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COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

The Northwest Report

November 2012

For Manufactured Home Community Owners, Operators and Investors

NEWS AND TRENDS

Interest rates are down slightly again this month and CAP rates are holding steady but conservative as compared to 5-6 years ago. Manufactured home community sales and activity is up, unquestionably, driven by pent up demand, excess cash reserves needing to be invested, and record low interest rates many buyers feel can't stay this low forever. Buyers still approach all transactions with caution and the larger, higher quality communities attract the most attention. The large REIT's and big investment firms are not as active in the Pacific Northwest as they are in the Southwest and Southeast, which leaves this region occupied primarily by the small to medium sized regional investor or investment group. Portland, Seattle, Medford, Eugene, Tacoma and Olympia remain high demand markets. Eastern Oregon and Washington remain active and there is continued interest in the Idaho and Montana markets.

The Manufactured Housing Institute continues to report that most community operators fill vacant home sites by in-house home sales operations, and in-house finance operations in some cases. As support for manufactured home rental communities is still hard to come by from manufactured home retailers, and there aren't many of those left on the "street", community owners continue to align themselves with new home manufacturers who can supply them with manufactured homes priced and designed for rental site communities. Major contributors to this market include Fleetwood and Palm Harbor Homes, as well as Clayton and Golden West Homes. All have production facilities in Oregon and ship throughout the 11 western states.

Financing for manufactured homes in rental space communities remains unchanged, with several lenders financing homes to qualified buyers with a minimum of 10 percent down payment and a credit score of 640 or better.

ACTIVITY VARIES BY REAL ESTATE ASSET CLASS

HOT MARKETS

Energy industry driven metros such as Houston, Dallas and Denver, and even previously challenged growth markets such as Atlanta, have posted solid gains in leasing and absorption, both in the third quarter and year to date, fueled by growth in law firms, consulting, insurance and other typical downtown tenants. Consolidations among pharmaceutical companies and other office tenant downsizings have damped demand in places like New Jersey, and the absorption remains soft in Los Angeles outside the submarkets dominated by media and entertainment companies.

Seattle remains strong and Portland is improving. In Seattle, Amazon recently announced the purchase of their $1.3 billion corporate campus, consisting of 11 buildings on the north end owned by Paul Allen's Vulcan Ventures. The largest real estate deal in Seattle history, it shows how strong and stable the Seattle market remains. Vacancies are also down in Portland, where landlord incentives are still a big part of renting all varieties of space, but many companies are expanding, from insurance and mortgage, to financial planning and engineering.

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HIRING

While U.S. GDP slowed to 1.3 percent in the third quarter from 1.7 percent in the prior quarter, hardly the kind of growth arithmetic that induces companies to hire more workers, office occupying jobs continued to increase on a year-over-year basis at a faster clip than the national average. Although the U.S. office vacancy rate edged down to 12.6 percent in the third quarter and is down just half a percentage point from a year ago, experts continue to expect the vacancy rate to fall another 1.8 percent through 2016 as supply diminishes and the economy rebounds, by far the steepest drop among commercial property types.

For now, two main factors are constraining office demand. The average amount of office space leased by tenants has shrunk 21 percent over the last 10 years in a fundamental shift in the way companies use office space due to variety of factors, including the economic downturn, and the rise of telecommuting and smaller, more collaborative work spaces. Secondly, tenants are still expanding into leased but under-utilized space resulting from layoffs during the recession.

OFFICE SPACE

Demand for office space in the U.S. held steady in the third quarter as leasing activity and absorption of available office space continued to pick up momentum following a lackluster start at the beginning of 2012. The overall U.S. office vacancy rate edged down and net absorption rose to 15 million square feet during the latest quarter from 13 million square feet at mid-year 2012.

The relatively little new office supply and continued low levels of new office construction supported the balance in supply and demand. Meanwhile, office tenants continued to enjoy a “holiday” from rent increases as office rents in most markets have yet to budge much from their market trough tipping point, according to analysts.

If there was a surprise for the quarter it was on the upside. Experts expected demand to fall off a bit in the quarter but based on anecdotal reports of companies postponing hiring and expansion decisions due to economic and political uncertainties created by this fall’s hotly contested presidential election and the unresolved budget impasse. Nevertheless, demand held up and is expected to continue to hold. The stability is due partly to the improvement in job growth over the last couple of months.

NEW CONSTRUCTION

Although there is very little new supply of multi-family, manufactured housing, warehouse and office space coming on line soon, the national actually removed more space from the inventory than it added in 2011. Construction of a few new projects totaling 14 million square feet has started in the last two quarters. Most of the new office construction consists of built-to-suit buildings for medical or pharmaceutical tenants. Hot construction markets nationally include San Jose, Boston, Washington DC, Houston, New York, Austin and Charlotte.

REASONS TO BE CAUTIOUSLY OPTIMISTIC

- Provisions for loan losses are falling, which means banks have more money available to lend.
- The disposition values of foreclosed assets are increasing, so banks plan to make more property available for sale.

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- Many banks have cleared through their distressed assets and are ready to start growing again.
- They see demand in the marketplace increasing.
- There is pressure on pricing as competition for loans heats up.
- Conditions will continue to get better, as long as we don't go over a "fiscal cliff."
- For major banks, the recession is receding further and further away in the rear view mirror.

OREGON LANDLORD-TENANT COALITION MEETS REGULARLY

The Oregon Manufactured Housing Landlord & Tenant Coalition is continuing to meet in Salem, OR each month, or sometimes twice a month in an effort to draft a Coalition Bill that addresses two key issues – Opportunity to Purchase, and SAFE Act amendments aimed at benefiting manufactured home community owners who sell homes in their communities and are offering financing. The Coalition met on October 16th and will meet again on November 13th from 9am to noon in the Oregon Manufactured Housing Association board room at 2255 State Street in Salem.

The Coalition is hoping to shape a possible SAFE Act exemption for Oregon manufactured home community owners, and continues to push for language that improves an existing Oregon law giving residents of manufactured home communities who meet certain specific criteria, the first opportunity to purchase their community if it comes up for sale. John Van Landingham of Eugene, a legal aid attorney, is the chairman of the Coalition.

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

The fall is a particularly good time to be doing an assessment of the community's trees. If there are any trees which appear to be hanging over structures or have potential to damage property they should be pruned back. Diseased trees should be removed.

RCW 59.20.130 (3) provides that it is the duty of the landlord to:

(3) Keep any shared or common premise reasonably clean, sanitary and safe from defects to reduce the hazards of fire or accident.

Although many communities place responsibility for lot maintenance on the resident, that does not exonerate the community owner from assuring that the park is safe. I have often been asked who is responsible for damage caused by trees and I routinely advise clients that a court will likely pass the risk to the landlord, regardless of the rule language, as a court would consider this a landlord responsibility.

Lot spaces usually have trees which have been on that space for many years. A resident leases this space "as is." Therefore, in a sense, the leasehold premises is already defined. I therefore consider assurance that the lot space is safe to remain with the landlord/park owner.

If a resident plants a tree on the lot space then the resident becomes responsible for the tree's height and capability to damage property.

It is certainly a good business principal to mandate that residents carry home owner's insurance, which would be legislated through the community's rules and regulations, but this also is not a substitute for the overall responsibility to keep the community safe.

The same provision of the Manufactured Housing Landlord Tenant Act mandates that landlords "prevent accumulation of stagnant water" and "prevent the detrimental effects of moving water". As such, this is also a good time to assure that roadways allow for water drainage and that there are no areas where water collects as this could also be a source of liability for the community owner.

NATIONAL AND STATE DATA

The latest manufactured home data was recently released. In August of 2012, a total of 5,567 new manufactured homes were shipped, up 7.8 percent from August 2011. Increases were across the board with shipments of both single-section and multi-section homes up compared with the same month last year, with multi-section enjoying a 16.3 percent surge in sales. The manufactured housing industry production rebound that began during the second half of 2011 has now extended to 14 consecutive months. The product mix in the Pacific Northwest remains at 18 percent single-section and 82 percent multi-section.

Compared with the prior year, 2012 has recorded shipment increases in every month. For the January through August period, 2012 shipments totaled 37,498 homes compared with 31,994 homes through the same period in 2011, a net increase of 17.2 percent. A total of 8,764 floors were shipped in the month, an increase of 10.8 percent over August 2011.

The seasonally adjusted annual rate (SAAR) of shipments was 57,639 in August 2012, up 12.0 percent from the rate of 51,479 from August 2012. The SAAR corrects for normal seasonal variations in shipments and projects annual shipments based on the current monthly total.

The number of plants reporting production in August was122, and the number of active corporations was 44, unchanged from the prior month.

The top ten states for manufactured home sales over the past 12 months are, in order: Texas, Louisiana, Alabama, Florida, North Carolina, North Dakota, Kentucky, Mississippi, Tennessee, and Oklahoma.

UPCOMING EVENTS

MANUFACTURED HOUSING INSTITUTE
2013 Legislative Conference & Winter Meeting
February 24 - 26, 2013
Sheraton Crystal City
Crystal City, VA/ Washington, DC

2013 Congress & Expo for Manufactured and Modular Housing
April 16 - 18, 2013
the Paris Hotel
Las Vegas, NV

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Just Listed

145 Space- Manufactured Community
Twin Falls, Idaho- City Services
Asking Price $2,900,000

99 Space- Family Manufactured Community
Kimberly, Idaho- City Services
Asking $1,100,000
Email or Call for Information

**~OTHER PARK OPPORTUNITIES AVAILABLE,
PLEASE INQUIRE FOR MORE INFORMATION~**

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

IN CONTRACT

27 Space Family Park in Poulsbo, Washington
City Sewer / Well Water
$1,250,000

95 Space Family Park in Kent, Washington
City Services/Metered
$4,700,000

66 Space Family Park in Snohomish, Washington
Septic System/City Water
$3,650,000

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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