Factory Built Housing (Tiny homes, modular structures and pre-fab) are all types of housing young planners are known to support. HUD Code manufactured homes are a slightly different animal and it's sometimes very hard for these planners to get their mind around a product that is built to a federal code they are forced to accept, so this concept is usually where they have trouble wrapping their minds around the concept of a locally exempt federal housing construction code. Education is the key and the emphasis (and responsibility) should be placed squarely on the shoulders of trade association executive directors, lobbyists and board members, who are the people equipped to educate those decision makers on behalf of their trade members.

What HUD Is Doing to Support Manufactured Housing

HUD Secretary Dr. Ben Carson, someone who has little to no experience in home building or land development has been particularly insightful when it comes to identifying manufactured housing as a solution to the nation's significant shortage of affordable housing.

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First of all, he understands that to successfully address and ultimately solve the nation's affordable housing crisis, which has some 21 million American families spending more than one-third of their household income on housing expenses and 11 million of those spending more than half of their income on housing, it is "vitally important to develop more affordable housing. Secretary Carson understands what needs to be done at HUD to spur the growth and availability of affordable housing and home ownership from within the private sector, more specifically from within the manufactured housing industry that HUD not only comprehensively regulates through its Title VI manufactured housing program, but is also authorized to help financing through programs administered by its Federal Housing Administration (FHA).

In a speech to the Policy Advisory Board of the Harvard University Joint Center for Housing Studies, and in a follow-up HUD publication entitled "Regulatory Barriers and Affordable Housing," Secretary Carson clearly pinpointed the keys to unleashing the enormous potential of the manufactured housing industry to help expand home ownership and fulfill HUD's essential mission of "ensuring safe, affordable housing for all Americans."

Dr. Carson pointed out that local land use planning officials and their local governments continue to "hinder those who are most responsible for creating it." He went on to address the two key issues that have played a crucial role in suppressing the availability of the affordable home ownership needed by moderate and lower income Americans and provided by America's manufacturing housing industry. He said these two issues need to be confronted and resolved in order to revitalize and expand the availability of affordable HUD Code manufactured homes in "market-significant" numbers for the millions of American families in urgent need of affordable housing.

The two issues are: 1). Action to eliminate the discriminatory exclusion of manufactured homes and manufactured home communities by local governments, and 2). The need to significantly expand the availability of consumer financing for HUD-regulated manufactured homes through both FHA and the HUD-affiliated Government National Mortgage Association (GNMA), as well as Fannie Mae and Freddie Mac, which have no manufactured home programs.

Furthermore, with regard to the discriminatory exclusion of manufactured homes from many areas and communities around the nation, Dr. Carson went on to say "We are also acting to identify and incentivize the tearing-down of local regulations that serve as impediments to the developing of affordable housing stock. Out of date building codes, time consuming approval processes, restrictive or exclusionary zoning ordinances, unnecessary fees or taxes, and excessive land development standards can all contribute to higher housing costs and production delays." In HUD's "Regulatory Barriers to Affordable Housing" it specifically states "the direct and significant correlation between the discriminatory exclusion of manufactured homes. Zoning that excludes manufactured homes contributes to affordability challenges because manufactured housing potentially offers a more affordable alternative to traditionally built housing without compromising building safety and quality."

(From MHI and other industry reports).

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Senate Banking Committee and Manufactured Housing

The Senate Banking Committee advanced the nomination of Kathleen Kraninger as Director of the Bureau of Consumer Financial Protection (the Bureau) today. Industry leaders, including the Manufactured Housing Institute have been working with the Bureau to change regulations that negatively impact consumers' access to financing for manufactured homes. The Committee also advanced Michael R. Bright's nomination as President of the Government National Mortgage Association (GNMA - Ginnie Mae) and Rae Oliver's nomination as Inspector General at the U.S. Department of Housing and Urban Development (HUD). These nominations will now go to the full Senate for a vote. Industry officials have urged the Bureau to prioritize making modifications to regulations currently limiting consumer access to financing. The Bureau needs to quickly take whatever steps are necessary to implement the law excluding retailers and sellers (including MH community owners) from its definition of loan originator, so long as they only receive compensation for the sale of the manufactured home and do not engage in financing activities.

Sales – Backlogs - Pricing

New manufactured homes are selling at close to a record clip in manufactured home communities throughout the country, but specifically in the Western United States. Reports coming in from manufactured home community owners, lenders, retailers, manufacturers and insurers confirm that sales are brisk and prices are up. A resident in a manufactured home land-lease community in SE Portland recently reported the 2002 multi-section home they purchased 16-years ago for \$60,000 sold last week for \$118,000.

The only thing they did to this home over the years was routine maintenance and an appliance upgrade. The appreciation was attributed to the rising cost of housing in their part of Portland the relative affordability of their land-lease community.

The plants building manufactured homes in Oregon, Idaho, Washington, Northern California and Colorado are all reporting significant backlogs and increased profitability. Their biggest struggle continues to be manpower – finding a workforce with the skills and discipline needed to work safely in a fast-moving manufacturing facility. Running an efficient assembly line operation is never easy but it's even harder when you try to increase production capacity to meet consumer demand with an experienced workforce. The lack of workers will keep manufacturing plants from expanding further thus increasing the wait time for a new manufactured home. Consumers and retailers alike are encouraged to get their orders in now if they want delivery of their new home in 2018.

Latest Statistics Show Steady Growth

According to official statistics compiled on behalf of the U.S. Department of Housing and Urban Development (HUD) and The Manufactured Housing Association for Regulatory Reform (MHARR), year-over-year manufactured housing production grew again, according to the latest production reports. The latest statistics available track home production through June 2018 and they indicate that HUD Code manufacturers produced 8,258 homes in June, a minimal 1.3% increase over the 8,152 HUD-Code homes built in June of

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2017. Cumulative industry production for calendar year 2018 now totals 50,897 homes, a 9.4% increase over the 46,502 HUD code homes produced over the same period in 2017.

Further examination of official industry statistics shows that the top ten shipment states from the beginning of the industry production rebound in August 2011 through June 2018 are once again: Texas, Louisiana, Florida, Alabama, North Carolina, Mississippi, California, Kentucky, Michigan and Tennessee.

The steady increase in HUD Code home production is clear and undisputable evidence that manufactured homes not only contribute significantly to the nation's supply, but that today's high-quality manufactured homes are attracting ever-larger numbers of homebuyers. Backlogs at the manufacturing plants are yet more proof that demand is surging as the gap between the cost of a site-built home and a manufactured home continues to grow wider, making manufactured housing more affordable than ever.

Skyline – Champion Merger Generates Profits

In the latest news release from the new, combined force known as Skyline Champion, it sounds like this huge new manufactured home producer is enjoying the perfect corporate honeymoon. "I am excited to be reporting our results for the first time as Skyline Champion. The business performed well during the quarter driven by strong demand in most of our U.S. markets as well as Canada," said Keith Anderson, Skyline Champion's Chief Executive Officer.

"I am pleased with our progress on the integration of our business and with the blending of our complementary cultures, providing a great opportunity to expand our role as one of the industry's leaders. We are making progress toward achieving our targeted synergies," said Anderson. "As we look forward and the market remains healthy, we are well positioned with \$222 million of backlog at June 2018. In addition, we continue to see positive developments on the financing front, with more competitive retail financing programs for both chattel and land home segments that should help drive improved order rates."

Net sales for the first quarter fiscal 2019 increased by 32% to \$322.3 million compared to the prior-year period. The increase in net sales was driven by an increase in the number of homes sold as well as an increase in average selling price ("ASP") per home sold. The number of U.S. factory-built homes sold by Skyline Champion in the first quarter fiscal 2019 increased by 20% to 4,536 with ASPs increasing by 15% to \$58,600. Unit volume increased due to added capacity from the Skyline facilities in June 2018, as well as improved operating efficiencies throughout the organization. Home sales prices increased in order to offset rising material cost inflation while remaining price competitive and continuing to offer affordable housing alternatives to our customers. The number of Canadian factory-built homes sold increased by 13%.

Financing a Manufactured Home Community

At press time, the latest interest rates for manufactured housing community financing or refinancing on the West Coast remain at or near these rates, which continue to fluctuate and have increased slightly in the past few weeks. Three-year fixed, 4.625%, five-year fixed, 4.675%, seven-year fixed, 4.725%, ten-year fixed, 4.775% and fifteen-year fixed at 4.775%. ARM's can be had for as little as 2.250% with a 1.2% discount and

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50% LTV. These rates are 0.25 BSP below equivalent apartment interest rates and terms. Rates can vary depending on the quality and location of the asset and other determining factors. Annual renewable mortgages (ARM) are as low as 2.25% for highly qualified borrowers.

Upcoming Events

MHCO Annual Conference

October 22-23, 2018
Valley River Inn, Eugene, Oregon
19th, Belmar Mobile Home Park, 2101 324th, Federal Way

MHCW Training Schedule

September

12th, Creekside Estates, 5101 NE 121st, Vancouver
18th, Lazy Acres, 111 Dryke Road, Sequim
19th, Belmar Mobile Home Park, 2101 324th, Federal Way
20th, Mountain Green, 5140 Yelm Highway SE, Lacey

October

16th, Quail Run, 200 Bridle Way, Yakima
18th, Contempo Mobile Home Park, 1250 E. Lyons Ave., Spokane

November

7th, Lakeway, 1200 Lincoln Street, Bellingham
8th, Lago De Plata, 620 112th St. SE, Everett

MHI Annual Meeting

September 23-25, 2018
Pasea Hotel
Huntington Beach, CA

2018 NCC Fall Leadership Conference

November 7-9, 2018
Westin Michigan Ave., Chicago, IL

New Orleans 2019!

MHI National Congress & Expo

May 6-9, 2019
Hyatt Regency, New Orleans, LA

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96 Unit Quality Family Community Portfolio;
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~Sold @ \$4,300,000-Full List Price~ 7.2% Cap Rate
E-mail or Call for More Information

Engage the Best

There is no doubt about it, 2018 is definitely another great year for **Northwest Park Brokerage**. Without question, no brokerage firm in the Pacific Northwest or on the entire West Coast has a better grasp of market conditions than **Northwest Park Brokerage**. We have our pulse on the industry, we intimately understand the business, and we have relationships with buyers and sellers who are serious, qualified and motivated. Let us help you evaluate your community. **Give us a call at 206.652.4100.**

Over \$800,000,000 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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