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COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

The Northwest Report

Issue 64 June 2019

For Owners, Operators and Investors in Manufactured Housing Communities Nationwide

Washington Passes Legislation

Engrossed Substitute House Bill 1582 passed the Washington State Senate on April 17th and the Washington State House on April 23rd by large margins in both chambers. The bill becomes effective on July 28, 2019. This bill is essentially a significant re-write of the RCW dealing with manufactured home communities. The legislators discussed and debated sweeping changes to the laws governing manufactured home communities, tenants' rights, owners' rights, closure laws and resale procedures, among a myriad of other topics.

It includes manufactured home subdivisions, condominiums and planned unit developments under the same definition as "mobile home park" or "manufactured home community". This legislation prohibits the landlord from denying the tenants right to sell their home, posting a commercially reasonable for sale sign on the home and forbids the landlord from requiring that the home be removed from the community once it is put on the market for sale.

Landlords are prohibited from charging the tenant a utility fee in excess of actual utility costs or intentionally cause termination or interruption of any tenant's utility services including water, heat, electricity or gas, except when an interruption of a reasonable duration is required to make necessary repairs.

Under this legislation landlords may not prevent the entry or require the removal of a home for the sole reason that the home has reached a certain age. However, nothing in the law shall limit a landlord's right to exclude or expel a home for any other reason, including but not limited to failure to comply with fire, safety and other provisions of local ordinances and state laws relating to mobile, manufactured or park model homes, as long as the action confirms to the Chapter or any other relevant statutory provision.

The law provides and requires a very specific Closure Notice format and language to be used with the tenants are given legal notice the sale or conversion of the mobile home park or manufactured housing community is going to be sold or converted to another use. It provides for 12-months' notice of the pending ownership or usage change and provides information helpful to tenants including the name of the prospective purchaser.

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If the park is slated for closure or conversion to another use, the landlord who has complied with the notice requirements may provide a short-term rental agreement for a recreational vehicle for any mobile home lot or space that is vacant at the time of or becomes vacant after the notice of closure or conversion is provided. The rental agreement term for such recreational vehicles must be for no longer than the date on which the park is officially closed.

The Department of Commerce shall convene a work group to make recommendations about mobile home park rental agreement terms, notices on the closure or conversion of manufactured / mobile home communities, and amendments, changes or additions to mobile home park rules under chapter 59.20 RCW.

The work group shall assess perspectives on manufactured / mobile home landlord-tenant laws and policies and facilitate discussions amongst relevant stakeholders representing both mobile home park owners and tenants to reach agreed upon recommendations.

Rent Control in Oregon

A Portland State Economist had this to say about Oregon's new rent control law.

Few renters will get any benefit from Oregon's first-of-its-kind rent control law in the next few years, a Portland State University report says.

The new law caps annual rent increases at 7% plus inflation, for a total of 10.3% this year. But the annual outlook report from Portland States' Northwest Economic Research Center says median rent growth has slowed to just 1.9% a year since 2016. "If we're concerned right now about affordable rents, this is not something that's going to make much of a difference," said report author Tom Potiowsky.

That could change in the future, said Potiowsky, who directs the center and previously served as the state economist. At their peak in 2016, median rents climbed by as much as 9%, and the law could prove more effective in a boom cycle.

Legislators who backed the bill earlier this year acknowledged it would rein in only the biggest increases. They likened it to an anti-gouging measure that would, when paired with the law's ban on evictions without cause, prevent landlords from using rent hikes to force out tenants. Some lawmakers said they would lower the allowed rent increases if it were politically viable.

Economists generally aren't fans of rent control measures, and Potiowsky's suggested solution isn't to impose a stricter cap. Instead, he said the state should focus on increasing the supply of affordable housing and increasing housing assistance vouchers to reduce homelessness.

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HUD Secretary Ben Carson Promotes Manufactured Homes

Ben Carson, Secretary of Housing and Urban Development is making factory-built housing, specifically affordable and resilient housing a major priority. Fox Business' Stuart Varney had a chance to peak with Carson at the Innovative Housing Showcase in Washington D.C. recently. In regards to affordable housing Carson said: "We're having a significant problem in our country right now with affordable housing and also with resiliency."

The Innovative Housing Showcase was a five-day event that was co-hosted by the National Association of Home Builders, and featured new building technologies with updated solutions for housing. Carson believes that these technologies can remove some of the "many zoning barriers based on outdated thinking."

"That's one of the reasons we had this display, so not only people can see these homes and disabuse them of the notions that manufactured housing are trailers and trailer parks and seeing what can actually happen here", said Carson. Having advocates for manufactured housing like Ben Carson, and having the topic of prefab homes come up more frequently through top news channels is impactful for the industry.

"I'm standing inside of a manufactured home and it's a beautiful place," said Carson. "It has a living room area, three bedrooms, kitchen, couple of bathrooms. And yet you know the cost of this is 30 to 40 percent less than a site-built home. It really only takes stepping inside a beautiful manufactured home once to understand that these homes are no longer for trailer parks. The homes that are being constructed today are technologically-advanced, well-built, safe, and affordable."

Manufactured Home Community Living

The construction of a manufactured home, from factory to finish can actually yield up to 90% less waste and environmental impact than site-built housing, owing to the efficiency of factory construction and the high standards of the HUD code. Manufactured homes and manufactured housing communities are far greener and eco-friendlier than site-built communities. Manufactured home construction uses fewer materials without compromising the home's safety or structure.

Key heating, cooling and utility components of manufactured homes are energy-efficient. Further, because manufactured homes are built in a factory and assembled on site, the environmental impact of transportation of the home is magnitudes less than the impact of the moving raw materials to the site to construct a home.

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Living in a land-lease community, a homeowner can park by his or her own home. There is a yard and outdoor space. There are no shared walls. Best of all, residents in a manufactured home community truly are part of a community. In many communities, there are social or activity clubs, fitness amenities, and friendly and caring neighbors. "Sense of belonging" is among the most frequent response about why residents enjoy living in a land-lease community.

Interest Rate Outlook: *"Early Prepayment Considerations"*
Prepared by Wells Fargo Multifamily Capital

Unexpectedly low interest rates have generated a surge of refinance activity on loans that were previously thought to be too expensive to refinance early. On Friday, June 7, the 10-year Treasury dipped below 2.06%, marking its lowest point since September 2017, and 119 basis points below its recent peak of 3.25% in late 2018. The low index rate, combined with relatively low and stable interest rate spreads, has created a favorable refinance market at a time when most predicted higher rates would hamper refinance volume. Currently, all-in interest rates for most multifamily properties are around 4% or lower. This has created a scenario where it may make financial sense to incur a yield maintenance, defeasance, or other prepayment penalty now in order to lock in a significantly lower rate for the next 7 to 10 years (or longer).

For example, let's imagine that nine years ago you put a $5 million fixed rate loan on your property with a 10-year term, 30-year amortization schedule, and 5.25% interest rate. The principal and interest payment on that loan would be $27,610/month, or $331,320/year. Assuming it was structured with a standard yield maintenance prepayment penalty, the prepayment penalty today would be about $65,000, and the loan balance would be around $4.2 million. If you refinanced this loan today at, say, a 3.85% interest rate and did a straight refinance of the unpaid principal balance plus the prepayment penalty, the new monthly mortgage payment would be about $20,000/month, or $240,000/year, saving you over $90,000/year. The savings in principal and interest over the first 12-month period alone would more than cover the cost of the prepayment penalty ($90,000/year in savings less $65,000 penalty = $25,000 net gain) while also allowing you to eliminate interest rate and market risk over the course of the next 12 months when you would otherwise be waiting for your existing loan to mature. And, if you can obtain additional loan proceeds through a cash out refinance, an early prepayment could make even more sense. Lastly, depending on your situation, there may be tax benefits associated with incurring the prepayment penalty, which may further improve the return described above; but you should always consult with a tax advisor first before taking such actions.

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Financing a Manufactured Home Community

The latest interest rates for manufactured housing community financing or refinancing on West Coast remain at or near these rates, which continue to fluctuate and have decreased slightly in the past few weeks.

Three-year fixed 4.210%, five-year fixed 3.930%, seven-year fixed 4.020%, ten-year fixed, 4.150% and fifteen-year fixed at 4.090%. Rates can be found as high as 5.020% for 20-year fixed rate loans and underwriting requires completed and detailed historical operation data. Rate locks are available up to 90-days prior to close in most cases.

The larger REIT's and investment funds continue to offer and expand a variety of tax-saving and tax-deferred structures to sellers interested in something other than a 1031 tax-deferred "up leg" exchange or an all-out cash transaction.

Production Decline Continues

According to official statistics compiled on behalf of the U.S. Department of Housing and Urban Development (HUD) and verified by the Manufactured Housing Association for Regulatory Reform (MHARR), HUD Code manufactured home production declined again in April of 2019, but the decline is less severe than previous reports. Just released statistics indicate that HUD Code manufacturers produced 7,993 homes in April 2019, down 3.2% decline from the 8,262 new HUD Code manufactured homes produced during April of 2018.

On a cumulative basis industry production for 2019 totaled 30,352 HUD Code homes, a 10.1% decline over the 33,793 HUD Code homes produced from January to April in 2018.

As clearly stated by the Manufactured Housing Association for Regulatory Reform, while the production statistics for April 2019 show a moderation in the double-digit production decline that has thus far characterized 2019, the fact that there is any production decline at all in the face of continuing strong demand for affordable housing and homeownership highlights the failure of Fannie Mae and Freddie Mac – thus far – to implement the Duty to Serve Underserved Markets (DTS), particularly with respect to the personal property loans which account for nearly 80% of the manufactured housing consumer finance market.

That failure, more than a decade after the enactment of DTS, effectively forces consumers into higher-rate loans that cost more than would be the case if there was, in fact, proper, market-significant DTS securitization and secondary market support, which would lower risks for lenders and promote greater competition within the HUD Code consumer finance market. This, in turn, needlessly excludes potential buyers from the HUD Code market altogether, while making it more difficult for others to finance the purchase of a HUD Code home, both of which suppress overall market volume. As more and more questions are raised in Washington, D.C. by the media, government figures and others regarding such issues, it is becoming increasingly apparent that this matter can, should and must be looked-into further.

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 April 2019 are: #1 Texas, #2 Louisiana, #3 Florida, #4 Alabama, #5 North Carolina, #6 California, #7 Mississippi, #8 Michigan, #9 Kentucky and #10 Tennessee.

Upcoming Events

MHCW Board Meeting's

July 17, 2019 and October 16, 2019
Both Meetings at the MHCW Offices
112 43rd SW #203
Puyallup, WA 98373
Executive Board 8am – Full Board 10am – Lunch 12:00 Noon

MHCO Seminar

June 19, 2019
Rogue Regency Inn
Medford, OR
Register Online at MHCO.org

MHI / NCC Western Summit (New Event)

August 14-16, 2019
Wild Horse Hotel & Casino
Phoenix, AZ
The Driskill
Austin, TX

MHI Annual Meeting

September 22-24, 2019
The Westin Savannah
Savannah, GA

MHI /NCC Fall Leadership Forum 2019

November 13-15, 2019
The Westin Michigan Avenue
Chicago, IL

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Engage the Best

There is no doubt about it, 2019 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 a Billion 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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