

THE NORTHWEST REPORT

January 2013

For Manufactured Home Community Owners, Operators and Investors

NEWS AND TRENDS

With the elections and holidays behind us, more economic uncertainty is still in the future and continued low interest rates are predicted for 2013. We are expecting moderate growth for 2013 for the Manufactured Home Industry. 2012 finished in a flurry of sales with most Sellers anticipating higher capital gain taxes for 2013. Please read the information below on how this may affect sales for the following year. By all indications Buyers interest is on the increase and Sellers are feeling more comfortable about values given low interest rates that have increased property re-sale values.

Tax consequences for sellers are still a concern and while many unsettling issues remain on a national level, income producing real estate continues to be the most sought after form of investment on the west coast and manufactured home communities perform as well or better than most other real estate asset classes. Affordable housing continues to be in high demand as site built housing prices are increasing, especially in higher density metropolitan areas, and large employers are beginning to reinvest in their companies and expand, creating new jobs in Oregon, Washington and Idaho.

CAP rates have remained stable and interest in 4 and 5-star communities are at a high. All manufactured home communities are getting interest from buyers, but sellers of higher quality communities are seeing the most activity with brokers and investors. Large REITs and private equity firms continue to eye the western United States as a market with great upside potential and brokers regularly field calls from these east coast and Midwest firms.

New manufactured home sales and declining used home values continue to hold the industry back from a true rebound. Community owners continue to be active in buying homes and filling their own vacant home sites, as retailers and brokers of manufactured homes are less active in community home sales than in the past. Chattel financing for manufactured homes is plentiful and interest rates are at an all-time low. Rates of 6-7% APR are more common than ever, as long as buyers qualify with a 10% down payment and a reasonably good credit history, that's the KEY.

Fiscal Cliff Update

We want to give you a brief post-mortem on the recent legislation to deal with the "fiscal cliff." For high-income taxpayers, the law is substantially bad news, with most of the tax cuts of the last decade disappearing. The only significant good news to report is:

- The basic tax rate on qualified dividends in 2013 increases from 15% to 20%, rather than to 39.6%, as would

have occurred with no legislation.

- The income threshold for higher taxes in 2013 is \$450,000 for couples (\$400,000 for singles), instead of \$250,000/\$200,000 as would have occurred with no legislation.
- The annual "fix" to the alternative minimum tax exemption is made permanent and is adjusted for inflation.
- The estate and gift tax rate has been set at 40% (up from 35% in 2012, but less than the 55% it otherwise would be), and the lifetime exclusion of \$5 million per spouse has been extended indefinitely.
- A number of expiring tax breaks have been extended, such as the 50% bonus depreciation allowance that will continue for 2013.

The top tax rates for 2013 are 20% for capital gains and qualified dividends, and 39.6% on other income. However, the new 3.8% tax on net investment income (referred to by some as the "Obama care tax") applies on top of these rates (if adjusted gross income exceeds \$250,000 for couples or \$200,000 for singles), and the phase-out of overall itemized deductions has been restored, adding yet another 1.2% to the effective top marginal rate. So the true top federal marginal rate is 25% for long-term capital gains and qualified dividends, and 44.6% for most other income. (There is a small category of income that can escape the 3.8% tax. This is generally business income that is not earned income for employment tax purposes but is from a business in which the taxpayer materially participates.) When you consider the new 13.3% top California rate under Proposition 30, high-income taxpayers may face a combined tax rate in 2013 of over 50% for the first time since the 1980's.

YEAR TO DATE PRODUCTION UP BUT NOVEMBER WAS DOWN

According to statistics compiled by the U.S. Department of Housing and Urban Development (HUD), the decline in manufactured housing production first observed during September 2012 has continued into November 2012, the latest month where accurate data is available. Nevertheless, production growth for all of 2012 remains in positive territory and cumulative 2012 industry production will definitely surpass the 51,618 HUD code homes produced during 2011. Statistics for November indicate that HUD code manufacturers produced 4,365 new homes, a decrease of 18% from the 5,332 produced during November 2011. The top ten shipment states (an indicator of which states have the highest sales and demand for new manufactured homes) are, in order: Texas, Louisiana, Florida, Alabama, North Carolina, Kentucky, North Dakota, Mississippi, Oklahoma and Tennessee.

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WASHINGTON UPDATE

Manufactured Housing Communities of Washington (MHCW) will push for a manager training program that would expand professionalism across the industry, during the 2013 legislative session in Olympia. By expanding educational opportunities, MHCW reports, they hope to help members and non-members avoid mistakes that cost them time, money and unnecessary misunderstandings between the community owner and their residents. Keeping good managers is critical to a smooth running, profitable community. Emphasizing issues with the Landlord-Tenant Act, communications skills and resident relations will help managers deal more effectively with many of the issues they face on a daily basis. Well trained managers contribute to a profitable bottom line, owners agree. The largest state resident organization, Mobile Home Owners of America (MHOA) is promoting the bill to its members.

Additional legislation being introduced by MHCW will include limiting utility liens on rental property and utility charges on vacant lots, as well as a bill to reduce property taxes on abandoned homes.

OREGON UPDATE

The Manufactured Housing Landlord Tenant Coalition will meet in January for its final time as they prepare for the 2013 Oregon legislative session. They are close to an agreement on a Coalition bill, which asks for a SAFE Act exemption for manufactured home community owners and addresses a large tree maintenance issue. These two issues would be joined in a Coalition bill that includes a previously negotiated change regarding the utility charge due date. The SAFE Act exemption would permit community owners, dealers and other investors to originate and carry a few mortgages per year without needing a Mortgage Loan Originators License.

Tenant representatives announced that they are introducing separate legislation to address tenants' right to purchase a community offered for sale. The separate legislation stems from the Coalition's inability to agree on language clarifying Tenants' rights to purchase their community, commonly thought of as "first right of refusal".

Residents of Clackamas River Village in Clackamas (Portland) purchased their community with the assistance of CASA of Oregon and ROC Capital. It was the 5th resident community purchase in as many years in Oregon and the entire process took over a year, according to those familiar with the transaction.

CASA was awarded grants under the Corporation for Enterprise Development (CFED), with match funding coming from Oregon Housing and Community Services, to develop a replicable model for resident ownership of manufactured home communities in Oregon. The seller received a state capital gains tax exemption by selling to the residents, a provision in Oregon tax law slated to expire on January 1, 2014.

NATIONAL AND STATE DATA – THE REST OF THE STORY

The seasonally adjusted annual rate (SAAR) of shipments was 56,373 in November, up 19.0 percent from the rate of 47,076. The SAAR corrects for normal seasonal variations in shipments and projects annual shipments based on the

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The Manufactured Housing Community Network

current monthly total. The number of plants reporting production in November was 122, and the number of active corporations was 44, unchanged from the prior month.

UPCOMING EVENTS

2013 Congress & Expo for Manufactured and Modular Housing

April 16 - 18, 2013

The Paris Hotel

Las Vegas, NV

Recent Sales Activity

In Contract:

145 Space Manufactured Home Community

Twin Falls, Idaho

City Services

Asking \$2,900,000

99 Space Manufactured Home Community

Kimberly, Idaho

City Services

Asking \$1,100,000

Just Sold:

95 Space Park in Kent, WA

City Services Metered-1.5-2 Star Quality

Sold For \$4,700,000-New Loan-8.65% Cap Rate

51 Space Senior Park in Milwaukie, OR

Quality Park, City Services

Sold For \$2,450,000-6.64% Cap Rate

27 Space Family Community in Poulsbo, WA

On Site Well, City Sewer

Sold For \$1,225,000-9.39% Cap Rate

Over \$500,000,000 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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