

THE NORTHWEST REPORT

May 2013

For Manufactured Home Community Owners, Operators and Investors

NEWS AND TRENDS

Stocks of manufactured home companies have soared this year as investors bet that consumers priced out of the apartment market and those looking to retire will opt for manufactured housing. Shares of Sun Communities Inc have climbed more than 20 percent since January. Equity LifeStyle Properties Inc. has experienced an increase of nearly 20 percent in their stock price. Investors are bullish on manufactured housing in 2013 and 2014 as the trend for affordable housing points to high density, easy to build, energy efficient homes ready to fill an increased demand for both urban and rural housing for families and seniors. Manufactured housing is ideally suited to satisfy the appetite for more affordable housing, and as site built housing continues to rebound so do prices for site built homes. Traditionally, the higher prices are for site built housing the better it is for manufactured housing. A larger gap between the two price points sends more buyers back to manufactured housing who previously may have squeaked into an entry-level priced site built home.

The manufactured home industry is pressing lawmakers to roll back part of the Dodd-Frank law, arguing it will hurt demand for manufactured homes and damage lenders, builders and owners. The effort has rare bi-partisan support as both Republican's and Democrat's expressed concern the law could trigger a steep decline in lending for manufactured housing. At issue is a provision in the Dodd-Frank law that is meant to combat predatory lending, which is defined as loans with high interest rates and fees. The Consumer Financial Protection Bureau designates these as "high cost" loans if they have an annual percentage rate of more than 6.5 percentage points above a national average and 8.5 percentage points for many loans under \$50,000. Lenders to manufactured home owners say many of their loans would fall into the "high cost" category with this new regulation, which goes into effect in January 2014. MHI is working hard to bring change to this legislation, and the *Preserving Access to Manufactured Housing Act (H.R. 1779)* is being introduced in the House to correct certain key parts of Dodd-Frank that adversely affects manufactured housing. A companion bill is expected to be introduced in the Senate shortly.

Even as the economy appears to be gaining traction thanks to the flood of low-cost stimulus money that has flowed through U.S. capital markets, commercial real estate executives and economists vacillate between wonder and dread. According to recent surveys, 85 percent of senior executives at commercial real estate firms surveyed reported having a bullish outlook for the year ahead, reversing a far more pessimistic view two years ago at the dawn of the economic recovery. Driving the optimism for 56 percent of the executives is a combination of current low interest rates and abundant debt to equity capital. At the same time, just 40 percent name the improving U.S. economy as a reason for their bullishness. Analysts throughout the industry have spent a considerable amount of time thinking about what will happen when the Federal Reserve finally eases back on driving rates lower and interest rates start to "get normal" again. While it's certainly a golden age for capital availability, it's not so golden for real estate fundamentals, said Sam Zell, Chairman of Equity Group Investments, which includes Equity LifeStyle Properties. "In terms of the cost of leverage, this is the cheapest cost of capital since the 1950's. But it's not a golden age from a demand perspective," the legendary real estate mogul and billionaire dealmaker said recently. Zell said the soon-to-mature debt underwritten at very low interest rates is "the one inherent issue" in the real estate world that has yet to be adequately addressed.

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THE MARKET IS HEATING UP

As the economy continues to rebound, the appetite for owning manufactured home communities is becoming more ferocious. Brokers are experiencing a very high level of interest from both existing landlords and investors and from new investors looking to enter the market. From small, regional buyers to large national firms, acquisitions specialists are working the phones and searching the internet for manufactured home communities. In particular demand is “four and five star” communities in highly populated areas with a strong economy. Nevertheless, rural and smaller communities are also in demand as buyers are having a tough time finding places to invest available capital.

It was recently reported that “the manufactured housing sector has begun to build momentum supported by the strengthening economic recovery”. The rise in activity bodes well for operators as it should translate into higher occupancy. Even though the placement of new manufactured homes is up on a year-over-year basis, levels are still just half of those recorded in 2006 and not all regions are benefiting equally. Vacancy is still an issue in areas of high unemployment such as the smaller areas which have lower site built home prices. Conversely, operations in metro areas with high home prices are doing very well.

The outlook for the West is good. Strong job growth in most areas of the West will keep occupancy levels the lowest in the nation and expand rent growth. Rising prices and lower yields will push investors further inland as cap rates in coastal California cities dip below 6 percent. The Pacific Region has the lowest vacancy rate in the nation at 4.6 percent, although vacancy rose slightly in year-over-year comparisons, according to many reports. Rents remain strong having risen at an annual rate of 2.2 percent on average.

CONGRESS AND EXPO 2013

The Manufactured Housing Institutes Congress & Expo for Manufactured and Modular Housing was held April 16-18 at in Las Vegas. Attendance was up 18 percent over last year’s Congress & Expo. Attendees from all sectors of the industry and from across the country convened at the Paris Hotel to take advantage of the educational sessions, the National Communities Council (NCC) Forum, networking opportunities, and to see the latest and greatest products and services offered by the exhibitors.

Twelve educational workshops were presented by outstanding speakers and panels. Workshops were sponsored by Neace Lukens and RHP Properties, Inc. The workshops covered the following topics: Surging Demand for Manufactured Housing in Energy Boom Areas; Maximizing Ancillary Revenue from Cable TV Providers; AML/SAR, SAFE Act and Lease-to-Purchase – What You Need to Know; Increase Customer Confidence by Improving Your Retail Sales Center Environment; Managing Your Community Water Systems; MHI Legislative and Regulatory Update; Are There Business Opportunities in the Home Resale Market for Retailers; Lending and the Impact of Dodd-Frank on the Manufactured Housing Industry; Enhance Your Professional Image; Attracting More Cash and Credit-Worthy Customers to Your Sales Center; Ask the Attorneys; and Protecting Your Business, Saving Money and Planning for the Future. During the 2013 National Awards Luncheon, awards were presented to communities, retailers, manufacturers, and companies who provide outstanding customer service and leadership for the industry.

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Every year industry leaders vote for the companies that are considered the best in their class. These award winners have been chosen by their peers to be honored with the prestigious manufactured housing industry awards.

Manufacturer of the Year – Cavco Industries, Inc., Phoenix, AZ
National Lender of the Year – 21st Mortgage Corporation, Knoxville, TN
Regional Lender of the Year – CU Factory Built Lending, San Antonio, TX
Floor Plan Lender of the Year – 21st Mortgage Corporation, Knoxville, TN
Manufactured Home Community Operator of the Year – Yes! Communities, Denver, CO
Manufactured Home Community Lender of the Year – Wells Fargo Multifamily Capital, Carlsbad, CA
Supplier of the Year – Universal Forest Products, Inc. - Grand Rapids, MI

REGIONAL UPDATE

Rent Control and “First Right of Refusal” legislation have both been defeated in Oregon during the 2013 legislative session. Landlords and investors successfully defeated efforts aimed at reducing landlord rights, but many feel another run at “First Right of Refusal” will be introduced in the 2014 session. A small but active group in Oregon continues to push for residents rights to get the first chance at buying their manufactured home community before it goes on the open market and landlords continue to push back, insisting residents can get organized and make a competitive bid to purchase their community any time they want.

NATIONAL AND STATE DATA

The latest production and shipment information available indicates that in March 2013, 4,504 new manufactured homes were shipped, down 4.1 percent from March 2012. Shipments by housing type moved in opposite directions with single section homes down 9.9 percent compared with the same month last year while shipments of multi-section homes improved by 1.6 percent. Total “floors” shipped in March 2013 were 6,976, a decrease of 2.2 percent compared with March 2013.

In comparison with 2012, 2013 registered an increase in January shipments followed by a decline in February and March. For the first three months of this year shipments totaled 12,881 homes compared with 12,780 homes in 2012, a net increase of 0.2 percent.

The seasonally adjusted annual rate (SAAR) of shipments was 56,119 in March 2013, down 7.5 percent from the adjusted rate of 60,650 in February 2013. The SAAR corrects for normal seasonal variations and projects annual shipments based on the current monthly total. The number of plants reporting production in March 2013 was 122, unchanged from the prior month and the number of active corporations was 46, up two from February 2013.

In next months issue....

- **Ancillary Income Opportunities**
- **New Advertising Ideas for Filling Vacancies**

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COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

UPCOMING EVENTS

MANUFACTURED HOUSING COMMUNITIES OF WASHINGTON
Annual Convention
May 21-22, 2013
Doubletree Suites at Southcenter, Seattle.
360-753-8730 Register with MHCW at www.mhcw.org

NATIONAL COMMUNITIES COUNCIL FALL LEADERSHIP FORUM
Building a Vision for the Future
October 16-18 / 2 nights
Downtown Chicago at the W. Hotel
Featured Speaker: Sam Zell
Chairman, Equity LifeStyle Properties.

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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