

THE NORTHWEST REPORT

March 2013

For Manufactured Home Community Owners, Operators and Investors

NEWS AND TRENDS

If the first quarter is any indication, 2013 is shaping up to be an active year for manufactured home community sales, and the sale of new manufactured homes. Brokers and lenders are reporting increased activity on communities for sale, with most markets on the west coast getting significant interest from investors. Many of the same "hot buttons" apply, as larger diverse markets attract more buyers than small towns, and communities without large vacancy or deferred maintenance issues are most desirable. However, small town communities in good condition are still very popular as their price point fits a "sweet spot" favored by many owner/operators.

With interest rates remaining remarkably low, it makes perfect sense that investors will continue to seek income producing real estate with an ROI (return on investment), cash-on-cash return, favorable tax treatment and long term outlook that meets their goals. Manufactured home communities, the unique real estate asset class where management and operation costs are lower than apartments and vacancy rates are spread across a much larger total number of units than commercial, are in high demand.

Many lenders continue to express interest in financing manufactured home communities. Just one example is Union Bank, where rates are as low as 3.225% for a 5-year fixed rate and 3.654% for a 7-year fixed rate (according to their March 18, 2013 rate sheet). If the community meets Union Bank's standard for "premium" and "park prime" products loans will have loan costs capped at \$2500 including appraisal, 90 rate locks, no reserves and fully amortizing loans at 30 years with no balloon payment. Union Bank will loan up to \$10MM.

SHORTAGE OF GOOD MANAGERS

The demand for new on-site managers in the manufactured home community sector is huge and recruiting continues to be a challenge for small and large operators alike. Owner/operators are constantly looking for honest, reliable, hard working manager candidates, especially couples, to operate their communities. Awareness is part of the challenge – manager's who are experienced in apartments seldom think of manufactured home communities as a viable career alternative. Some property management companies advertise for apartment managers, trying to attract them to (and introduce them to) manufactured home communities.

Everyone has an opinion about what advertising medium works best for recruiting managers. Most classified newspaper ads include an online component and they are relatively inexpensive. Craigslist.com is free but it often generates a large amount of poor quality candidates. Many people feel more sophisticated online sites, such as Monster.com and Careerbuilder.com attract primarily white collar professionals. Referrals can be a good source of candidates, but good referrals are few and far between and they require you to pull from a small pool of candidates. One source of semi-qualified manager candidates is people from other parts of the manufactured home industry. If you contact the various state associations they can put you in touch with people who have been laid-off from retailers and manufacturers. Those people have industry experience and may have a good background in home sales and financing, which can be very useful. You will have to teach them property management.

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STATE LEGISLATIVE UPDATE

The **Oregon** House of Representatives' House Human Services and Housing Committee heard testimony Wednesday, March 20th on HB3007, the "Opportunity to Purchase" (right of first refusal) bill that has been introduced but a group representing resident purchases of manufactured home communities. The Oregon Manufactured Housing Landlord and Tenant Coalition met throughout last year and into January of 2013 but this was one issue they failed to agree on, so HB3007 was introduced separately from the usual Coalition bill.

According to those in attendance landlords paced the room with their supporters, all wearing badges that had HB3007 with a slash through it. The committee spent over an hour hearing testimony, primarily from supporters of the bill, including Representative Nancy Nathanson (D-Eugene) who is supporting the bill. Other's speaking in favor included Legal Aid Attorney John Van Landingham, Peter Hainley, Executive Director of CASA of Oregon (a group that organizes resident purchases and coordinates financing through ROC USA in New Hampshire), two residents from Aloha and Eugene and someone from Clackamas River Village, a Portland-area community recently acquired by the residents with the assistance of CASA and ROC USA Capital.

Opposition testimony included Richard Delaney, a manufactured home community property manager and broker, and Chuck Carpenter, Executive Director of Manufactured Housing Communities of Oregon. Another hearing on the bill is unlikely. The next phase probably includes some type of work session by the committee, followed by a vote on the bill.

This bill, disguised as Opportunity to Purchase but clearly a "Right of First Refusal" bill threatens property rights and puts manufactured home community owners at a significant disadvantage when compared to other real estate investor/owners in Oregon. Not only does it tie their hands, it strictly limits how they can go about selling their property and it gives residents a competitive advantage and "option" on the land. Most "options" come at a price, but not in this case. Resident groups will get a first chance at buying a community if this far-reaching bill passes, they will get to look at the owners operating reports and they will be able to calculate the owner's net income and net profit, all with no commitment to purchase the community on their part. Furthermore, the bill will likely steer aggressive national investors clear of Oregon because of how complicated it will be for a community owner to market their community in a free enterprise, highest-bidder environment. Finally, residents (as evidenced by the recent Clackamas River Village purchase) have to give themselves huge rent increases in order to afford the financing terms offered to them in a resident purchase. Is that really in their best interests?

Also in **Oregon**, an ominous Rent Control bill is being proposed. Senate Bill 555, sponsored by Senator Boquist is described as "one of the most onerous rent control bills ever proposed in Oregon" and it is being taken very seriously by those monitoring its progress and organizing an effective opposition to its' passage. The bill will set legal definitions for "base rent", "capital improvements", "infrastructure", "net income", "operating expenses" and other items often used by landlords as a basis for rent adjustments, and it will require landlords to justify any rent increase by disclosing why they deserve the increase.

Most legislators agree privately that rent control is bad government and it hasn't worked well in California or New York but that doesn't stop the possibility that it could pass under the right circumstances. For more information contact Chuck Carpenter at Manufactured Communities of Oregon, email: mhcochuck@comcast.net or 503-391-4496.

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In **Idaho**, the legislature has been very active and their home of going home by the end of March will likely stretch into the first part of April. Housing related legislation includes HB 28 which removes service company licensing, approved by the Idaho Senate by a 34-0 vote and signed by the Governor.

Also signed by the Governor was HB 10, culminating nearly two years of work to incorporate improvements and needed updates to the Idaho Residential Mortgage Practices Act. Changes include a 60-day license reinstatement period for those who do not get their licenses renewed on time. All changes to the Idaho Residential Mortgage Practices Act apply to anyone who is involved in the sale of manufactured homes. Idaho is also working on an internal policy in the Department of Finance to exempt owner financed sales transaction if five or less a year are completed.

NATIONAL DATA

The last statistics available indicate an upward trend in demand for new manufactured homes. During January of 2013, industry statistics state that 4,190 new manufactured homes were shipped, up 6.2% from January of 2012. Increases in both single and multi-section homes were reported when compared to the same month last year. Total floors shipped for the month were 6,417, up 7.5%. Floors are the number of sections comprising the manufactured home. One floor is a single section home, two is multi-section (doublewide), three is multi-section (triplewide).

The seasonally adjusted annual rate (SAAR) of shipments was 63,588 in January 2013, up 19.4 percent from the rate of 53,266 in December of 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 November was 123, and the number of active corporations was 44, both unchanged from the prior month.

FEDERAL RESERVE NEWS

Experts and economists expect the U.S. Federal Reserve to issue a policy statement that the central bank will continue to stimulate the economy with record-low interest rates, even though the economy is showing signs of strengthening with higher house prices, solid retail sales, and additional job growth. The policy statement will follow a two-day meeting, and the Fed's economic forecasts are likely to be updated. The unemployment rate remains at about 7.7 percent, which is above the 5 percent to 6 percent range expected in a healthy economy, and the Fed has said it will maintain low interest rates until unemployment falls to 6.5 percent as long as inflation looks mild. The Fed has forecast that unemployment will remain above 6.5 percent until at least the end of 2015.

Fed Chair Ben Bernanke is unlikely to pull back on the central bank's purchases of \$85 billion per month of Treasuries and mortgage bonds, a tool being used to keep long-term interest rates low. Between October and December, the annual economic growth rate was just 0.1 percent, but economists foresee an uptick in growth between January and March to about 2 percent or more. Recent figures show economic improvement as manufacturing improved in February and employers added an average of 205,000 jobs per month. While the economy looks to be improving, the Fed is likely to remain cautious given that in the previous three years, economic activity looked promising at the start of the year, only to stumble later.

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UPCOMING EVENTS

2013 Congress & Expo for Manufactured and Modular Housing

April 16 - 18, 2013
The Paris Hotel
Las Vegas, NV

Annual Convention

Manufactured Housing Communities of Washington

May 20 - 22, 2013
Training Seminars / Vendor Booths / Awards Banquet & Prizes
The Doubletree Hotel at South Center
Seattle, WA

Recent Sales Activity

Just Listed:

99 Space- Excellent Quality Manufactured Senior Community

Near Salem, Oregon/ City Water & City Sewer
No Park Owned Homes, 5 Vacant Lots
Asking Price \$4,100,000
*Principals Only or
Buyer's Agent to be paid by Purchaser

24 Space Manufactured Home Community

Centralia, WA
City Services
Asking \$515,000

Sold Properties:

145 Space Manufactured Home Community

Twin Falls, Idaho
City Services
Sold For \$2,900,000

99 Space Manufactured Home Community

Kimberly, Idaho
City Services
Sold For \$1,100,000

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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